C(74) 51 - Concorde. Note by the Secretary of State for Industry

52 - Stage Three Recommendations by the Top Salaries Review Body. Memorandum by the Lord President of the Council

53 - Pay of Government Scientists. Memorandum by the Lord President of the Council

54 - Nurses, Teachers and Post Office Workers Pay. Memorandum by the Chancellor of the Exchequer

55 - Concorde. Memorandum by the Chancellor of the Exchequer.

56 - Northern Ireland. Note by the Secretary of the Cabinet

57 - Devolution within the United Kingdom. Note by the Lord President of the Council

58 - Future Approach to Public Sector Pay Negotiations. Memorandum by the Secretary of State for Employment

59 - Voluntary Collective Bargaining in the Year Ahead. Note by the Secretary of State for Employment

60 - Matters relating to the EEC. Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

61 - Renegotiation and Related European Economic Community Questions. Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

62 - Teachers' Pensions. Memorandum by the Lord President of the Council

63 - Chile: Rescheduling of External Debt. Memorandum by the Chancellor of the Exchequer

64 - Northern Ireland Constitution: White Paper. Note by the Secretary of State for Northern Ireland

65 - North Sea Oil Policy: Draft Statement. Memorandum by the Secretary of State for Energy

66 - Nuclear Reactor Policy. Note by the Secretary of State for Energy

67 - Government Statement on Collective Bargaining after the Abolition of Pay Controls. Memorandum by the Secretary of State for Employment
C(74) 68 - Assisted Area Boundaries. Memorandum by the Chancellor of the Exchequer

69 - Public Ownership of the Shipbuilding and Aircraft Industries. Memorandum by the Secretary of State for Industry

70 - Sex Discrimination Bill. Memorandum by the Secretary of State for the Home Department

71 - Allowances of Members of Parliament. Memorandum by the Lord President of the Council

72 - Concorde. Note by the Lord Chancellor

73 - Maplin Airport Project. Memorandum by the Secretary of State for Trade

74 - London Weighting. Memorandum by the Secretary of State for Employment

75 - Peers Allowances. Memorandum by the Lord Privy Seal
CABINET

CONCORDE

Note by the Secretary of State for Industry

I am submitting the attached paper as an aide memoire summarising the arguments I advanced at the Ministerial Committee on Concorde.

A W B

Department of Industry

22 May 1974.
Attitudes to Concorde

No member of the Cabinet now thinks Concorde should have been started; and all would agree that it would be convenient if the project could end without unpleasant and expensive consequences. But it cannot be dealt with on that basis because of the wide financial, industrial, legal and international implications.

The Gravity of the Decision

Britain has already spent £545 million to date and if the highest damages estimate, £150 million, were actually added to the £120 million cancellation costs it could cost £270 million to end it - making the total spend over £800 million for which Britain would have nothing /whatssoever ..
whatever to show. Concorde having been maintained under Labour Governments for 6 years and Tory Governments for another 6 could thus be an £800 million write off with grave political consequences none could foresee.

Three Basic Choices

Various options were considered. They reduced themselves to three:

(1) to probe the French under their new President to discover their attitude to all the options we have identified. All the evidence however still points to a determination by France to go on.

(2) To continue with the 16 at a total cost of £360-400 million;

(3) to rupture the programme instantly and unilaterally by stopping all U.K. work at once at cancellation costs of £120m with a risk of damages of up to £150m making a total of £270 million.

/Financial
Financial Aspects

No-one doubts the cost and risk of continuation. All R & D spent is finally lost, production losses would be heavy, British Airways anticipate operating losses though this depends upon assumptions of fare structure and load factor. But the effective difference between continuing and selling the rest of the 16 or cancelling with full damages involves a figure that could be as narrow as £90 million spread over 5 years or £18 million a year. Yet that £18 million a year would mean the difference between a rupture or the full 16.

Legal Aspects

The Attorney's opinion is that we could argue and hope to succeed in arguing, that a fundamental change of circumstances affecting marketability might be pleaded in any arbitration for damages if we ruptured the programme and the risk of these damages might, if we failed, amount to from £100-£150 million.

The Attorney's opinion involves these risks:-
that 16 have already been authorized by HMG, and therefore the French could argue that HMG was not only breaking its partnership with them but also reversing its own view during a period when the prospects had deteriorated, but not so much (since 1972) as to justify the argument about a fundamental change in two years;

if marketability is the key then it can only be tested by entry into service as President Giscard D'Estaing said in the French Election and the British Prime Minister (who knew all the facts) said as recently as February 1974 during our Election;

if we threaten rupture, subject to arbitration in our favour, the project goes on during a long arbitration by which time the 16 will be nearer completion at costs approaching the full cost;
(4) if we rupture unilaterally and the arbitration takes place against that background, the risks of maximum damages of perhaps £150 million would be run in addition to £120 million cancellation charges making £270 million in all.

Anglo-French Relations

These are of importance to us at this time, and point to completion of 16. The least we should do is to resume the probe of French intentions on all the options — without reaching a secret decision first — as would have happened if the French elections had not occurred, before we reach our view.

The Broad Choice

The decision we have to make is a broad political one taking into account all these factors and some others set out below, any or all of which we should bear in mind according to the weight we attach to them.
Concorde is the finest aircraft ever built. Concorde's flight test programme is well advanced, and there is every likelihood that it will meet its specification in full. If we go on, Concorde will enter service as the most thoroughly and severely tested civil aircraft ever.

The finest skills in Britain and France have been poured into it for half a generation. The men and women did not ask to build it. It was started and sustained by successive governments as an act of policy. There is no guarantee that these costly skills can be rapidly reabsorbed into useful work.

All new technologies are costly to launch as with space, nuclear energy and defence technology which were never judged by economic criteria like this. Spin off may include land and sea applications for the Olympus 593.

Supersonic travel is here to stay. The Russians expect the TU 144 to enter into service next year. The U.S. will re-enter the market any day. Supersonic military aircraft are in service world-wide. The huge available market for civil aircraft estimated at £25,000 million from 1970-1985 will include a market for supersonics.
(5) Future orders are really possible for Concorde Iranair is seriously interested. The confirmation now of the 15 could produce more orders even before entry into service when U.S. Air Lines will face the competition for the first time – losing first class passengers to British Airways and Air France Concorde.

(6) The Cancellation of Concorde would do irreparable damage to Britain's credibility as a reliable partner in collaborative ventures. 350 firms now have 1,000 collaborative arrangements in operation. All future aircraft and engine projects of any size will be collaborative and our reputation here means hard cash everywhere.

(7) The reputation of British engineering would be gravely damaged by a rupture Concorde is the only product Britain makes that is supremely better than anything else on offer in the world. Exporters of engineering products would be affected if Concorde went.
A rupture - involving an estimated 13½ thousand redundances overnight would have no parallel in British industrial experience. The closures of railways, pits and steel works were always phased after notice. Big business now usually plans a rundown. To lock the gates and stop work at a stroke - as rupture must mean - would rightly condemn the Government to severe criticism at least and active, and at worst sustained, industrial opposition because the workers would see themselves as defending their skill and craft and the dignity of their labour.

A rupture would involve flatly rejecting the advice of the Trades Union Congress and especially of the C.S.E.U. whose members are most concerned. Trade union representations have all argued the case for completing the 16 on broad grounds and not on narrow employment grounds. The gravity of their representations must be emphasized.
(10) A cancellation by rupture would impose a severe psychological shock to the British nation. We shall never know precisely how our people feel about Concorde until it really is cancelled. I would estimate that after the steady decline of recent years in our fortunes this might be the final straw in self-demepration. And if the French went on with it flying our Concorde under the Tricolour alone the wound would not quickly heal.

(11) The political effects of cancellation would be very serious. We are a minority Government due for another election. No-one should suppose that the effects of cancellation could be confined to Bristol. That City shocked and stunted by the blow would be up in arms and three seats will be at risk. But with UCS to remind us what a national and international impact there can be and the Opposition launching a major attack, the trouble will spread and persist.
Common sense tells us to finish what we have started and see Concorde into service. It is this argument to which I attach the most weight of all - and it sums up every argument above. The British people know Concorde is a very expensive gamble. But how are we to explain to a nation that gambles £1,200 million every year that the risk of what might be as little as £18 million extra every year for five years, justifies writing off perhaps over £800 million spent and to be spent to scrap an aircraft which Britain has devoted 12 years or more to making, all within 18 months of its maiden commercial passenger flights?

CONCLUSION

For these reasons I think it would be wrong to rupture the programme now. Accordingly I recommend to my colleagues that:

(1) I should be authorized to probe the intentions of the new French Government on all the options, in good faith, before we reach any decision whatsoever, secret or public;

/(2) ..
(2) I should, unless the French suggest or assent to cancellation by agreement, forthwith agree that we shall complete the 16 now in production, seek entry into service as soon as possible, if necessary by the end of 1975 with a joint Anglo/French fleet linking BA to AF for this purpose; and,

(3) I should announce this decision as soon as possible to end the uncertainty, and give Concorde the chance it deserves to prove itself in service.

A.W.B.

DEPARTMENT OF INDUSTRY

22 MAY 1974
CABINET

STAGE THREE RECOMMENDATIONS BY THE TOP SALARIES REVIEW BODY

Memorandum by the Lord President of the Council

1. At Cabinet on 16 May (CC(74) 16th Conclusions, Minute 6) I was invited to consider the threshold arrangements and timing problems of the Stage Three recommendations of the Top Salaries Review Body (TSRB).

2. The Chancellor of the Exchequer suggested that threshold arrangements might be allowed for all those with salaries of up to £10,000 but not for those above this level. This suggestion was designed to avoid further aggravation of the already acute salary compression problem as between Assistant Secretaries and Under Secretaries in the Civil Service. Under Secretaries' current pay is £8,500, a differential of £500 over the top point on the Assistant Secretaries' scale. The latter includes half of their anomalies settlement, for which Under Secretaries did not qualify. Payment of the second half of the Assistant Secretaries' anomalies settlement plus their Stage 3 increase will take their top rate to £8,850. The Boyle award to Under Secretaries of £350 (Stage 3) plus £150 (flexibility margin) will raise their pay to £9,000, a differential of only £150 over Assistant Secretaries. If the Assistant Secretaries receive 7 threshold payments, the differential will be virtually reduced to zero.

3. The TSRB however covers not only Civil Service grades but also senior ranks in the Armed Forces, members of nationalised industry boards and the higher judiciary. In the Armed Forces the effect of applying a £10,000 cut-off would simply be to include Major Generals in the threshold arrangements and to exclude the ranks above this level. In the judiciary the position is more complicated. Most of the senior judicial appointments are well above the £10,000 level and many of the more junior appointments are well below it; but between these there are a fair number of appointments closely clustered around the £10,000 point - this particularly applies to some of the appointments in Scotland, where the scale for the various grades of Sheriffs (£7,307 to £10,850) straddles this point. There are also difficulties with regard to board members' salaries in the nationalised industries, which are divided into three basic ranges.
The middle range (covering such boards as the National Freight Corporation, National Bus Company etc) at present runs from £9,750 to £13,750. Similarly, a £10,000 line would cut across the salary range for deputy chairmen of the lowest paid group (area electricity boards etc). If however the £10,000 cut-off were applied on the basis of post-Stage 3 figures, it is true that nearly all the full-time nationalised board salaries would fall above this level, but a small number (eg in Cable & Wireless and in the Civil Aviation Authority) would remain below. Moreover, there are a great number of public boards not directly covered by the TSRB but whose salaries are determined as consequentials of the TSRB recommendations. The salaries here are widely scattered and in quite a number of cases fall closely on either side of £10,000. If threshold payments were cut off at this point, it would at least be necessary to apply some discretion to give partial payments in order to avoid anomalies; but even so there would be likely to be some confusion and resentment.

4. If the cut-off is applied to the TSRB groups it would also be necessary to apply it to the doctors and dentists (the report of the Doctors and Dentists Review Body has now been submitted to the Prime Minister). There are many senior hospital doctors receiving more than £10,000 a year, but no information is available about private earnings. Many part-time consultants receive less than £10,000 from the National Health Service but obtain considerable earnings from their private practices taking them well over this level. A cut-off at £10,000 or thereabouts would therefore discriminate against the full-time consultants in favour of part-timers with large private practices. A £10,000 line would also cut across the middle of the scale for Regional Medical Officers (£9,645 to £10,248). With regard to general practitioners, there are several hundreds with net earnings over £10,000, but no information is available on individual earnings; in their case therefore it would be quite impracticable to apply the cut-off.

5. I still feel that the arguments that lower-paid workers will resent this type of agreement being granted to the highly-paid, and that this will make our task of setting up a voluntary incomes policy that much more difficult, are strong ones. Nevertheless my colleagues will wish to consider the arguments rehearsed above in reaching a decision.

6. With regard to timing, it was suggested that there would be advantage in holding up an announcement on the TSRB increases until July, so that they emerged after the statutory pay controls had been dismantled. I can see the point of this argument; but I think that the situation could be misrepresented by critics, who could say that the first fruits of our new approach were increases for highly paid people. It seems to me therefore to be better to make the announcement now, and to defend the increases on the basis that they are not only the recommendations of an independent
body, but also wholly within the present restrictive legislation. I also feel that further deferment of publication of the Report, which carries the date of 28 February 1974, would invite criticism and cause unnecessary disquiet among those affected. I therefore recommend that we should publish the Report and announce our decision immediately.

ES

Privy Council Office

22 May 1974
CABINET

PAY OF GOVERNMENT SCIENTISTS

Memorandum by the Lord President

I attach a note by the Minister of State, Civil Service Department which makes proposals for an improved pay offer for Government scientists. I endorse his proposals and would be grateful for my colleagues' agreement. Representatives of the scientists met the Prime Minister on Friday 17 May and an early decision is now essential.

ES

Privy Council Office

22 May 1974
PAY OF SCIENTISTS

Note by the Minister of State, Civil Service Department

In April this year the Pay Board reported (Advisory Report No 3) on the criteria and method for determining scientists' pay which have been the subject of a bitter dispute going back to 1971 between the Official Side and the Institution of Professional Civil Servants (IPCS). The two sides were committed in advance to accepting the Board’s recommendations of which the most important one was that in future scientists' pay should be determined by pay research rather than by internal Civil Service relativities as favoured by the IPCS.

2. Since it will not be possible to mount a pay research survey before 1 January 1976, Ministers have agreed that scientists, whose pay has fallen badly behind because of the dispute, should have an immediate pay settlement outside Stage 3 by means of a consent.

3. In formulating an offer I had three main considerations in mind:-
   i. it must be broadly defensible in relation to the Pay Board's Report. We therefore updated as best we could the last pay research survey of 1 January 1971;
   ii. against the background of current constraints and particularly the consent procedure it must not be over-generous;
   iii. on the other hand, a reasonably good offer is vitally necessary to counteract the bitterness which the dispute has engendered and which has already seriously undermined the morale and efficiency of Government scientists (and of those much larger numbers of scientists in "fringe" bodies whose pay is linked to Civil Service rates).

4. My proposals, which were subsequently approved by Ministers, are set out at Annex A alongside the IPCS claim together with cost estimates (including consequential) and the percentage increases involved.
5. The IPCS reaction to this offer was strongly unfavourable. On 17 May they presented their case to the Prime Minister who undertook without commitment to consider their request to do something more for at least the HSO, SO and ASO grades. They indicated that they would recommend acceptance of our existing offer for the PSO and SSO if we agreed to an extra £200 at the HSO maximum and to their full claim for the SO and ASO grades.

6. I had myself originally proposed to add an extra £150 increment to the top of the HSO scale which would have cost an additional £0.56m. for the Science Group (£1.90m. with consequentials) and would have raised the highest percentage increase at scale points from 12.5 per cent to 17.7 per cent. But this was opposed by the Secretary of State for Employment and the Chancellor of the Exchequer (though supported by the main employing Ministers) on the ground that since it did not result directly from updating the 1971 pay research evidence it would be difficult to justify as part of an interim settlement based on the Pay Board's Report.

7. In my view this extra increment, though less than the IPCS are now asking for, makes good management sense in itself and is essential if we really want to restore goodwill. It would not prejudice the future application of pay research to scientists. While I understand the objections of the Secretary of State for Employment and of the Chancellor of the Exchequer, I doubt very much whether the Board's recommendations are so clear that we could not defend this additional improvement as being broadly consistent with them if we wanted to.

8. In the light of the IPCS representations I think we should also be justified for the same reasons in offering a little more to the low paid grades of SO and ASO (though again less than the IPCS claim). For the SO, I propose a one-point scale shortening which would cost £0.08m. on the assimilation terms we would use (£0.25m. with consequentials) and increase the maximum scale point rises for this grade from 10.9 per cent to 14.4 per cent. For the ASO I propose an improvement in the rate of progression through the scale by
splitting it into a main scale and a junior scale. This would cost an additional £0.1m. (£0.31m. with consequentials) and the maximum percentage increase in the scale would rise from 12 per cent to 14 per cent.

9. The problem of scientists' pay is by far the most important justified pay grievance in the Civil Service and there are the best possible management grounds for doing all we legitimately can to solve it. I therefore recommend strongly that our offer should be improved as proposed in paragraphs 7 and 8 above.

R S

Civil Service Department
22 May 1974
### Table: Civil Service Wages and Increases

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Cost 12.7% (£16m) on wage bill.

Cost 13.3% (£23m) on wage bill plus unknown amount for ASO restructuring.

*These increases in the wage bill include the cost for grades in the Science Group, and linked departmental grades, and consequential increases for grades in controlled fringe bodies and the National Health Service. The cost for the Science Group only is £5.5 m. on the wage bill for the CSD proposals and £8 m. on the wage bill for the IPCS claim.*
CABINET

NURSES, TEACHERS AND POST OFFICE WORKERS PAY

Memorandum by the Chancellor of the Exchequer

1. The Ministerial Committee on Economic Policy (EC) considered yesterday the pay claims of the nurses, teachers and Post Office workers. This memorandum sets out the conclusions which the Committee reached, subject to endorsement by the Cabinet.

2. The factual background is given in the report by officials which is attached to this paper. The Committee agreed that the strength of feeling among the nurses and the merits of their case made it essential to offer some concession, and that if this were done it would be difficult to withhold similar concessions for the teachers and the Post Office workers, among whom pressure was likely to rise in any case in the next few weeks. Some members of the Committee were worried about the inflationary consequences of the concessions, which could be serious; but on balance we thought that we would stand a better chance of getting a voluntary policy properly launched if these three difficult public service cases were dealt with before the meeting of the Trades Union Congress in September.

3. The Committee agreed therefore that independent reviews for the nurses and the teachers should be allowed on the lines proposed in the attached paper (paragraphs 6 and 7 and 14 and 15 - save that retrospection should be allowed as below). The review for the nurses would be best undertaken by the Doctors' and Dentists' Review Body (DDRB), provided that this is acceptable to the Staff Side and the Review Body. The review for the teachers would probably be best undertaken by an ad hoc body, preferably a single body to cover England, Wales and Scotland. Interim payments would not be granted. In the case of the nurses, the resulting settlement would be made retrospective to the date of the announcement of the review. No decision was taken on retrospection for the teachers. The Post Office workers are already negotiating, and they would be told that the resulting settlement could be implemented after the end of the statutory controls, but not backdated before that.
4. The Secretary of State for Social Services would have liked to say that the DDRB would be free to recommend interim payments for the nurses, if the Review Body felt that the situation warranted it; but the general feeling in the Committee was that the repercussions of this would be dangerous and that the payments that all three groups will get under threshold agreements should make such a concession unnecessary.

5. The Committee agreed that, subject to consultation with the Staff Side, the review for the nurses should be announced in the debate in the House of Commons on Thursday 23 May. The way in which the arrangements for the other two cases would be announced will need further consideration, but action will have to be taken quickly.

D H

Treasury Chambers

22 May 1974
This paper considers what further action the Government might take on the pay of nurses and the implications for teachers and postal workers.

PRESENT POSITION

When announcing on 6 May his readiness to use consent powers for the selective increases for these groups the Secretary of State for Employment said:

"I have had to say "No" to a number of representations from those who have asked for a full scale review - and this includes the teachers and the postmen - because I have not been able to say that these are truly exceptional circumstances, and general reviews in these cases would run the risk of re-opening the whole pay round".

It was in recognition of this risk that Ministers decided to go for selective action rather than general reviews in any of these cases.

Since then the Post Office have decided - despite Government discouragement - to start negotiations on pay in June, with the prospect of reaching a settlement in July. The Burnham Committee met on 24 May to start negotiations on the offer of improvements in pay for teachers in schools in areas of social deprivation.

The nurses have pressed for an urgent independent enquiry, probably taking 6-9 months, failing which they intend to give notice to end their contracts with the NHS. The Government have promised an answer in the week beginning 3 June. Meanwhile, the nurses have also advanced a claim for a substantial interim payment - one union says £100 million - and have refused to negotiate on the offer for pay improvements related to the Briggs proposals. An Opposition motion on NHS pay will be debated on 8 May and it is desirable to make an announcement on nurses' pay before then.

The immediate question therefore is what reply should be given to the nurses.
NURSES

6. DHSS believe that the minimum concessions needed are:

a. Immediate agreement to set up an early independent enquiry;

b. The enquiry to be held without predetermined limitations on the cost of implementing its findings. If conducted by the Doctors' and Dentists' Review Body (DDRB) as suggested below the Government should give the usual undertaking which applies to DDRB recommendations – namely to accept them unless there are clear and compelling reasons for not doing so. If the inquiry is conducted otherwise, decision on its conclusions would be for the parties to determine at the time.

c. The date of implementing the recommendations to be offered initially as the date of completion of the inquiry or November 1974; whichever is earlier but if absolutely necessary, the date to be taken back to the end of statutory controls in July. (The Secretary of State for Social Services may wish to go back further.)

The nurses are now also asking for a substantial interim payment on account. The arguments against this seem to be overwhelming and the threshold increases will in effect be an interim payment – though the nurses may not consider this sufficient.

7. The terms of reference might follow the precedent of the most recent independent enquiry into nurses' pay (carried out by NDPI in 1967/8):

"to examine the pay structure and the levels of remuneration and related conditions of service of nurses and midwives covered by the Nurses and Midwives Whitley Council with particular reference to the current claim."

This would have the presentational advantage of ranging beyond pay but not going beyond the competence of the kind of body which could look at pay.

8. It would be advantageous to use an existing body for the enquiry, so as to forestall criticism of having an entirely ad hoc approach. The DDRB would be the most appropriate body and we recommend that Lord Halsbury be approached to see whether he would undertake the task, if necessary by setting up a special panel of the DDRB with some women members; or, if/this were not acceptable, whether he would chair a separate enquiry, perhaps including some members drawn from the DDRB.

9. We cannot forecast the cost of an enquiry's findings, but it might be £75 – 110 million a year (i.e. 14%–20% on the nurses' current pay bill.)
percussions in NHS

It would be necessary to assure the Professions Supplementary to Medicine that they would benefit in the normal way from the outcome of the enquiry for nurses. No immediate repercussion is expected on ancillary staff and ambulance men, and this would have to be resisted if it did arise.

There are several small groups of low paid technical classes who would press for special treatment, notably the medical physics technicians who are currently taking industrial action over our refusal of their request for negotiation on the implementation, after the ending of statutory controls, of their 1972 arbitration. In the light of the developments regarding nurses, officials are reconsidering whether there is a case for a consent for this group.

1. In recent years teachers have fared at least as badly as nurses. Like nurses, they had pinned much faith on a relativities reference and they have been publicly linked with nurses as special and similar cases by both the present and previous Administrations. If they are not accorded similar treatment, a bitter public and parliamentary campaign will be mounted; industrial action is probable and would be specially damaging in this term of examinations. The aim of the teachers is to have salaries revalued to correct the extent to which they have fallen behind and to reflect more fairly their contribution to society. They would settle for either an independent review or free negotiations.

Review v Negotiations

The NUT and ATTI would probably prefer to negotiate freely at the Burnham Committees where they dominate the teachers' side, but the other teacher unions might prefer an independent review. DES would much prefer a review as

(a) more likely to meet the educational need for an adequate pay structure for career teachers;

(b) avoiding an open decision — which a negotiated settlement would require — that the Secretary of State for Education and Science would not use the veto. An independent review now would ease the continuation of the Secretary of State's role in Burnham in future negotiations.

(c) possibly costing less — free negotiations, which would be more likely to produce substantial increase for the large number of young teachers on the lower scales at the expense of proper rewards for the middle grade career teachers.

As is pointed out below, however, an ad hoc review for teachers as well as nurses might not accord with the approach which is developing towards the voluntary pay arrangements to apply in the future.
Review

14. If there were a review, it would be essential to be able to tell the teachers and their local authority employers that no predetermined limit would be placed on the cost of the recommendations. The date of implementation to be offered initially would be as for the nurses.

15. There is no existing body to undertake the review and the composition of a review body to cover England, Wales and Scotland would require careful consideration. It might be necessary to have two panels, one for England and Wales, and one for Scotland, because of the different educational systems and pay structures. This might involve a chairman and, say, eight members, who together would need to have experience of education, local government and trade unions. The terms of reference might be general eg "to examine the pay structure and the levels of remuneration of teachers".

16. University teachers, who have already reached a Stage 3 settlement from October 1974, should be excluded from the review, though pressure for maintenance of differentials must be expected.

17. Public expenditure consequences. To bring teachers' pay in line with the average increase in salaries for all non-manual employees since 1965 would involve additional expenditure of the order of £250 million or 17% of the combined pay bill for English, Welsh and Scottish teachers.

POST OFFICE WORKERS

18. The Post Office has offered to the unions negotiations to start in June, with a probable settlement in July, on the condition that, there being no current prospect of implementing any such changes, there would be no breach of faith if the Post Office was unable to carry them into effect, and that the current industrial action by the CPSA and SCS must cease before negotiations started. This is against Government advice, but if nurses or teachers are given authority to undertake special reviews with implied consent to the findings and without predetermined limitations, the Post Office (and its unions) can be expected to press at once for similar undertakings in respect of its own pay negotiations. In these circumstances, it would resent strongly any restriction on the correction of its anomalous situation by "ability to pay" or a limitation on tariff increases.

19. The Post Office is being pressed by its unions to backdate a settlement to last November (the time of the Civil Service anomaly award). The Post Office would hope to be allowed to backdate to 1 January 1974 for the non-engineering grades, and to 1 July 1974 for the engineering grades, i.e. to the start of the Stage 3 settlements. In view of the recent announcement, however, that a consent under Stage 3 could not be justified, we would recommend that increases should not be implemented before the end of statutory controls.
20. Public expenditure. The Post Office hopes to settle at about £10 million a year. This would be additional to the estimated Post Office deficit in 1974/75 or would require an 8% increase in tariffs.

THE DEVELOPMENT OF PAY POLICY

21. The handling of these problems must be viewed in the context of the Government's announced aim of securing a smooth transition to voluntary pay arrangements by getting:

- those who have already made Stage 3 pay settlements to stick to them
- those who have yet to settle in this pay round to do so at much the same level as those before them
- people not to create commitments for the future by negotiating now for implementation when the statutory controls end.

The Government have so far generally held this position. There have been very few consents, none of them for a general review of pay; and the discouragement of commitments for the future has just been affirmed in the case of the Post Office.

22. We are proceeding now on the assumption that the statutory controls will be abolished around mid-July. Subsequent voluntary arrangements have yet to be formally worked out, but it looks as though the TUC will expect the new arrangements to operate from the date of abolition without any transitional period and that they do not envisage any arrangements for examination of "special" cases. They are more likely to see collective bargaining, reinforced by the independent conciliation and arbitration service, as affording the solution. If, therefore, the Government wish to provide for nurses, teachers and/or postal workers to have a special catching up settlement, there is much to be said for arranging this so that it appears as a positive action to clear the ground before the new arrangements begin - rather than try to persuade the TUC to find a place for these "special cases" in the new policy.

23. At the same time the repercussions of such action on other groups of workers in the period leading up to the ending of the pay controls has to be considered. In that period

(a) The Government will very likely have to issue consents to implement the outcome of the railways arbitrations and for London Transport. These would not be re-opening Stage 3 settlements, but such consents are likely to make the postmen feel more aggrieved, especially if London busmen are covered.
(b) The Pay Board's London Weighting report will be received at the end of June and there is a commitment to allow negotiations to proceed thereafter. Although we do not know what the Board will recommend, it may well fall short of the large increase that many expect, and this would greatly upset London teachers.

(c) The major negotiations being pursued over the next 2 months - seamen, local authority non-manuals, the industrial civil service and gas staffs - will of course be affected by relaxation for other large groups. The seamen have already rejected a 15% Stage 3 settlement and the local authority non-manuals claim, like postal workers, that they have fallen behind the civil service.

24. Any substantial re-opening of a Stage 3 settlement will make it more difficult for other union leaders to refrain from pressing for similar treatment. The biggest countervailing factor against re-opening Stage 3 settlements will be threshold payments, which will be triggered by the April RPI figure which is to be announced on Friday 24 May. But the announcement of substantial revaluations, or the prospect of it, for several large groups would run a very grave risk of enhancing the pressures against the present controls (particularly from other "relativity" cases such as the power engineers), and/or producing, when they end, the sudden upsurge in pay settlements that the Government have been seeking to avoid.

THE OPTIONS

25. If Ministers think that the nurses' threatened industrial action can be resisted, it would be best to hold the present line of resisting any additions to Stage 3 settlements already made other than the limited improvements offered by Consents; and to require all three groups to await their next annual settlements, which would have to be negotiated under the voluntary arrangement.

26. If Ministers do not regard this as practicable, there are three other possibilities:

A. Allow a review for nurses only.

B. Allow a review for nurses and agree to teachers either having a review or negotiating a settlement.

C. As (B), plus an undertaking to Post Office workers that the settlement they negotiate in June will be implemented after the end of statutory controls.

A. Nurses only

27. This would limit the repercussions. The only other group likely to react is the teachers, but it is uncertain how far they would be prepared to go in taking industrial action. Nevertheless teachers would be greatly incensed and it would mean that the Government would be forcing them to go until April 1975, the date
of their next review, without any special consideration of their pay. This is likely to prove very difficult, especially if the London Weighting report disappoints them.

28. The Government have strongly opposed interim payments, in particular in the case of London Weighting, and an interim payment to the nurses would be very damaging to the Government's current aims on pay policy. The threshold arrangements will in fact provide substantial increases while the review proceeds and their flat rate character will ensure that the lower paid nurses more than keep pace with the cost of living.

29. The cost for 1974/75 might be about £100m (all public expenditure) or 20% of the nurses pay bill.

I. Nurses and Teachers

30. This would get out of the way the two cases which are most closely related and neither settlement would be implemented until after the statutory controls had been removed. However, it could be difficult to justify leaving out Post Office workers, many of whom are lower paid than teachers and have fallen behind just as badly. Post Office clerical and executive grades are already taking industrial action; and if they were joined not only by the Postmen but also by the engineers, the effects would be more serious than the last postal strike. Furthermore, it would still leave the problem of how to handle the Post Office settlement in July, implementation of which within the voluntary methods might have to be postponed to January 1975.

31. If teachers as well as nurses were given an interim review on what would be an essentially ad hoc basis, it would expose the Government to the criticism that it was reverting to outworn methods rather than providing for a consistent examination of such problems by a Relativities Board. It could also stimulate the Post Office workers and many other "relativity" cases to ask for a review. Such requests might be difficult to resist and the Government would then be led back to the approach of a special examination of "relativity" cases.

32. The cost might be about £350m including £250m for teachers (17% of the pay bill).

C. Concessions to all three

33. This would deal with these three major cases of discrimination in the public sector as a preliminary to starting the new policy. However, there would be many others who would be encouraged to press for a review or renegotiation and it could be extremely difficult for the Government and the TUC to hold the line that those who have reached Stage 3 settlements should stick to them, that employers should not enter into forward commitments and that settlements during the rest of the pay round should be in line with the Pay Code.
concession to all three groups therefore could have very extensive repercussions and risk breakdown of the Governments' attempt to move smoothly from statutory controls to voluntary methods.

34. If concessions were to be made to all three, the question would arise whether a way of containing the repercussions might be for the proposed Royal Commission on Incomes Distribution to conduct a review of all three cases as a "mopping-up" operation. This would help to answer the criticism which could be levelled at ad hoc reviews, but it would run athwart the present concept that the Royal Commission should not deal with specific pay cases. Moreover, it would be difficult thereafter to refuse access to the Royal Commission to other "relativity" cases, with the result of establishing the Commission as a Relativities Board to deal with cases that the TUC would maintain should be settled through collective bargaining.

35. The cost of allowing a review or negotiation for all three groups would be £460m, including £110 million for the Post Office.

RECOMMENDATION

36. If Ministers do not regard it as possible to resist the nurses' pressure, we think that the teachers and Post Office workers will have to be treated similarly despite the wider risks; and that it will be better to deal with them all at once rather than accede separately to the pressures of the teachers and Post Office workers as these are renewed. This would require that

(a) an independent review would be instituted immediately into nurses' pay, preferably by the DDRE, with implementation after the statutory controls have been abolished. The Government should seek to negotiate in the first place that the implementation date would be the end of the review or 1 November 1974, whichever is earlier.

(b) the settlement arising from the negotiations already agreed to by the Post Office will be capable of implementation after the end of statutory controls but not backdated before then; and

(c) teachers will be allowed either to have an independent review or to reopen negotiations. In the former case a similar line to that suggested in (a) above would be taken on implementation; or, if negotiation were decided the aim would be to secure the latest possible implementation date after the ending of the statutory consents.

37. A draft is attached of a possible announcement placing such action in the context of the transition to voluntary arrangements with the aim of trying to limit the repercussions.
38. If Ministers accept this conclusion, it would seem appropriate for the Secretary of State for Social Services to see the nurses’ representatives before any announcement is made in order to ascertain privately that the proposition is viable. Subject to that it would only be necessary to let the teachers and Post Office employers and unions know shortly before the announcement. If, however, the nurses were to reject the proposition, it would be necessary to reconsider teachers and Post Office workers.
POSSIBLE STATEMENT BY THE SECRETARY OF STATE FOR EMPLOYMENT ABOUT THE PAY OF NURSES, TEACHERS AND POSTAL WORKERS

I explained to the House on 6 May that whilst the statutory controls remain, I could see no basis for applying my limited powers of consent to the implementation of general increases in pay for these groups, although I was prepared to apply those powers to certain special problems in each case where there were exceptional circumstances. That position still stands.

But there is no doubt that these three groups have suffered particularly badly under the policies pursued over the last three years. Those concerned have shown restraint and a sense of responsibility for a considerable time and the depth of their resentment is to be seen in the unprecedented action to which the nurses now feel driven.

Subject to the passage of legislation and the approval of the House, the Government aim to abolish by the Recess the statutory pay controls which have contributed to the present situation. We believe that, in the interests of a smooth transition to sensible voluntary collective bargaining, these three cases must be afforded a remedy — though under the current legislation this cannot take the form of a consent.

In the case of the nurses the Government accept that there should be an urgent independent review of pay and associated conditions, the outcome of which will be implemented after the statutory controls have been removed. My right hon Friend the Secretary of State for Social Services will be discussing the detailed arrangements with the nurses' representatives.

An agreement has already been reached between the Post Office and the unions concerned to open negotiations in June. The Government are prepared to undertake that the outcome of those negotiations will be capable of implementation after the statutory controls have been lifted.

In the case of the teachers the Government intend to set up an independent inquiry to examine the pay structure and levels of remuneration of non-university teachers in England and Wales and in Scotland. The recommendations of the inquiry will then be a matter for discussion between the teachers and their employers within their normal negotiating machinery with a view to implementation later this year after the removal of statutory controls. My right hon Friends the Secretary of State for Education and Science and the Secretary of State for Scotland will be making a further announcement in due course.

In the case of the teachers the Government similarly believe that it would be appropriate for negotiations to start up in the Burnham and Felham machinery for England and Wales and in the Scottish Teachers Salaries Committee, with a view to implementation at some date to be decided by the negotiators after the ending of the statutory controls.
In all these cases the purpose will be to allow the parties concerned to determine the improvements required in pay and conditions to deal with their justified grievances. I regard this release of the parties to remedy their position in this way as an essential step, going beyond the very limited means at my disposal whilst the statutory controls last, to try to set right these major distortions arising from the previous Government's policies.

I must, however, emphasise that the Government regard these as special cases. I do not say that there are not others who have grievances; of course there are, and that is why we must rid ourselves of the controls which produce or aggravate them. But if we are not to jeopardise our chances of fulfilling all the other aims of our understanding with the TUC, we must ask that these three cases be recognised and accepted as priority cases, that other groups should hold to agreements already reached or, if they have still to negotiate their annual settlement, should do so at levels similar to those other groups who have not been singled out as priority cases. These groups of highly responsible people can achieve redress only if the rest of us now fully accept the justice of their case for priority treatment.
CABINET

CONCORDE

Memorandum by the Chancellor of the Exchequer

1. The economic case against proceeding with Concorde is as strong as ever. To complete 16 aircraft would cost at least £361 million - £245 million more than the cost of cancellation. The balance of payments is unlikely to gain from such a programme, but would benefit significantly if the resources employed on Concorde were put to alternative use.

2. Cancellation now would simply bring forward by two or three years a degree of unemployment which would arise in any case when the 16 aircraft were completed. The only serious problem would arise at Bristol where special arrangements, including higher redundancy payments, would mitigate the consequences.

3. The Attorney General advises that unilateral cancellation by the United Kingdom would now involve less risk of damages, and smaller damages, than we expected when last in office. There are good reasons why the French might not wish to take us to court. If they did, we would have a reasonable prospect of winning. But even if we lost, the maximum damages have been assessed at £150 million. In any event, the total of the cancellation costs and the maximum damages are nearly £100 million less than the additional costs that we should incur if we built 16 aircraft.

4. My colleagues are well aware that we shall be under severe pressure to limit public expenditure for some years to come. When we settle our social priorities for the next few years there will inevitably be acute competition for such resources as are available. Any funds devoted to Concorde will necessarily mean that less is available for other purposes. Moreover a commitment to the programme of 16 aircraft will invite further pressures for making a larger number to maintain employment both here and in France and for further development to produce an aircraft which has more chance of becoming marketable.
5. Any proposal to nationalise the aircraft industry will be condemned from the start if it is saddled with a project which we have publicly demonstrated to be grossly uneconomic. The principle of public ownership will be seen as an excuse for wasting public money.

6. Concorde is a very expensive prestige project. If we do not have the courage to deal firmly with it now, the credibility of our economic policy generally will be impaired. Our decision would be viewed overseas as a failure to face up to the realities of our present economic situation.

7. I therefore strongly urge my colleagues to accept that our aim must be cancellation and that this should be proposed to the French. If the French do not agree, we should still be prepared to cancel unilaterally, in the knowledge that our legal position is reasonably secure.

D H

Treasury Chambers

22 May 1974
CABINET

NORTHERN IRELAND

Note by the Secretary of the Cabinet

The Prime Minister has approved the attached note and directed me to circulate it for consideration by the Cabinet this evening.

JOHN HUNT

Cabinet Office

24 May 1974
1. The Prime Minister, accompanied by the Secretary of State for Northern Ireland, the Secretary of State for Defence and the Attorney General, met Mr Faulkner, Mr Fitt and Mr Napier at Chequers today.

2. There is no doubt that the Administration in Northern Ireland is not at present in control of the situation on the ground. The strikers are increasingly demonstrating to the population that the essential services and supplies of food and fuel are in their control.

3. The best assessment that can be made is that:
   
   a. The argument is not about Sunningdale, the Council of Ireland, etc. It is basically an attempt by extremists to establish an unacceptable form of neo-Fascist government.
   
   b. Moderate Protestant opinion is increasingly accepting the position of the extremists because it thinks they are winning. It will only swing back if evidence of firm government is shown.
   
   c. The extremists will probably seek to avoid a confrontation with the troops, although if some essential services are restored there will no doubt be an attempt to disrupt others.

4. If we do nothing, the Executive will collapse over the weekend. On the other hand an attempt by the British Army in effect to run the country would require the commitment of unacceptable forces and would probably fail. Nor are the Northern Ireland Executive seeking such a display of force.

5. Any course carries risks. But unless we are prepared to abdicate our responsibilities, the most promising action seems to be:

   a. Full support by Her Majesty's Government for the Northern Ireland Executive with no negotiation on constitutional matters outside the constitutional framework. A copy of the Press notice released after today's discussions will be available at Cabinet.

   b. A major political and publicity campaign to make this clear and to bring home the meaning of the basis on which power-sharing is established.

   c. Some action on the ground to show moderate opinion that Her Majesty's Government and the Executive retain credibility, have the will to govern, and are capable of influencing events. The Executive have sought our agreement to the implementation of our contingency plans for oil distribution. It would also be
necessary to implement the gas contingency plans. These could be introduced fairly quickly: and do not necessarily commit us to, eg subsequent similar action with the power stations. The possibility of further escalation cannot be excluded: but these steps seem the best hope of avoiding it. No commitment was given to the Executive this afternoon but the Prime Minister undertook to discuss the matter with the Cabinet this evening.

24 May 1974
CABINET

DEVOLUTION WITHIN THE UNITED KINGDOM

Note by the Lord President of the Council

For the information of colleagues I am circulating with this note copies of the consultative document on devolution which will be published at 12,00 noon on Monday 3 June.

E S

Privy Council Office

30 May 1974
Devolution within the United Kingdom

Some Alternatives for Discussion
# DEVOLUTION WITHIN THE UNITED KINGDOM

## SOME ALTERNATIVES FOR DISCUSSION

**Table of Contents**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td><strong>Part I. The Schemes Recommended in the Majority Report</strong></td>
<td></td>
</tr>
<tr>
<td><strong>PART I.</strong></td>
<td></td>
</tr>
<tr>
<td>A. Legislative Devolution for Scotland and Wales</td>
<td>7</td>
</tr>
<tr>
<td>B. A Scheme for Elected Assemblies in Scotland, Wales and the English Regions</td>
<td>9</td>
</tr>
<tr>
<td>C. Executive Devolution for Scotland, Wales and Eight English Regions</td>
<td>11</td>
</tr>
<tr>
<td>D. Welsh Advisory Council</td>
<td>13</td>
</tr>
<tr>
<td>E. A Scottish Council with Advisory and Legislative Functions</td>
<td>14</td>
</tr>
<tr>
<td>F. Regional Co-ordinating and Advisory Councils for the English Regions</td>
<td>14</td>
</tr>
<tr>
<td>G. A Scheme for Co-ordinating Committees of Local Authorities</td>
<td>15</td>
</tr>
<tr>
<td><strong>Conclussion</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Part II. Points for Discussion**

- The Major Schemes of Devolution (A, B and C) | 17
- Schemes D, E, F and G                         | 21

**Conclusion**                                           | 22
INTRODUCTION

1. The Queen’s Speech said that the Government “will initiate discussions in Scotland and Wales on the Report\(^1\) of the Royal Commission on the Constitution, and will bring forward proposals for consideration”. The purpose of these discussions is to produce a White Paper and a Bill. The Prime Minister also made it clear that “the Government will, of course, be considering all the recommendations in the report, but it is in Scotland and Wales that the need for consultations arises most immediately”. (Hansard, 19 March 1974.) This paper is intended to provide the basis for these consultations which will be taking place not only in Scotland and Wales but also in England.

2. Part I of the paper sets out in summary form the seven main schemes of devolution put forward in the Majority Report and the Memorandum of Dissent. The Government will welcome any general or specific comments on these schemes.

3. Both separatism and federalism have been rejected, as the Royal Commission unanimously recommended, but three of the schemes to be considered would involve major constitutional change. Of these the scheme of legislative devolution to Scotland and Wales (Scheme A) is described first since this commanded most support from Commission members. It is also the solution which most clearly distinguishes Scotland and Wales on the one hand from England on the other and it also raises in the most acute form issues about the representation of Scotland and Wales in the Westminster Parliament and the future of their Secretaries of State. The second and third schemes (B and C below) also envisage an extensive devolution of power to elected assemblies. They were primarily designed to be applied uniformly to Scotland, Wales and the regions of England, but one of the issues for discussion is whether they can be considered in the context of Scotland and Wales only. The remaining four schemes (D, E, F and G) all envisage the creation of bodies which are primarily advisory and consultative and do not, therefore, raise major constitutional issues, apart from the legislative functions included in Scheme E.

4. The different schemes need not, of course, be adopted exactly as they stand. Indeed, one of the objects of the consultations will be to consider whether variations in the schemes would overcome some of the problems they present—and also, of course, whether any of the schemes, or possible variants of them, would be an improvement on the present state of affairs. It is also for discussion whether the same arrangements would be appropriate both for Scotland and for Wales.

\(^1\) Report of the Royal Commission on the Constitution, October 1973, Cmnd. 5460; Memorandum of Dissent, Cmnd. 5460–1.
5. Part II of the paper raises a number of specific questions about:

(a) the more important practical problems which would need to be resolved in each scheme before it could be made to work satisfactorily;

(b) some of the political, constitutional and administrative implications of the different models.

The Government would welcome detailed suggestions and views on these and similar issues, in order to help find a stable and enduring solution.

6. Two crucial economic issues stand out for discussion. One is whether in the area of taxation and public expenditure enough powers could be devolved to Scotland and Wales to enable Scottish and Welsh Governments to make full use of the other powers which the major schemes theoretically give them while at the same time leaving the United Kingdom Government with fully adequate economic and financial powers to cope with the problems of demand management and the balance of payments, including public expenditure allocation and control, and counter-inflation policy. Another issue is that the Kilbrandon scheme for legislative devolution would not give the Scottish and Welsh Governments any significant powers in relation to trade and industry because of the requirements for central control in this field and the obligations assumed under international agreements. This conclusion has, however, been questioned in Scotland and Wales. Specific questions are posed on these two important issues in Part II.

7. None of the schemes would be incompatible with United Kingdom membership of the European Economic Community, which is currently the subject of the Government's policy of renegotiation. But, subject to the outcome of that policy, legislative devolution for Scotland and Wales (Scheme A in Part I) would require consideration to be given to arrangements for the handling of transferred subjects within the Government's European Community policies; and some account might need to be taken of Community membership in the implementation of any of the other major schemes.

8. The Government propose in due course to publish their own proposals for Scotland and Wales in the form of a White Paper which they hope to have ready by the autumn. The present consultations, together with the detailed studies which the Government has put in hand on all the schemes summarised in this paper, are needed to help the Government take decisions. In this connection the Government endorse the view expressed in paragraph 1112 of the Majority Report of the Royal Commission:

"We would expect our Report to lead to public debate and the formulation of a more clearly defined public opinion. Only then will it be right for decisions to be taken. And since opinion is likely still to be divided, and this is a matter requiring the exercise of political judgement, the final decisions must be political."
THE SCHEMES RECOMMENDED IN THE MAJORITY REPORT AND THE MEMORANDUM OF DISSENT

A. Legislative Devolution for Scotland and Wales

9. Legislative devolution was recommended for Scotland by eight of the thirteen members of the Commission and for Wales by six members. (2)

General description

10. Responsibility for legislating on specifically defined matters would be transferred from the Westminster Parliament to directly elected Scottish and Welsh legislatures. In relation to the transferred subjects these legislatures would make such laws and policies as they saw fit, and would carry out all aspects of administration. The ultimate power and sovereignty of the United Kingdom Parliament would be preserved in all matters, but it would be a convention that in the ordinary course this power would not be used to legislate for Scotland or Wales on a transferred matter without the agreement of the Scottish or Welsh Government. (3). The United Kingdom Government would also have the power, for use in exceptional circumstances, to determine, with the approval of the United Kingdom Parliament, that a Bill passed by the Scottish or Welsh legislature should not be submitted for the Royal Assent. The Scottish and Welsh executives would be composed of Ministers drawn from their respective assemblies who would then operate the traditional Cabinet system of government. It is the intention that the Scottish and Welsh Governments should have a large measure of financial independence, especially in matters of expenditure, but would be subject to such restraints as are necessary in the interests of the economic management of the United Kingdom as a whole.

Main features of the scheme

11. Legislative power in the following subjects would be transferred to the Scottish and Welsh legislative assemblies:

- Local government
- Road passenger transport
- Town and country planning
- Harbours
- New towns
- Other environmental services (e.g. prevention of pollution, coast protection and flood prevention)
- Housing
- Education (probably excluding universities)
- Building control
- Youth and community services
- Water supply and sewerage
- Sports and recreation
- Ancient monuments and historic buildings
- Arts and culture (including the Welsh and Gaelic languages)
- Roads (including the construction, use and licensing of vehicles)

(2) The proposals for legislative devolution to Scotland and Wales are outlined in paragraphs 1125 to 1153 of the Majority Report. The strengths and weaknesses of legislative devolution are discussed in more detail in paragraphs 733 to 826.

(3) Majority Report, paragraph 1126.
Social work services (including, for Scotland, probation and after-care) Agriculture, fisheries and food (except price support and some other functions)
Health Forestry
Miscellaneous regulatory functions Crown estates (including matters such as betting, gaming, and lotteries, obscene publications, shop hours and liquor licensing) Tourism

12. Legislative power in the following additional matters would be transferred to the Scottish Assembly only:

- Police Public order and administration
- Fire services Legal matters, including law reform
- Criminal policy and administration Highlands and Islands development (including crofting)
- Prisons Sea transport
- Administration of justice

13. In the subjects listed above the Westminster Parliament would normally cease to legislate for Scotland and Wales (though existing United Kingdom legislation in these fields would continue to apply initially). But the United Kingdom Parliament and Government would continue to be responsible for the international aspects of transferred matters. It is also envisaged that the Scottish and Welsh assemblies might have some limited powers in relation to consumer protection, road freight, civil aviation and broadcasting.

14. The legislative assemblies in Scotland and Wales would each have about 100 members directly elected for a fixed term of 4 years by the single transferable vote system of proportional representation, though in the more sparsely populated areas of Scotland the alternative vote system might be adopted. All matters relating to the franchise and to elections to the assembly (though not elections to local authorities) would be reserved to the United Kingdom Parliament.

15. The Scottish and Welsh executives would consist of Ministers drawn from their respective assemblies. Normally the leader of the majority party would be chief Minister (or Premier) and would form a Cabinet which would operate in accordance with the traditional Westminster principles of collective and ministerial responsibility. Scotland and Wales would each have a separate civil service.

16. Scotland and Wales would continue to be represented in the Westminster Parliament, but their representation in proportion to population would be the same as for England. This would probably reduce the number of Scottish MPs at Westminster from 71 to about 57; and the number of Welsh MPs from 36 to about 31.

17. The offices of Secretary of State for Scotland and Wales would disappear, but Scotland and Wales would each have a Minister with the special responsibility of representing its interests in the Cabinet.

(*) Paragraph 1148 of the Majority Report.
18. There are detailed proposals for finance which the Report says are open to modification. The chief object would be to give the Scottish and Welsh Governments maximum freedom in expenditure. Each would have its "fair share of United Kingdom resources" and freedom to allocate expenditure on the transferred services according to its own chosen priorities. Scotland and Wales might also have some limited powers of independent taxation, and perhaps a share of United Kingdom taxes. But the assemblies' income would come mainly from United Kingdom subventions. They might also be able to raise loans to meet capital expenditure.

19. The determination of Scotland's and Wales' "fair share of United Kingdom resources" would be in the hands of a nominated Exchequer Board which would be independent of the Scottish, Welsh and United Kingdom Governments. Exceptionally the United Kingdom Government could reject the Board's recommendation with the approval of the United Kingdom Parliament.

B. A Scheme for Elected Assemblies in Scotland, Wales and the English Regions

20. This scheme of intermediate level governments was the main proposal in the Memorandum of Dissent signed by two members of the Commission.

General description

21. The scheme seeks to achieve a substantial measure of devolution of power from the central Government to Scotland, Wales and the English regions. It could, however, be considered for application to Scotland and Wales alone. Under the scheme the United Kingdom Parliament and Government would remain responsible for the framework of legislation and major policy on all matters, but directly elected Scottish and Welsh and English regional assemblies would be responsible for adjusting United Kingdom policies to the special needs of their areas and putting them into effect. The Scottish, Welsh and English regional Governments would be run on the local authority pattern with a functional committee structure and not on the Cabinet model as in the scheme of legislative devolution. They would assume control of all the regional outposts of central Government now operating in their areas including the Scottish and Welsh Offices in their present form and the regional and local offices of other central Government departments. Thus these outposts, which employ very substantial numbers of civil servants, would be completely "hived off" from central Government.

(*) Paragraphs 679 to 693 of the Majority Report describe a scheme of regional finance intended to bring about the maximum degree of regional independence. Paragraphs 775 to 777 discuss this scheme in relation to the problems of legislative devolution generally. Paragraphs 1134 to 1139 apply it to the Commission's specific proposals for legislative devolution in Scotland and Wales.

(*) Majority Report, paragraph 1134.

(*) The scheme is summarised on pages xvi to xx of the Memorandum of Dissent and developed more fully in paragraphs 208 to 276.

(*) The term "regional" includes where appropriate, the all-Scotland or all-Wales level. It does not mean the regional level of local government in Scotland; nor that Scotland and Wales are to be equated with English regions.
The "intermediate level" governments (i.e. the Scottish, Welsh and English regional governments) would also take over completely the functions of certain ad hoc authorities operating in their areas (e.g. health and water authorities); and they would be given some supervisory responsibilities in respect of the activities in their parts of the country of the various industrial and commercial authorities (e.g. gas and electricity boards). The "intermediate level" governments would not be limited to the specific functions or duties conferred on them by Parliament; they would have a general residual competence to act for the welfare and good government of the people in their areas. They would have some independent revenue-raising powers and sufficient financial "independence" of central Government to give them the requisite degree of freedom to carry out their duties and responsibilities.

**Main features of the scheme**

22. The scheme envisages that the broad range of functions set out in paragraph 21 above would be devolved to an assembly and government in Scotland, in Wales and in each of, say, five English regions. Each assembly would consist of about 100 members elected by the single transferable vote system of proportional representation for a fixed term of four years. The executive of each government would consist of a number of functional departments or divisions staffed by the authority's own civil servants. There would be departments or divisions for such functions as Finance, Education, Health and Social Security, the Environment, etc. Each department or division would be controlled by a committee drawn from the membership of the assembly—reflecting the balance of party strengths.

23. Each assembly would be able to make "ordinances":

(a) to implement United Kingdom policies and legislation and to adapt them to the special needs of the area; and

(b) to give effect to their residual power to act for the welfare and good government of the people in the area.(9)

24. Each intermediate level government would have its own civil service and a separate ombudsman. There would be no change in the functions of local authorities, although they would deal with the appropriate intermediate government instead of with the central Government as at present. They would have direct representation in the intermediate level governments.(10)

25. The general financial arrangements are outlined at the end of paragraph 21 above. A possible development of these arrangements is outlined in Appendix B of the Memorandum of Dissent. It is designed to give the intermediate level governments a considerable degree of financial and economic independence of central Government; and to improve the ability of the central Government to achieve the major objectives of national economic policy such as full employment, regionally and nationally, and a satisfactory rate of economic growth.

(9) These powers are subject to various safeguards which are set out in paragraphs 242 to 245 of the Memorandum of Dissent.

(10) Memorandum of Dissent paragraphs 212 and 254 to 255.
26. At the centre, the scheme envisages that Members of Parliament, by being relieved of a great deal of detail, would have time for a much greater share in Government policy making including more influence on the decisions which United Kingdom Ministers have to take in the Council of Ministers in Brussels; for these purposes MPs would need to be organised in functional committees matching each of the main Departments of Government. The composition of the House of Lords might be altered to include members of the "intermediate level" governments.

27. The Secretaries of State for Scotland and Wales would remain as members of the United Kingdom Cabinet though their existing Departments would be taken over by the Scottish and Welsh Governments. They would have the special responsibility of safeguarding and promoting Scottish and Welsh interests in all Cabinet decisions. A third Cabinet Minister would perform a similar function for the English regions. There would be no reduction in the number of Scottish and Welsh MPs at Westminster.

C. Executive Devolution for Scotland, Wales and Eight English Regions

28. This scheme was recommended by two members who signed the Majority Report.\(^{(11)}\)

General description

29. The scheme seeks to achieve a substantial measure of devolution from the central Government to Scotland, Wales and the English regions. It is in essence a more restricted and less radical version of the scheme presented at B above. The United Kingdom Parliament and Government would be responsible for the framework of legislation and major policy in all matters, but wherever possible would transfer to directly elected assemblies in Scotland, Wales and eight English regions the responsibility, within that framework, for devising specific policies and executing them and for general administration. The intention would be to promote the maximum amount of regional participation and variation consistent with the general policy aims of the United Kingdom Government. The two members who support the scheme regard it as an essential feature that it should be applied in a more or less uniform way throughout Great Britain.\(^{(12)}\) It could, however, like Scheme B above, be considered for application to Scotland and Wales only.

30. Its main differences from Scheme B are:

(a) The assemblies would have no independent revenue raising powers.

(b) The assemblies would not have a residual competence to act for the welfare and good government of the people in their areas.

(c) The assemblies would not have the wide ordinance-making power proposed in Scheme B.

(d) The functions of the assemblies would be limited initially and increased in the light of experience; they would not necessarily take over all the existing executive functions of the Scottish Office.

\(^{(11)}\) The scheme itself is outlined in paragraphs 1154 to 1173 of the Majority Report; executive devolution in general is discussed at greater length in paragraphs 827 to 919.

\(^{(12)}\) Majority Report, paragraph 1155.
and the Welsh Office, nor necessarily all the other outposts of central Government departments operating in Scotland or Wales or in the English regions.

(e) The assemblies would not necessarily effect a general take-over of the work of the various non-industrial, non-commercial ad hoc authorities operating in their areas.

(f) The assemblies’ relationship with local authorities in their areas might well be different from that envisaged in Scheme B (see paragraph 35 below).

(g) Scheme C does not recommend any changes in the institutions of central Government.

Main features of the scheme

31. Scotland, Wales and the eight English regions would each have an assembly of about 100 members directly elected by the single transferable vote system of proportional representation for a fixed term of four years. Each assembly would administer with as much freedom as possible the legislation and policies of the United Kingdom Parliament and Government.

32. Functions would be conferred on the assembly by the amendment of existing law and any new legislation relating to specific matters. Acts of Parliament would lay down policy in broad terms, authorising the assembly to fill in much of the detail—in some cases by statutory instruments. Executive authority would be vested not in Ministers but in the assembly itself, which would delegate much of its authority to functional committees, as local authorities now do. The transfer of functions would be a lengthy process, spread over many years. At first the assemblies would have a limited range of powers in matters such as strategic planning, but these powers would be gradually extended as time went on. Most of the existing executive functions of the Scottish and Welsh Offices would be devolved. Almost all subjects would offer some scope for regional involvement.

33. The regional assemblies would not have any independent revenue raising powers. They would be financed out of United Kingdom funds negotiated direct with the central Government. Their total expenditure would ultimately be for the United Kingdom Government to decide. The Government would also need to be satisfied that each assembly’s proposed allocation of expenditure was broadly consistent with central policies. Subject to this the assembly would make its own expenditure decisions.

34. The scheme would not involve any change in Parliamentary representation, but it envisages that the separate offices of the Secretaries of State for Scotland and Wales would disappear. There would be a Minister with general responsibility for regional affairs.

(13) Majority Report, paragraph 1156.
(14) Majority Report, paragraph 1165.
(15) Majority Report, paragraph 1160.
(16) Majority Report, paragraph 1157.
(17) Majority Report, paragraphs 1157 and 1163.
(18) Majority Report, paragraphs 1168 to 1169.
35. The relationship between the regional assemblies and local government could develop in a number of different ways. Three possible ways are described:

(a) local authorities could be completely subordinate to the regional government and it would be for each regional government to decide on the distribution of functions between itself and its local authorities;

(b) local and regional authorities could each be autonomous in functions allocated to them from the centre, and could work in parallel; local authorities would remain accountable for the proper performance of their functions to the United Kingdom Government;

(c) the relationship between local and regional government could depend on what Parliament considered appropriate in each separate field of legislation.

36. The precise relationship between the regional assemblies and ad hoc bodies would depend on a detailed review.

D. Welsh Advisory Council

37. Three members who signed the Majority Report recommend the establishment of a Welsh Advisory Council.

General description

38. The reasoning behind this scheme is that Wales has derived great benefit from the comparatively recent appointment of its Secretary of State, and that the economic and other problems facing the Principality can best be dealt with through the development and retention of that office. So the scheme aims to reconcile the continued existence of the Secretary of State and the Welsh Office in its present form with the widely expressed desire for a directly elected assembly to act as the voice of Wales. Accordingly there would be a directly elected Welsh Council to advise the Secretary of State and to scrutinise the operation of Government policies and agencies in Wales.

Main features of the scheme

39. The Welsh Advisory Council would be directly elected by the single transferable vote system of proportional representation and would consist of about 60 members. It would replace the existing nominated Welsh Council. It would have no legislative, executive or administrative powers. Its functions would be to scrutinise, debate and make representations to the Secretary of State about Government policies and activities in Wales, including the activities of the nationalised industries and other ad hoc bodies operating there. It would inevitably be interested in, but would in no sense supervise, the activities of local authorities.

40. The Council's scrutiny would range over such matters as the Welsh economy, employment, major road development and land use proposals,
public services and the Welsh language. It would also hold an annual
debate on the Government's expenditure proposals for Wales. (23) It would
operate through standing committees and be financed from the United
Kingdom Exchequer. It would also have the right to nominate some members
of *ad hoc* bodies operating in Wales. (24)

41. The Secretary of State and other Welsh Ministers would on invitation
attend the Council to explain policy, answer criticisms and receive advice.
Officials of the Welsh Office would also be invited to report to the Council
and to answer questions on their activities. Members of Parliament from
Welsh constituencies might attend and speak, but not vote, at the Council's
plenary sessions. (25)

**E. A Scottish Council with Advisory and Legislative Functions**

42. One member who signed the Majority Report recommended the
establishment of a Scottish Council with advisory and legislative functions. (26)

**General description**

43. There would be a directly elected Scottish Council which would have
the same advisory functions as proposed for the Welsh Council and sum­
mariised at paragraphs 38 to 41 above. In addition, however, the Scottish
Council would have some powers in relation to Scottish legislation. Thus
it would take the Second Reading, Committee and Report stages of Scottish
Bills referred to it by the House of Commons. Unless a Bill was then
recalled by the Leader of the House, the Scottish Council would be able
to give it a Third Reading and submit it for Royal Assent without any
reference back to the House of Commons and without any passage through
the House of Lords.

**F. Regional Co-ordinating and Advisory Councils for the English Regions**

44. Eight members of the Commission recommended this scheme for
English regional councils with advisory and co-ordinating powers. (27)

**General description**

45. The scheme is based on the view that it would not be right for the
English regions to be given any legislative or executive powers now
exercised by central Government, and that it would be illogical (following
the recent reorganisation of local authorities) for them to take over powers
from local government. Yet at the regional level it is believed that there is
scope for more effective co-operation between local authorities and a need
for more open discussion and democratic influence on those matters affecting
the region which are decided by central Government or by *ad hoc* bodies.

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(23) Majority Report, paragraph 1176.
(24) Majority Report, paragraph 1178.
(26) The scheme is described in paragraphs 1184 to 1187 of the Majority Report. It is
based on the proposals of the Scottish Constitutional Committee of the Conservative Party
which are discussed in paragraphs 966 to 975.
(27) The scheme is summarised in paragraphs 1195 to 1209 of the Majority Report; paragraphs 920 to 965 discuss in more detail the implications of schemes of this kind.
To meet this need, and to give advice to the central Government on regional problems, there would be regional councils primarily composed of local government councillors.

**Main features of the scheme**

46. There would be eight English regions (i.e. those that have already been established for economic planning purposes). Each region would have an advisory council which would consist of about 60 members. Four-fifths of the members of each council would be members of the local authorities in the region and would be "elected" by those local authorities to membership of the regional advisory council. One-fifth of the members would be nominated by the central Government to secure representation from industry and commerce, trade unions, education and other interests.

47. The regional advisory councils would have no legislative, executive or administrative powers. Their functions would be to:

- (a) take over the functions of the present nominated regional economic planning councils;
- (b) advise on Government spending in their regions;
- (c) advise and make representations to central Government about Government policies and activities generally in their regions, including the operations of nationalised industries and other ad hoc bodies (some of whose members they would nominate);
- (d) have a mainly co-ordinating function in the field of local government.

48. Under (d) it is envisaged that the regional council would play an important part in the formulation of the broad economic and land use strategy which would be the regional framework within which central and local government services would be provided. The structure plans of local authorities would have to fit into this general strategy and would be submitted for Ministerial approval through the regional council with its comments. The council would by agreement promote and co-ordinate action by local government in the region. It would have no power of direction over local authorities in the region and would not itself administer services or undertake works.  

49. In carrying out their functions the councils would ordinarily meet in public. They would elect their own chairmen.

**G. A scheme for Co-ordinating Committees of Local Authorities**

50. This scheme is recommended for England by one member of the Commission.  

**General description**

51. The scheme is based on the view that in England the best way of devolving power from the centre is to concentrate on strengthening the power of the new larger local authorities. It is envisaged that if this were

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(28) Majority Report, paragraph 1204.
(29) It is outlined in paragraphs 1210 to 1214 of the Majority Report.
done the only need at regional level would be to co-ordinate the planning activities of local authorities. Instead of the present voluntary co-operation between local authorities there would be established a formal system of regional committees. Each would consist entirely of indirectly elected representatives of local authorities and there would be no provision for nominated members. It would be mandatory for local authorities to submit their plans for the regional committee and obtain its comments before submitting them for Ministerial approval. The present economic planning councils would be abolished. It is envisaged that the scheme might be combined with regional committees of the House of Commons which might vet regional plans and Government expenditure in the regions.\(^{(30)}\)

\(^{(30)}\) The organisation of the House of Commons on these lines is discussed in paragraphs 1050 to 1092 of the Majority Report.
PART II

POINTS FOR DISCUSSION

A. The Major Schemes of Devolution (A, B and C)

52. Listed below are a number of specific matters on which the Government would particularly welcome comment. The questions posed are intended to be illustrative rather than comprehensive. For the sake of convenience they have been grouped together under broad functional headings.

Finance

53. The problem would be to give the Scottish, Welsh and English regional governments under these schemes a sufficient degree of financial independence to make full use of the constitutional powers devolved to them while preserving economic unity and leaving the United Kingdom Government with fully adequate economic and financial powers to discharge their responsibilities for demand management, the balance of payments and the control of inflation. Some of the questions that arise, therefore, are:

(a) Would the financial proposals in the Majority Report and the Memorandum of Dissent give the Scottish, Welsh and English regional governments sufficient independence of the centre to make full use of their constitutional powers?

(b) Would it be possible to contain the expenditure of independent governments within determined limits?

(c) Should Scotland and Wales have independent taxation powers; and if so, how extensive should they be and what form should they take? Would it be acceptable that levels of taxation might be higher in some parts of the United Kingdom than in others?

(d) How might oil revenues affect the schemes?

(e) Would the nominated Exchequer Board (in Scheme A) provide an objective and acceptable way of determining Scotland's and Wales' "fair share of United Kingdom resources"? Are there acceptable alternatives?

(f) Would it be practicable and acceptable to determine a "fair share" by trying to measure average United Kingdom standards in the different services—housing, health, education, etc.—and then allocating central Government resources to Scotland and Wales so that, if desired, those standards could be secured overall in the services legislatively devolved? What sort of formula and machinery might be used for this?

(g) Under Schemes B and C, would the intermediate level governments have effective room for manoeuvre in varying the balance of expenditure on housing, health, education, etc., in their parts of the country when the central Government would remain responsible for broad policy in all parts of the United Kingdom? Would the regional
communities want greater variations in standards than now exist, or would there be pressure for equality of standards throughout the United Kingdom?

(h) How far would the answers to these questions about finance be affected if the application of devolution under Schemes A, B and C were confined to Scotland and Wales only?

Trade, industry and employment

54. The main problem here is whether there could be any significant devolution of powers in the trade, industry and employment fields to Scottish, Welsh and English regional governments. Some of the questions that arise, therefore, are:

(a) Is it acceptable that in Scheme A there would be little devolution of powers in the trade, industry and employment fields? If not, what form might such devolution take and what services might be affected, on the basis that distribution of industry policy and industrial incentives need to be controlled on a United Kingdom basis and bearing in mind international obligations?

(b) An example of the kind of problem which might arise is that at present the salaries and conditions of service of certain public employees (e.g. in the National Health Service) in Scotland, Wales and England are kept broadly in line. Under Scheme A Scotland and Wales would be able to define their own conditions of service and their own salary scales and structures:

(i) Is it acceptable that the present assurance of broad equality between the different parts of the country should go?

(ii) What problems would this create for local authorities?

(iii) Alternatively, could the scheme for legislative devolution be altered so that the powers of the Scottish and Welsh Governments were limited in such a way that they would not have the freedom to alter pay and conditions of service significantly from a standard United Kingdom level?

(c) Under Schemes B and C the Scottish and Welsh and English regional governments would take over many or all of the trade, industry and employment activities now undertaken in central Government offices in Scotland and Wales. Is this a practical proposition? Is it possible in practice to give Scottish, Welsh and English regional governments significant discretionary powers in these fields whilst maintaining central control of distribution of industry policy and the benefits of an integrated United Kingdom market?

(d) What would be the relationship under the various schemes between the Scottish, Welsh and English regional assemblies and the nationalised industries?

(e) Would the scope for devolving trade, industry and employment functions in Schemes B and C be affected if devolution in these fields were confined to Scotland and Wales?
Local government

55. The main problems here revolve round the likely impact of the three schemes on the powers and functions of local authorities. For example:—

(a) Under all three schemes local authorities would mainly be limited to dealing with the Scottish, Welsh and English regional governments and would cease to deal with the United Kingdom Parliament and central Government departments. And the United Kingdom Government, of course, would largely cease to have direct dealings with local authorities. Is this acceptable?

(b) Which is preferable of the three types of relationship between regional assemblies and local government under Scheme C, described in paragraph 35 above?

(c) Under Scheme A Scottish and Welsh Governments would have very considerable legislative powers over the local authorities in their area. Thus, for example, a Scottish and Welsh assembly and government could if they wished:—

(i) absorb existing specific grants into the Rate Support Grant system for local authority services or abolish the system, in whole or in part, and replace it by a system of specific grants;

(ii) change the level of Rate Support Grant and the distribution formula;

(iii) take to itself the determination of a variety of matters which are now within the discretion of local authorities, or extend the present range of discretion of local authorities.

What problems would any of the above points pose for local authorities? (Depending on what powers were developed by the central Government, similar questions might arise under Schemes B and C.)

(d) Under Schemes B and C might the Scottish, Welsh and English regional governments seek to compensate for their lack of legislative power by exerting greater control over the activities of local authorities in their area or by pressing to take over their functions?

(e) As far as Scotland is concerned, the local government region of Strathclyde is very much larger in population terms than any other region. What effect would this have on any of the three schemes?

General political, constitutional and administrative issues

56. There is a very wide range of political, constitutional and administrative issues that have to be faced. They would include the following:—

(a) What difficulties are foreseen when the Scottish and Welsh Governments are of a different political complexion from the United Kingdom Government?

(b) Under Scheme A it would, in principle, be open to the Scottish and Welsh Governments to exercise a wide range of legislative powers in a distinctive way—e.g. it would be theoretically possible for them to re-cast completely the structure and powers of local government in their areas, they would be able to abolish private medical practice
or extend and increase health service charges, they would be able to introduce educational policies quite different from the existing ones including, for example, charging fees for attendance at state schools, and they would be able to nationalize or denationalize road passenger transport. Would Scottish and Welsh Governments in practice be likely to exercise such powers; and if so would it be acceptable?

(c) What difficulties are foreseen in making the veto power in Scheme A work effectively?

(d) Should all schemes be based on proportional representation as recommended by the Royal Commission?

(e) Under Scheme A is it acceptable to the people of England that while the Westminster Parliament would in general not be able to legislate for Scotland and Wales in matters of health, education, local government, etc., some 90 Scottish and Welsh MPs at Westminster would participate in legislation for England on these matters?

(f) Under Scheme A is it acceptable to the people of Scotland and Wales that their number of MPs at Westminster should be reduced? (This is not an essential element in legislative devolution, but it is included in the majority recommendation.)

(g) Under all three schemes is it acceptable to the people of Scotland and Wales that their Secretaries of State would disappear in their present form? Even if they were retained, they would have more limited powers and would not have the support of strong departments.

(h) Is it acceptable that divergency of policies—e.g. on housing, health, education, town and country planning etc.—might arise to a significantly greater extent than is possible at present?

(i) Under Schemes B and C how, in practice, can one draw a distinction between major policy making (which would be the responsibility of central Government) and subordinate policy making and administration (which would be the responsibility of intermediate level governments)?

(j) Under Schemes B and C would the United Kingdom Government in practice be able to enforce its broad policies on a politically hostile intermediate level government?

(k) How should regional governments be organised? Scheme A envisages a Cabinet system of government and Schemes B and C the local authority pattern.

(l) Under Scheme B would the ordinance-making power of intermediate level governments lead to the development of separate and fundamentally different bodies of ordinance-made law in Scotland, Wales and the English regions which might seriously undermine the concept of the political and economic unity of the United Kingdom?

(m) Under Schemes B and C would the central Government be unduly handicapped in its major policy-making responsibilities when, since it would no longer be responsible for administering existing policies, it would lack the practical knowledge that comes from that?

(n) Is there a demand in England for an additional level of directly elected assemblies (as in Schemes B and C), and would such bodies attract electoral support?
Would it be acceptable to apply Schemes B and C to Scotland and Wales only? If this were done, would it be necessary for much United Kingdom legislation to be enacted in two forms, one (merely laying down broad policy) applying to Scotland and Wales and the other (in greater detail) to England? Would such an arrangement be workable and acceptable?

Under Schemes B and C, it would still be necessary to enact specifically Scottish legislation in the United Kingdom Parliament because of the different system of Scottish law. How would such legislation be handled; which United Kingdom Minister would be in charge of Scottish Bills; and how would he be advised and supported, given that the existing Scottish Office would be responsible to the Scottish assembly?

Issues might arise which would lead to Scottish and Welsh legislation being challenged in the courts on grounds of ultra vires. Would it be necessary to establish a special constitutional court to deal with these questions—and, if so, how should it be composed?

To what extent would it be necessary to establish special machinery for securing inter-governmental co-operation and consultation? An increase in the total number of public servants is likely. Would this be acceptable? How would the burdens on Whitehall and Westminster be affected?

What problems are involved in making the boundaries of such bodies as regional health and water authorities and the Gas Council coterminous with the boundaries of Wales and the English regions? To what extent do the regional boundaries proposed in Schemes B and C accurately reflect regional sentiment?

B. Schemes D, E, F and G

The issues which arise under Schemes D, E, F and G are for the most part of a different order from those so far presented. This is because although they all involve the creation of assemblies of various kinds those assemblies would be for the most part advisory and consultative. They would not have specified powers either with respect to local authorities or over any matters now the responsibility of central Government. Schemes D and E are for Wales and Scotland respectively while F and G are for eight English regions.

As far as Schemes D and E are concerned the points on which the Government would welcome comments include the following:

(a) How far would these schemes go towards meeting practical needs and fulfilling the aspirations of the people of Scotland and Wales?

(b) Would enough able men and women be ready to face direct elections and give up a substantial amount of time to serve on the Scottish and Welsh assemblies envisaged in these schemes? Would some degree of indirect election be acceptable?

(c) Would the schemes be likely to increase the burdens on Whitehall and Westminster?
What problems are raised by the fact that the Scottish and Welsh Offices and the ad hoc bodies in Scotland and Wales would be subject to detailed questioning by the Scottish and Welsh assemblies but would remain accountable only to the United Kingdom Parliament and Government?

How, under these schemes, would the role and responsibilities of Welsh and Scottish MPs be distinguished from the role and responsibilities of the Welsh and Scottish assemblies?

What problems are raised by the legislative role envisaged in Scheme E for the Scottish assembly?

59. As far as Schemes F and G are concerned the points on which the Government would welcome public reaction include the following:—

(a) How far would these schemes go towards meeting practical needs and fulfilling regional aspirations?

(b) Both schemes assume that as many functions as possible will be devolved from central Government to the new and enlarged local authorities. What additional functions could be devolved?

(c) Would the schemes increase or decrease the load on Whitehall and Westminster?

(d) Would Schemes F and G strengthen local government and improve its relations with the central Government; or would they set up an additional barrier between local and central Government?

(e) Would the councils proposed in Scheme F be an adequate replacement for the regional economic planning councils? Would the latter still be needed if Scheme G were adopted?

CONCLUSION

60. This paper is in no sense a substitute for the Majority Report and the Memorandum of Dissent. There the schemes are presented in much more detail and the pros and cons of each carefully examined. This has already led to much public discussion—particularly in Scotland and Wales. The purpose of this paper is to carry these discussions a stage further. It is designed as a working document to concentrate discussion with representative bodies and among the public at large on the practical problems which still have to be solved before any of the various schemes put forward by the Commission on the Constitution could become a practical proposition. And it aims, too, to focus particular attention on the political and constitutional and administrative implications of the various schemes.

61. Anyone who wishes to express a view should do so in writing as soon as possible. Letters should be addressed, as appropriate, to the Scottish Office or the Welsh Office or (in the case of England) to the Department of the Environment.

June 1974
CONCLUSION

60. This paper is in no sense a substitute for the Majority Report and the Memorandum of Dissent. Are the lessons we have learned and the lessons that are now comprehensively in need of further discussion—particularly in Scotland and Wales. The purpose of this paper is to carry these discussions a stage further. It is designed as a working document to concentrate examination of the problems which will need to be faced when the finality of the various schemes put forward by the Commission under the Constitution could become a practical possibility. It is hoped that action can be taken at an early stage on the problems and solutions set forth in this document, the consultation process.
18 June 1974

CABINET

FUTURE APPROACH TO PUBLIC SECTOR PAY NEGOTIATIONS

Memorandum by the Secretary of State for Employment

1. The attached note by officials considers the implications of the coming voluntary pay arrangements for the Government's relationship with other public sector employers over pay negotiations. Paragraphs 19-20 contain their recommendations.

2. The recommendation that we should get Stage 3 settlements in current negotiations wherever we can accords with the line that we have taken from the beginning that it is desirable to keep settlements in the current pay round on much the same basis. So does the recommendation that we should do all that we can to prevent any major breach of the 12 months rule by the coal or electricity industries at the opening of the round in the autumn. Exactly how we achieve this latter objective is something that officials will need to consider carefully with the employers after the voluntary guidance is publicly known.

3. I am extremely anxious that we do not get involved in the detailed pay negotiations of other public sector employers. That is their business and they must get on with it. Nor must we do anything to suggest that we are discriminating against the public sector - or for it. But the public sector is not like the private sector in its general relationship to Government and it would be absurd not to recognise this in relation to pay as we do to other aspects of their operations. It is in their interest and ours that there should be a close exchange of views well in advance of each major pay negotiation, so that we can see where it may lead in terms of impact on related negotiations, prices, subsidy and possible industrial trouble.

4. I therefore invite my colleagues to endorse the recommendations in the report, including the suggestion in paragraph 20 for meetings with the nationalised industry chairmen collectively and with local authority employers. When those meetings have set the scene, I propose to ask officials to make early arrangements to assess with the employers concerned the prospects and problems in each of the major public sector negotiations of the autumn.
5. It would be my intention to maintain the informal contacts that my Department has for long had with key private sector employers, so that we keep abreast of what is going on in the private sector too.

M F

Department of Employment

18 June 1974
FUTURE APPROACH TO PUBLIC SECTOR PAY NEGOTIATIONS

Note by Officials

THE PROBLEM

The TUC are expected to produce by the end of June guidance to unions on pay negotiations after the abolition of the statutory controls some time in July. Unions will be asked to follow this guidance in the public as in the private sector and, as the TUC response to Government action under the social contract, the Government will presumably welcome the guidance, announce their own intention to follow it as an employer, and invite other employers to do so too.

2. Two questions then arise

(a) what should be the Government's approach to the major public sector pay negotiations due before the current pay round ends in November?

(b) what general relationship on pay negotiations should be maintained between Government and other public sector employers under the voluntary arrangements?

COMING MAJOR PUBLIC SECTOR NEGOTIATIONS

3. Annex 1 lists the major public sector pay negotiations with settlement dates in the period July to December. The first group are those who have yet to complete negotiations in this round. It would be desirable to have these completed on Stage 3 lines so as to avoid the possibility of anomalies arising between them and others who have so settled. Government have earlier said that, in the interests of a smooth transition, pay settlements in the rest of this pay round should be at a level which does not go beyond the many settlements already made.

4. Since the TUC will intend their guidance to run from the end of the statutory controls and will not accept that Stage 3 should apply to negotiations thereafter, this will mean trying to get as many as possible of those settlements made on Stage 3 lines before the statutory controls end. There are good chances of this with a number of those listed in the Annex, but not perhaps with the local authority non-manual workers and police, whose handling we shall have to consider when the TUC guidelines are known. If they purport to follow those guidelines, we must aim to see that they keep within them and do not use them to support excessively high settlements which get the new voluntary approach off to a bad start.

5. From that point of view the Government have already laid the groundwork for treating the fresh settlements which will come for teachers, nurses and Post Office staff as a backlog of the past rather than related to the voluntary approach. We shall have to try to take a similar line with the rail and London Transport settlements when the current arbitration hearings finish. But it must be the objective to avoid re-opening other major public sector settlements eg for the electrical power engineers and especially
the miners. If the latter were to have a fresh settlement from 1 November, this would put tremendous pressure on other union leaders to breach the 12 months rule and would, in particular, make it impossible to prevent the electricity manuals from coming forward to September. Two such breaches of the 12 months rule could wreck the voluntary approach.

6. If the 12 months rule is held in these cases, the first major test of the voluntary regime in the public sector will come with the local authority manuals in late-September/October. This settlement will set the tone for the NHS ancillaries and water manuals who normally follow their lead. Along with the construction industry (which negotiates about the same time) the local authority employers and unions will therefore play a key role in establishing the voluntary regime.

NEED FOR CLOSE RELATIONS BETWEEN PUBLIC SECTOR EMPLOYERS

7. This raises the question of the Government's relationship with the local authority and other public sector employers under the voluntary arrangements. It is tempting to think that public sector employers - the Government, nationalised industries and local authorities - can be left each to interpret the TUC guidance to unions and CBI guidance to employers in their separate negotiations. But we believe that there must be informal arrangements for close advance consultation between them on major negotiations for the following reasons.

8. First, the Government are counting on the TUC to get unions to follow their guidance in both the public and private sectors, but this requires that employers co-operate in not making offers inconsistent with that guidance. The voluntary arrangements will not be sustained if broken in the public sector (which contains 40 per cent of those affected by nationally negotiated pay agreements).

9. Secondly, any voluntary guidance is bound to leave room for interpretation. Comparability is a very strong force in the public sector and early settlements in one part of it exert substantial influence over the others. It is therefore in the interests of public employers to see that they take much the same line in negotiation on pay issues where a particular interpretation could be repercussive.

10. Thirdly, there is the Government's position as financier and its concern with the impact on public expenditure. Pay accounts for some 30 per cent of total public expenditure, and for about half of the defence budget and of expenditure on education, health and other personal social services. Movements in public sector pay can make a big impact on public expenditure and the borrowing requirement in any one year (1 per cent on all forms of public sector pay costs £150m in a full year). The pay of local authority employees accounts for about half of the total local authority expenditure and is thus by far the major determinant of the rate support grant and of the level of rates.
11. And in the last resort the Government cannot stand aloof from the conduct of particular public sector pay negotiations when there is a considerable risk that they may lead either to a high inflationary settlement and/or to industrial action damaging to the community.

PROPOSED RELATIONSHIP WITH OTHER PUBLIC SECTOR EMPLOYERS

12. Within the voluntary situation we see therefore a need for the Government to have a close relationship with other public sector employers in the following ways:

(a) The Government will need to keep up to date information on what is happening to pay under the voluntary arrangements. It will therefore need to maintain a system of information about the timing, progress and other inter-relationships of significant public (and private) sector negotiations; and will need to secure information from public sector employers (as from key private sector employers) on the level of settlements ultimately made. This will require an understanding with the employers concerned on a common method of measuring the settlements.

(b) On critical pay issues which repercuss throughout the public sector and where the voluntary guidance is not explicit, the Government will have to establish a common interpretation for use by Government negotiators. (The kind of questions likely to need such interpretation are illustrated in Annex 2). The Government should take the lead in informally and confidentially exchanging views on these points of interpretation with other public sector employers in the interests of avoiding repercussive inconsistencies of approach.

(c) Where pay has a significant impact on prices and/or a Government financed deficit, public sector employers should consult the Government on the level and nature of settlement likely to be necessary, so that the implications for prices and/or the subsidy can be taken into account.

These requirements suggest that the Government should arrange informal, confidential and advance consultation with other public sector employers on each major pay negotiation well before it begins. This will also help the Government to see where industrial relations problems may arise and to consider how they might be averted.

13. It would be desirable to fit these consultations into a system in which pay objectives could be looked at in relation to their impact on other aspects of the activities and finances of the public sector employer concerned. For the foreseeable future the approach to this through the financial targets for nationalised industries is not available; and the system of planning agreements will not apply in time to offer such a framework in the coming pay round (although corporate planning in some nationalised industries already embodies much of the planning agreement approach). It will, however, be necessary to re-define the Government's position on nationalised industry prices, which will clearly have a bearing on pay, and officials will be considering this.
14. In present circumstances we suggest that

(a) arrangements should be made for advance informal consultation, for the purposes suggested in paragraph 12 above, with the employer involved in any key public sector pay negotiation. Subject to that consultation - which should help to establish his pay strategy in relation to his other objectives - the employer would be left discretion to conduct his negotiations. Unless damaging industrial action proves likely, there would be no detailed intervention by Government; and that

(b) in order to set pay in a wider framework, when discussion of the corporate plan next comes up in each case or the planning agreement approach applies, the pay assumption made over the year ahead and their price/investment/subsidy implications should be discussed as a forerunner to the exchanges at (a).

RE-ACTIONS OF OTHER PUBLIC SECTOR EMPLOYERS

15. The establishment of these arrangements will need careful handling. Although public sector employers in deficit are likely to want to seek advance confirmation from Government before their pay negotiations that they will be allowed either to raise prices or to receive an increased Government subsidy to cover the pay increase negotiated, they are likely to be suspicious about a request for advance consultation on their negotiations lest this represent interference with their managerial responsibility. They have been restive in the past about Government intervention in the conduct of their pay negotiations and are bound to urge that we must not create any feeling of discrimination against the public sector (though, as Annex 3 shows, there has been no ground for a general accusation of this kind over the last 3 years).

16. However, it will be essential to avoid giving the impression, particularly through the exchange of views on the interpretation of the voluntary guidance, that the Government are trying to run a tighter policy for the public sector than applies generally. In relation to their own employees the Government will no doubt want to state publicly that there will be no discrimination; and it will certainly be necessary, in framing interpretation of critical issues in the TUC guidance, that this

(a) should be broadly in line with such confidential guidance on these issues as the TUC and CBI may be giving to unions and employers;
(b) should not be regarded as inflexible rules, but be capable of adaptation to particular cases:

(c) should be confidential, as as to allow room for manoeuvre in cases of difficulty.

17. We have to remember, of course, that in the last resort interpretation of TUC guidance where it is not explicit is likely to emerge from the independent CAS through the settlements that they bring about through conciliation or arbitration. Public sector employers and unions will have access to the independent CAS like any others, if they cannot reach a negotiated agreement.

18. LOCAL AUTHORITY EMPLOYERS. The attitude of local authorities will depend to a large extent on the measures agreed, at Government instigation, to strengthen the position of LACSAE, their national negotiating body. Given the impact that the current local authority non-manual negotiations and the manual negotiations in the autumn will have on public acceptance of the voluntary arrangements, it will be extremely important to get local authority co-operation in a reasonably consistent application of the TUC guidance. This will particularly be required in handling the pay rationalisation problems arising from the re-organisation of local government. This problem extends to the NHS as well, and calls for central management by LACSAE, with Government guidance, instead of allowing individual local authorities to act separately. Officials are considering separately what might be done on this particular problem.

CONCLUSIONS

19. We recommend that

(i) the Government should try to get Stage 3 settlements in current negotiations before the statutory controls end, in order to avoid anomalies with those who have settled earlier. Where this may not be possible - as with the local authority non-manuals and the police - the Government should seek to ensure that the negotiators keep within the TUC voluntary guidance;

(ii) the Government should seek to avoid breaches of the 12 months rule in the autumn by miners and electricity supply manuals and power engineers lest these wreck the voluntary approach;

(iii) the Government should base their approach in pay negotiations as employer on the TUC guidance to unions. Officials should prepare guidance for Government negotiators on pay issues where the voluntary guidance leaves room for interpretation and where inconsistent treatment would be repercussive in the public sector;
(iv) The Government should arrange with nationalised industry and local authority employers the confidential and advance exchange of views on the likely level and nature of coming major public sector pay settlements. These consultations should serve the purposes proposed in paragraph 12 above; but when the time comes the Government should try to set increases in pay in the wider framework of discussion of corporate plans or planning agreements. Officials will be considering the necessary re-definition of the Government's position on nationalised industry prices, which will also be relevant.

20. If Ministers accept these recommendations, we suggest that the Chancellor of the Exchequer (accompanied by the Secretary of State for Employment) should see the nationalised chairmen collectively to explain the basis on which the Government propose to proceed with them in the voluntary situation and to seek their agreement to the consultations proposed. The Secretaries of State for the Environment and for Scotland will also need to see representatives of the local authority employers on the same basis. These meetings would best take place when the TUC guidance has been issued and before the Government issue the expected statement in July of the arrangements to apply after abolition of pay control.
A. STAGE 3 PAY ROUND SETTLEMENTS TO COME

(1) Groups likely to conclude Stage 3 settlements

<table>
<thead>
<tr>
<th>Group</th>
<th>Due Date</th>
<th>Estimated % allowable under Stage 3</th>
<th>Estimated RPI increase less thresholds</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Service</td>
<td>1 July</td>
<td>10</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>Industrials (180,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post Office Engineering and Supervisory Grades (140,000)</td>
<td>1 July</td>
<td>10</td>
<td>10.7</td>
<td>Additional benefit expected from general Post Office pay review</td>
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<tr>
<td>Gas Staffs (50,000)</td>
<td>1 July</td>
<td>9</td>
<td>10.7</td>
<td>General restructuring claim</td>
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(ii) Groups unlikely to conclude Stage 3 settlements

<table>
<thead>
<tr>
<th>Group</th>
<th>Date</th>
<th>Estimated % allowable under Stage 3</th>
<th>Estimated RPI increase less thresholds</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Authority non-manuals (420,000)</td>
<td>1 July</td>
<td>9</td>
<td>10.7</td>
<td>20% claim includes comparability with non-industrial civil service</td>
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<tr>
<td>Police (105,000)</td>
<td>1 Sept</td>
<td>18</td>
<td>10.2</td>
<td>Manpower shortage</td>
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<tr>
<td>(including unsocial hours)</td>
<td></td>
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B. OUT OF TURN CLAIMS TO SUPPLEMENT STAGE 3 SETTLEMENTS

<table>
<thead>
<tr>
<th>Group</th>
<th>Date of Stage 3 settlement</th>
<th>% increase in Stage 3</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurses (346,000)</td>
<td>1 April</td>
<td>13</td>
<td>Review announced with backdating of increases to 23 5 74</td>
</tr>
<tr>
<td>Teachers (480,000)</td>
<td>1 April</td>
<td>8</td>
<td>Review announced with backdating of increases to 24 5 74</td>
</tr>
<tr>
<td>Post Office (270,000)</td>
<td>1 January</td>
<td>10.5</td>
<td>Review about to commence, Implementation after statutory policy with no backdating</td>
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</table>

(ii) Arrangements to be left to next settlement

<table>
<thead>
<tr>
<th>Group</th>
<th>Date</th>
<th>% increase in Stage 3</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Power Engineers</td>
<td>1 February</td>
<td>7.5</td>
<td>Restructuring agreed but only partial implementation before standstill; out of hours relativity claim vis-a-vis manuals</td>
</tr>
<tr>
<td>Group</td>
<td>Due Date</td>
<td>% increase in Stage 3</td>
<td>Estimated* RPI increase less thresholds</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>-----------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>Electricity Supply</td>
<td>19 Sept</td>
<td>10</td>
<td>9.6</td>
</tr>
<tr>
<td>Manuals (108,000)</td>
<td>19 Sept</td>
<td>10</td>
<td>9.6</td>
</tr>
<tr>
<td>Coalminers (240,000)</td>
<td>1 Nov</td>
<td>30</td>
<td>0.9 (since March)</td>
</tr>
<tr>
<td>LA Manuals (1m)</td>
<td>7 Nov</td>
<td>13</td>
<td>8.4</td>
</tr>
<tr>
<td>Firemen (30,000)</td>
<td>7 Nov</td>
<td>18</td>
<td>8.4</td>
</tr>
<tr>
<td>NHS Ancillaries (226,000)</td>
<td>11 Dec</td>
<td>12</td>
<td>8.4</td>
</tr>
</tbody>
</table>

*% increase on a year earlier shown by latest published figure available on due settlement date, less 1% for each threshold supplement of 40p payable.
THE MAIN ISSUES FOR GUIDANCE

Likely issues on which the voluntary guidance may require interpretation are:

(a) **Maintenance of real incomes**
   - In gross terms or net of tax and benefits (real personal disposable incomes)?
   - What allowance should be made for threshold payments? At 1 per cent or actual percentage of earnings?
   - Should threshold arrangements continue after publication of October 1974 figure? At same, or higher level of compensation?
   - On what terms should any new threshold arrangements be negotiated?

(b) **Manpower shortages**
   - In what circumstances are higher increases justified as a means of dealing with manpower shortages?
   - How is the amount of the extra increase required to be determined?

(c) **Productivity deals**
   - How define: reduces unit total costs, unit labour costs, or merely saves manpower?
   - Are payments on account or lead-in payments justifiable?

(d) **Low pay, equal pay etc**
   - To what extent should the TUC minimum target be applied?
   - Equal pay limited to direct requirements of Act, or covering consequentials for all-female jobs?
   - What guidelines on hours reductions, improved holidays, sick pay and other fringe benefits, in view of substantial implications for labour costs?
THE RELATIONSHIP OF PUBLIC SECTOR GROUPS TO THE AVERAGE FOR ALL EMPLOYEES

April 1970 - April 1973: Increase in earnings (in descending order)

Electricity supply manuals
Police
Local authority building and civil engineering workers
Miners
National Bus Company
Industrial Civil Servants
Post Office engineers
Local authority manuals
Municipal buses
Local authority administrative, professional and technical staff
Firemen
British Rail workshops
London Transport buses

AVERAGE

Railwaymen
Local authority general and clerical staff
British Steel Corporation
Gas Manuals
National Health Service ancillaries
Post Office manipulative grades
Technical and scientific civil servants
Executive and clerical civil servants
Teachers
Nurses and midwives

Changes since April 1973

Since April 1973 the relative position of certain public sector groups will have improved as the result of large Stage 3 settlements. In particular miners and firemen have received very large settlements and some others (such as executive and clerical civil servants and gas manuals) have had substantial anomalies increases. Civil Service scientists have been promised a consent to large increases following the Pay Board report and the Government have in mind similar treatment for the railways and London Transport restructuring increases which are at arbitration. Arrangements have already been made to allow further increases which may result from the reviews/negotiations now in process for nurses, teachers and Post Office workers.
18 June 1974

CABINET

VOLUNTARY COLLECTIVE BARGAINING IN THE YEAR AHEAD

Note by the Secretary of State for Employment

1. I report below the outcome of my discussions with the Trades Union Congress (TUC) and the Confederation of British Industry (CBI) about collective bargaining after the abolition of the statutory pay controls; and my proposals for moving to the voluntary arrangements envisaged.

2. I aim to introduce the Order abolishing the pay controls promptly after the Prices Bill receives Royal Assent. On present plans the Order would be laid early in July and I would make a statement to the House, shortly before or in the debate, saying what we expect to follow the statutory controls. I would hope to announce at the same time the Chairman, terms of reference and date for establishing the Royal Commission on the Distribution of Income and Wealth; and to give a date for the coming into operation of the independent Conciliation and Arbitration Service.

3. Already the TUC have announced their Economic Committee's endorsement on 12 June of the proposed statement by the TUC on the factors which should influence member unions in pay negotiations after the return to voluntary collective bargaining. The TUC intend to issue the statement on 26 June (assuming General Council approval on that day) and it will be reported to Congress in September. I shall circulate the TUC draft of this guidance in the form approved by the Economic Committee.

4. CBI representatives came to see me on 17 June to express their view of the economic situation and what is required on pay; and the CBI seem likely to issue a statement of their position after the meeting of their Council on 19 June.

5. The statement of the Government's position that I propose to make early in July will then serve to set the TUC and CBI statements in the context of the social contract and of the economic situation, and to provide the basis for the debate on the Order abolishing the pay controls. A draft of this statement is at Annex 1.
6. A timetable covering all these events is at Annex 2.

THE TUC STATEMENT

7. The TUC circular of 11 April to member unions has been most helpful to the Government in helping us to avoid extensive conflict with the existing legislation. Its emphasis on the need to stick to existing agreements and the limited scope for use of my consent powers has been an important factor in easing us through the pay round to this point of transition from the statutory controls to voluntary arrangements. I have also received considerable informal assistance in dealing with troublesome problems.

8. The draft of the new TUC statement is again very helpful and goes as far as we could wish in a number of respects, including -

a. The emphasis on the limited scope for increases in consumption in the coming year and the consequent need to concentrate on maintaining rather than increasing real incomes.

b. The need to stick to the 12-month rule and so avoid general renegotiation of existing agreements.

c. The need for negotiators to take account of threshold payments already received in claiming compensation for the rise in the cost of living since the last settlement.

d. The need for conciliators and arbitrators to take account of the TUC guidance in the same way as others involved in pay negotiations.

9. The draft guidance does also list a number of objectives (including progress towards four weeks' holiday and a minimum wage) which could significantly increase earnings over and above the basic aim of maintaining real incomes. These are in themselves aims that we would welcome and the achievement of equal pay by the end of 1975 is of course a legal requirement. The possibility of making progress towards these long-standing TUC objectives is essential if union members are generally to accept the TUC guidance; and the guidance does make plain that effective priority for these objectives does depend on negotiators constructively focusing on arrangements which will increase industrial output and efficiency.

10. The TUC insist on unilateral statements. They maintain that there is a greater probability of the guidance being heeded within the union movement if it comes from the movement itself and is not thought to be the outcome of collusion with employers or the Government. They therefore do not propose to seek agreement on their statement with the Government or the CBI. I am sure that their intuition on this has been absolutely right and all my meetings with them have been informal.
THE CBI STATEMENT

11. My discussions with the CBI have been fewer and equally informal. Their officials are thinking along much the same lines as the TUC, for example, on the 12-month rule and the maintenance of real earnings with account taken of threshold payments. But they have warned that there is quite as much pressure from employers to pay over the odds as there is from unions, and we can by no means rely on employers to take a tough line in negotiation.

12. Following the CBI meeting with me on 17 June they said publicly that they had emphasised the seriousness of the economic situation and the need to restrain pay increases. This was in preparation for the CBI Council meeting on 19 June, which will be discussing the CBI attitude to the restoration of voluntary collective bargaining. Some statement of their view is likely to be given afterwards and I impressed on the CBI on 17 June the desirability of seeing that whatever they said did not undermine the coming TUC statement.

THE GOVERNMENT’S STATEMENT

13. The Government may be asked to comment on the TUC statement on 26 June. In that event I think that we should simply welcome their statement as a very helpful response within the social contract and hold back our main statement in readiness for the debate on the Order abolishing the pay controls.

14. We need to decide whether the Government statement should be a White Paper or made orally in the House. We shall in fact have little new to say coming after the TUC and CBI statements and it would look distinctly thin as a White Paper. But the overriding argument in my view for an oral statement is the desirability of letting the TUC document stand alone as the single written statement of guidance to union negotiators. It will not help with union members - quite the reverse - to incorporate the guidance in a Government document, and leaving the field to the TUC document will make the sense of self-discipline that much stronger.

LIKELY EFFECT ON INFLATION

15. We undoubtedly run the risk of a spate of fresh pay increases when the controls end - not least among middle management. Some employers will be as eager to pay as their workers to receive. We can hope to have averted a general reopening by our action on the hardest cases such as nurses and on the special problem of London Weighting. The TUC statement is helpful both in its recognition of this action and in its emphasis on the 12-month rule.
16. Looking beyond the transition, we need to assess the likely impact of the TUC guidance on pay settlements in the coming year. On current forecasts earnings next October will stand 22 per cent higher than a year earlier and the price level will be about 19\(\frac{1}{2}\) per cent higher. Officials estimate that the total addition to the wage and salary bill from the TUC guidance over the period from next November to October 1975 could be about 19-20 per cent. This comes from assuming that settlements of about 19 per cent will be necessary to maintain real earnings over the year ahead; that progress on equal pay, low pay, holidays etc will take another 5 per cent; and that credit of 4-5 per cent will be given in settlements for threshold payments already received.

17. On this estimate the rise in earnings would moderate slightly. The rate of increase in prices would fall to about 16 per cent in October 1975, compared with 19\(\frac{1}{2}\) per cent in October this year.

CONCLUSION

13. I invite my colleagues to approve -

i. The proposed approach and timetable of action towards the abolition of statutory pay controls.

ii. The line proposed in the draft statement at Annex 2 of the Government's position which I propose to make to the House for the debate on the Order abolishing the pay controls.

M F

Department of Employment

18 June 1974
When the Government took office last March the system of pay controls was already on the point of collapse. Its rigid and detailed rules had led not only to the miners' strike and the three day week, but also to an accumulation of anomalies and inefficiencies; and were helping to spread ill-will and disputes in industry. The system has not even been succeeding in its original purpose of curbing inflation.

Two clear lessons have emerged from experience over the last eighteen months. The first is that the complexity and variety of the problems that arise in pay determination are such that solutions cannot for long be imposed successfully through central regulation. The second, and even more important, lesson, is that in a free society a counter inflation policy cannot be imposed for long. It must command consent.

That is why there must be a fresh approach. The responsibility for determining pay must be handed back to where it belongs - with employers and unions. And the Government must create the conditions for a new social and economic equality in which it will be possible for trade unions and their members to co-operate in policies to keep down prices while enabling money incomes to grow in line with industrial production.

THE RETURN TO VOLUNTARY BARGAINING

The Government therefore accepted from the outset the need to return to voluntary collective bargaining. The very first act on taking office was, within the constraints imposed by the Counter Inflation Act, to enable the Coal Board and the miners to reach a settlement of their pay dispute through free negotiation and so get industry back to full-time working. Power was then sought in the Prices Bill to abolish the pay controls at the earliest opportunity. As soon as the power was available, a draft Order for this purpose was tabled and, subject to its approval by both Houses, the statutory controls will be removed in the course of July.

The transition to voluntary arrangements will not be easy. People will naturally want to remedy immediately the many difficulties and grievances produced by the statutory controls; and there must be a risk of some fresh increases in earnings when the statutory controls go. That risk has to be taken; retaining the controls is not the answer.

However, in the interests of securing an orderly transition, it has been the Government's policy, within the limits imposed by the Counter Inflation Act, to mitigate the worst of the anomalies to which the pay controls have given rise. Consents have been issued in a number of cases. Special reviews have recently been set up for the nurses and teachers; and negotiations have been enabled to proceed for Post Office workers and, in the light of the Pay Board report on London Weighting, to deal with the special problems
of those working in London. With arrangements made for these particularly hard cases, the Government look to other people not to re-open settlements, but to heed the TUC guidance that the 12 month interval between major increases should generally be maintained. Unless it is, it will just not be possible to fulfil the Government's other policies within the Social Contract — on rents, food subsidies, pensions and the rest.

7. But the Government do not expect to see a senseless wages explosion. The resumption of voluntary collective bargaining will instead enable employers and unions to make settlements apt to their circumstances and conducive to the increase of output and efficiency. Indeed, it must be the object to alter the approach to collective bargaining so that, as the TUC put it,

"Primary and positive emphasis will be laid on the contribution that improved systems of collective bargaining can make to improving output, services, efficiency and employment prospects and to eradicating low pay".

Within the framework of this system, and to help it work more effectively, we propose to establish two new institutions - the Conciliation and Arbitration Service and the Royal Commission on the Distribution of Income and Wealth.

8. There is a clear need to establish better and more acceptable arrangements for avoiding or speedily resolving bargaining disputes whenever and wherever they occur. The policies of our predecessors led to confrontation and on some issues withheld the traditional means whereby conflicts could be resolved. The necessary processes of conciliation and arbitration, and their acceptability, suffered. These processes now need to be effectively re-established in a way which attracts the full confidence and participation of trade unions and management. This is the purpose of the Conciliation and Arbitration Service, which will be managed and developed by an independent Council, including representatives of the TUC and CBI. It will provide conciliation and arbitration services which are freely and readily available both nationally and locally and it will seek to develop and improve collective bargaining machinery. Both the TUC and CBI have welcomed the creation of such a service and have agreed to give it their full support. Arrangements for its establishment are well advanced and the Government aim to have it in full operation by 1 September under the chairmanship of _______.

9. The Royal Commission has a different role. The Government are determined to create a fairer society and as a first step towards this we need to establish in a much more thorough and comprehensive way than has been attempted hitherto the facts about the distribution of incomes and wealth of all kinds — earned and unearned. The Government envisage the Royal Commission ranging over the whole field, on the basis of references made to it by the Government, producing reports of a factual nature which will assist and inform policy makers and those who are active in collective bargaining. The Commission will thus have a wide educational and indicative function. The Government intend to set it up at about the same time as the pay controls are abolished, under the chairmanship of _______.
10. The Royal Commission will contribute also to the second leg of this fresh approach to the control of inflation and the attainment of a higher standard of living - the recognition of the claims of social justice. The essence of the social contract is that the Government should provide the framework within which negotiators will be able to operate the collective bargaining system, having regard to the action which is being taken by the Government over the whole range of social and economic policies. As constructive action is taken by the Government to secure a fair distribution of the national wealth, so the Government believe that the trade unions and their members will co-operate to make the policy as a whole successful.

11. The Government have made clear that we understand the need to tackle rising prices; to help those most badly hit by inflation and poverty; and to make the country a much fairer place to live in. We have therefore

- given immediate help to the pensioners by the largest single increase in pensions ever given in this country;
- taken steps to moderate the rise in the cost of living by imposing stricter price controls on the marging of wholesalers and retailers; by requiring a minimum interval of 3 months in most cases between increases by manufacturers; and by introducing food subsidies. Additional expenditure of £500 million will be incurred on food subsidies, which will significantly reduce the rise in the Retail Price Index and particularly the rise in food prices;
- provided a £500 million loan to the building societies to help keep mortgage rates down;
- increased personal income tax on the better off, while relieving 1½ million people of the liability for income tax;
- introduced a rent freeze;
- introduced legislation to repeal the Industrial Relations Act, which we expect to be law by the end of this month.

12. All this has been done since the Government took office. More is in hand. Thus,

- there will be a thorough review of the Price Code during the summer. This will consider whether the Code needs to be modified in the interests of encouraging investment, without however departing from the objective of maintaining a strict control of prices in a period of inflation;
- work is proceeding on the proposals for legislation to repeal the Housing and Finance Act and for bringing into public ownership all the building land needed for development during the rest of this century;
- a Green Paper will be issued soon with proposals for a Wealth Tax;

- an Employment Protection Bill will be introduced next session and the Industrial Democracy Bill will follow that.

SCOPE FOR FURTHER ACTION

13. But in developing the social contract further the country faces problems of priorities. It was already generally accepted before the Government took office that, partly because of the effect of the three-day week and partly because of the oil price rise, the expectations of economic growth forecast in October last year had been falsified and that there would be little if any room for improvement in living standards in 1974.

14. Taking 1974 as a whole total output, so far from showing a considerable increase on 1973, is likely to be lower than last year. At the same time the deficit on the balance of payments on current account increased in the first four months of 1974 to an annual rate of some £1,000m, compared with an annual rate of a little over £2,000m in the second half of 1973.

15. The total resources available for all our needs are less than they were expected to be. But we must give greater priority to the needs of exports and the balance of payments, and will continue to have to do this, at least until we can get most of the oil we need from the North Sea. This means that we must maintain the competitiveness of our exports. It also means that we must devote more of our resources to investment. So, for the community as a whole, the scope for improving the standard of living through higher consumption will for some time continue to be small.

THE RESPONSE FROM THE TUC

16. The TUC General Council have acknowledged that the Government have demonstrated their commitment to the social contract and have made much progress in implementing it. Against this background they have made their own response. Their Economic Review 1974 reiterated the pledge on special cases given at the time of the miners' dispute, and this has been honoured. Their circular of 11 April accepted that it would take time to abolish the statutory controls and supported the Government's view that the general pattern of settlements should continue for the remainder of the present period. Now that the restoration of voluntary collective bargaining is in sight the General Council have issued their report on Collective Bargaining and the Social Contract on 26 June giving guidance for negotiators in the voluntary situation. The Government warmly welcome this constructive response by the TUC and their assistance in the further development of the social contract.

17. The TUC had already recognised in their Economic Review 1974 that there was little scope for increasing personal consumption overall this year. Their latest statement further recognises that it follows from this that, for the present, the aim of trade union negotiation, while seeking improvement in priority areas such as low pay and equal pay, should be the maintenance rather than the improvement of real incomes.
18. Their detailed guidance to those concerned with determining pay in accordance with this aim gives the following important advice:

(i) Negotiators should focus constructively on the need to make the maximum use of resources and on arrangements which will have beneficial effects on efficiency and unit costs, because this is at the root of efforts to secure progressive improvements in pay and conditions. Obviously, this is where the emphasis will have to be laid in making progress on priority areas such as low pay;

(ii) The twelve month interval between major increases should in general continue to apply; which means that there should be no general re-opening of principal settlements before the due time for negotiating the next;

(iii) In claiming compensation for the rise in the cost of living since the last settlement, negotiators will take into account compensation for current price increases already received under threshold agreements. The guidance recognises that, in pursuing the policy of maintaining real incomes, some negotiators may prefer to look forward and, instead of a settlement to compensate for the past, may wish to negotiate a sliding scale arrangement to keep up with the cost of living during their new agreement.

19. The General Council will be keeping the developing situation under review and will advise unions in difficulties in conforming to the spirit of the TUC policy.

THE GOVERNMENT'S POSITION

20. This is an extremely important statement which the Government warmly welcome as responding to the requirements of the national situation in a clear and helpful fashion. The Government recognise that the TUC guidance applies equally to the public and to the private sector and there must be no discrimination. As an employer the Government will themselves seek to reach responsible settlements in accordance with this guidance through the existing procedures for determining public service pay.

21. On the particular question of equal pay, it is necessary to remember that the Equal Pay Act will come into force in December 1975. Every agreement or pay structure which does not at present meet the requirements of that Act will have to be brought into line with it by that date. So all concerned with pay determination should bear in mind the need to make steady and orderly progress towards full implementation of equal pay by the end of next year.

22. For their part the CBI have accepted that the statutory controls have outlived their usefulness. They have welcomed the greater flexibility offered by the system of voluntary collective
bargaining and the opportunity to negotiate within a framework which encourages emphasis on pay arrangements which make the fullest use of resources and have a beneficial effect on unit costs. They have made plain that they too endorse the TUC guidance for negotiators.

CONCLUSION

23. We have to recognise the extreme difficulty of the problems of reducing and controlling the rate of inflation and of more rapidly improving the standard of living. Different solutions have been tried in the past, in this country and abroad, with no lasting success — and sometimes with dismal failure. One thing in the Government's view, is fundamental — a counter inflation policy can operate only by consent and through the co-operation of the community generally. That demands from the Government effective action to set us on the path towards a more just and equal and wealthier society. This action the Government are taking. What the Government now ask is for general recognition from the community that the desired social and economic advance will just not be attainable in the present serious situation unless there is general observance of the TUC guidance and a responsible acceptance of the opportunities for improving our economic position afforded by the return to voluntary collective bargaining.
## Timetable

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
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<tbody>
<tr>
<td>Ministers (MES) consider draft Government statement on voluntary pay arrangements</td>
<td>17 June</td>
</tr>
<tr>
<td>CBI Council followed by possible CBI Statement on future pay arrangements</td>
<td>19 June</td>
</tr>
<tr>
<td>Cabinet consider draft Government statement</td>
<td>20 June</td>
</tr>
<tr>
<td>TUC/Labour Party Liaison Committee consider TUC statement</td>
<td>24 June</td>
</tr>
<tr>
<td>TUC General Council followed by publication of TUC statement</td>
<td>26 June</td>
</tr>
<tr>
<td>Ministers (EC) consider Pay Board's report on London Weighting</td>
<td>26 June</td>
</tr>
<tr>
<td>Government and CBI may be called on to comment on TUC statement</td>
<td>27 June</td>
</tr>
<tr>
<td>Cabinet (if necessary) consider London Weighting report</td>
<td>27 June</td>
</tr>
<tr>
<td>Deadline for comments on Royal Commission on Income and Wealth consultative document</td>
<td>28 June</td>
</tr>
<tr>
<td>Order to abolish Pay Board laid</td>
<td>(?) 1 July</td>
</tr>
<tr>
<td>Publication of and Government statement on London Weighting report</td>
<td>1 July</td>
</tr>
<tr>
<td>Ministers decide terms of reference of Royal Commission</td>
<td>(?) 4 July</td>
</tr>
<tr>
<td>Government Statement and announcement of terms of reference and chairman of Royal Commission</td>
<td>(?) 8 July</td>
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<tr>
<td>Debate on abolition order</td>
<td>(?) 11 July</td>
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<tr>
<td>Order abolishing the Pay Board made</td>
<td>(?) 15 July</td>
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<tr>
<td>Order abolishing the Pay Board coming into operation</td>
<td>(?) 22 July</td>
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<tr>
<td>Establishment of Royal Commission</td>
<td>(?) 22 July</td>
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**NOTE:** The dates marked (?) mostly depend on the timing of Royal Assent for the Prices Bill which has been assumed so far as 28 June. It begins to look as though the Lords timetable may slip and that all the (?) dates may move to about a week later. It is, of course, absolutely essential that the Abolition Order is made before the Recess.
CABINET

MATTERS RELATING TO THE EEC

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. I believe my colleagues might find it useful to have available the attached copies of:

   a. my statement on 4 June to the Council of Ministers in Luxembourg; and

   b. an analysis of the attitudes of Commonwealth Governments towards renegotiation as these are at present known to us.

2. I shall be circulating later as a basis for discussion in the week of 24 June a note describing the stage then reached in our renegotiation. This will cover both the question of our sovereignty in relation to the institutions of the European Economic Community and matters I have discussed within the 'political co-operation' machinery of the Community.

L J C

Foreign and Commonwealth Office

19 June 1974
At the Meeting of the Council on 1 April I undertook to place before you in greater detail the matters which the United Kingdom finds unsatisfactory in its membership of the Community and which we seek to change. In amplification of my statement on Renegotiation of 1 April which remains the basic document on the subject for the United Kingdom, I should like today to give more details of the kind of changes we seek in the policies and decisions of the Community under four main headings.

First the Community Budget - an important matter for us but one which I recognise will raise difficulties for others.

Second the Common Agricultural Policy where we shall be suggesting major improvements consistent with the broad principles on which the policy is based.

Third the Commonwealth and developing countries where improvements are necessary in both the trade and aid fields.

Fourth Regional and Industrial Policy where it is important for us to be certain that the rules of the Community will enable Britain to pursue the effective policies which are required if the British economy is to begin to grow at a rate which will approach the Community average rather than to sink further below it.

There is a fifth question about the future of economic monetary and political union to which added point has been given by recent events which have affected individual members of the Community. We discussed these matters at our recent meeting at Schloss Gymnich and will be resuming our talks again shortly so I shall not pursue them today, except to say that as I understand it, the position on these matters is that a great deal of further work and discussion will be required before any further decisions can be taken in pursuit of these general aims. We are very ready to continue with these talks in order that we can all elucidate, in a constructive spirit, what content it may be possible to give to them.

As regards the four issues I shall discuss today you will recall that I said on 1 April that our initial approach would be to seek improvements by way of changes in the Community's policies and decisions in preference to proposing changes in the treaties themselves. In our preparations for today we have adhered to this approach. In our judgment Ministers will find that the proposals I shall put before you if accepted would not require changes in the treaties and we shall continue on that basis though of course our reserve on treaty amendments continues to stand.

As regards the current work of the Community we shall continue to co-operate fully in its work as we have done in recent weeks. Of course like other members of the Community, from time to time there will be
issues upon which we shall have to put a reserve so as to safeguard our negotiating position but we shall not do so out of a desire to hold up the work of the Community but because genuine differences cannot be reconciled. And we shall play as big a part as anyone in trying to reconcile these differences when they do occur. We all understand that other nations are looking to the Community for decisions on current items of business with which they are concerned and we shall do our best to reach agreements.

I have considered whether we should ask you to handle these issues together in one forum but we believe that it will make for smoother working if we do not ask you to do so. We suggest that different procedures will be appropriate for the different issues that I shall outline. In the matter of the Common Agricultural Policy, we suggest that this should be dealt with in the Agricultural Council. The Development Council will deal with most aspects of aid. Trade matters and, insofar as they need come before Ministers, Regional and Industrial issues will be dealt with in our own Council. There need be no procedural problems in these cases.

But the Budget issue is somewhat different. Its handling will require special consideration for it is a most important matter for all of us. It may be that budgetary problems can be taken on the Agenda of this Council or alternatively in the Finance Ministers Council whichever seems appropriate.

Naturally, we in the United Kingdom shall be looking at the results of our discussions on these issues as a whole at the end of the process and therefore it seems to me appropriate that the Council of Foreign Ministers should exercise a general oversight over the issues I am about to describe and that if necessary, the Council should be able to give a political impetus to this or that issue if progress seems slow.

If we can proceed in this way the Council would not find that it has to accept any appreciable delay in its normal work in order to deal with these particular issues that are so important to the United Kingdom. It would be our intention to make substantial progress with renegotiation during the remaining months of this year. When I return to London I should like to be able to report to the British Parliament and people that we have agreed that discussion of the matters that I am about to outline will take place in the appropriate machinery of the Community.

One more word before I come to outline our proposals. My colleagues will have seen that there is no change in the list of the matters we wish to raise. These represent the limits of the problems for renegotiation.

Community Budget

I begin with our views on the Community Budget. In recent weeks we have had useful conversations about the impact of the Community budget on the United Kingdom with members of the Commission and with representatives of Member Governments. We have made it clear why we consider that the impact of the present system is unfair on the
United Kingdom and could be unfair to other members. Therefore a solution to the Budget problem is central to our objectives in renegotiation.

We also believe that there is here a problem which should concern the whole Community, if it is to be made to work properly. It certainly cannot develop in the way the United Kingdom would like, unless there is progress in the direction of economic convergence between Member States. The difficulties are well known and have been aggravated by the impact of the energy crisis. The recent severe economic strains in the Community, reflect differences in economic circumstances and performance.

We ourselves in the United Kingdom have also been subjected to such strains, and my Government are taking all possible national measures to deal with them. But we are not helped by the present Community Budget arrangements, involving as they do an increasing and serious transfer of resources from the United Kingdom to other members of the Community. These will tend to have precisely the opposite effect to that which is required if we are to participate in a gradual convergence of economic growth in the Community. It is wrong in principle and would defeat the objects of the Community if resource transfers under the Budget should promote divergence rather than convergence. This is why we believe that our case for fairer treatment presents a real problem for the whole of the Community.

I know that not everybody around this table would be ready to endorse the forecasts which we have made about the impact of the Community Budget on the United Kingdom, and indeed, I do not ask you to accept our precise figures. What I would ask you to accept is that our figures are a serious estimate, based on realistic assumptions, of the order of magnitude of the burden which the Community Budget places on the British economy. It is at least as likely that they will be worse as that they will be better. I am convinced that any other set of assumptions, provided they are realistic, would show that the United Kingdom will be undertaking substantial and increasing resource transfers to the Community during the rest of our transitional period up to 1977 and on a rapidly growing scale afterwards.

To give a few conclusions from our calculations about what will happen if no solution is found, we estimate that the United Kingdom net contribution would be of the order of three hundred to three hundred and fifty million units of account in 1975, five hundred and fifty to six hundred million in 1977, and seven hundred to eight hundred million in 1980. This would mean a net contribution of about three thousand five hundred million units of account in the period 1971 to 1980. These are no small sums. To illustrate this point it is worth drawing attention to the fact that during the discussions on the size of the Community Fund for Regional Development, the Community was unable to accept a recommendation from the Commission for a fund of two thousand two hundred and fifty million units of account over three years for all the Members of the Community.

Why is the system likely in this way to produce permanent disadvantages for the United Kingdom? It is because the "own resources" system was devised to suit a smaller Community made up of countries which are not such large importers as the UK. It is also because there will soon be a striking contrast between our expected share of Community 

/GDI and our
and our contribution to the Community Budget. It is because, notwithstanding our economic position in relation to other members of the Community, we shall have to provide, as we estimate, about twenty-four per cent of the Community's "own resources" by 1980.

Some people may say that we are not entitled to claim that the British share of the tariffs and levies which will form the largest part of the "own resources" of the Community is a "national" contribution. Therefore they say, questions of equality do not arise. That might be a possible argument if the Community were, in a full economic and monetary union, with a central budget responsible for most of the main areas of Government expenditure, and with major resource transfers taking place from the more prosperous to the less prosperous areas. But that is not the position. The Community must take into account that it is real resources from its own citizens which each member state will transfer to the Community under the "own resources" system. The Community cannot close its eyes to an important factor influencing the way in which the economies of its members move relative to each other.

Recent estimates suggest that by 1977 our share of Community GDP will be about sixteen and a half per cent and by 1980 fourteen per cent. This is taking account of favourable factors such as North Sea Oil, which will be an immense help to our balance of payments as the decade goes on. But it cannot produce a rapid and substantial change in our growth rate. These estimates assume an annual UK rate of growth well beyond the average for the past decade. Compare this fourteen per cent share of Community GDP with our expected twenty-four per cent share of contributions, and the Community is faced with an unacceptable situation.

I have enquired how the Community thought that this problem should be dealt with when it was raised during the entry negotiations. As I understand it, it was argued first that the problem would not be as bad as our negotiators had suggested, and second that the Community would be developing new policies in a number of fields where Community expenditure would be of net benefit to Britain, and that that benefit would come to balance the expenditure on the Common Agricultural Policy, which is admitted to be of greater advantage to other member states. I am not suggesting that there will not be a new Community policy. But I ask my colleagues to consider whether there is now any realistic possibility that new Community policies will be developed on a scale which might even begin to balance a British net contribution of three hundred to three hundred and fifty million units of account in 1975 or five hundred and fifty to six hundred million in 1977, still less seven hundred to eight hundred million in 1980.

To make this calculation you have not only to say what new policies involving new expenditures are likely to be approved, but to bear in mind that, with the British contribution as high as it will be, the British return from such Community policies would have to be very high indeed for our net receipts to be substantial. I see no possibility of the Council moving in the direction of a Community Budget of the size which would be required.

The fact is that, in respect of the Community Budget, the negotiated terms of entry were fundamentally inequitable. Experience since then has reinforced that judgment. I now put it to the Council that it is inequitable for the Community that the United Kingdom, with below-average GDP per head, should be obliged to make massive resource transfers to other...
transfers to other members of the Community, including those with above-average GDP per head, through the Community Budget, and equally that it is inequitable that the British gross contribution should rise from the thirteen decimal five percent next year to over twenty-four per cent in 1980 while our share of Community GDP is estimated on the basis of recent forecasts to be fourteen per cent in the latter year.

I know that the Council devoted long and arduous work to constructing the "own resources" system of financing the Community Budget and that this system has been approved by the Parliaments of all the Member States. I know that the Council would prefer to find a way of dealing with the problem which would not change or overturn the "own resources" decision of April 1970. We are certainly prepared to consider solutions that would meet the wishes of the Council in this matter. But I would ask that the Council should also meet us. I would remind you that the Community declared to Britain during the course of the entry negotiations that, if "unacceptable situations" should arise, "the very survival of the Community would demand that the institutions find equitable solutions". My Government believes that we have such a situation.

But we also believe that, if the political will to do so is there, the Council could find a number of different ways of bringing about an equitable solution - that is, one which will produce a fair balance of advantage for the UK as for other member states.

I do not consider that it would be appropriate for me to put forward any specific proposal. But one way of proceeding would be to make a direct adjustment on the expenditure side, which would correct the imbalance to which I have drawn attention. This could be done in accordance with a principle of equity to be agreed in the Community, leaving the method of financing the Community Budget untouched. A possible principle might be based on the recognition that a member state with below-average GDP per head should be accorded appropriate treatment in respect of resource transfers under the Community Budget. Such a system might avoid the tendency to promote divergence rather than convergence. It could also be self-correcting in the sense that the adjustments required would become smaller as the dimensions of a member state's problem diminished. I recognise that this is not the only way of dealing with the problem, but it would have the great advantage of simplicity and that could be specially beneficial in handling an issue which is urgent.

I would also like to add that there are two technical points of some importance which arise from an interpretation of the financial arrangements governing the budget and could lead in our view to results which would be adverse to the UK. We shall want to be sure that these can be resolved in an acceptable manner.

Finally, I would like to stress three points: - First, we are not asking for a solution which amounts to a special regime for the UK alone. Any system should apply to all members. It is in the interest of every country to find a solution that takes account of the economic differences between member states and thus helps to promote economic convergence.

Second, if an essential requirement of our renegotiation is to be met, we must ask the Community to find such a solution, and so overcome the problem of inequity which the budget presents to us.

/Thirdly,
Thirdly, I have refrained from proposing a solution definite to the Council, but from what I have said it is clear that possibilities exist which could be adopted within the Treaties.

Mr President, I conclude this section by saying once again that the budget problem is a problem for the Community - and I ask that it could be dealt with expeditiously.

The criticism of the CAP has been particularly strong in Britain both because we are a large importer of food, and because membership of the EEC has weakened our ties with our traditional suppliers. I would therefore like to indicate the nature of our problems and our broad objectives, leaving to Mr Peart the elaboration of more detailed proposals in the Council of Agricultural Ministers.

Despite our strong criticisms we recognise that for European farmers the CAP has achieved much, and that in addition to the benefits it has brought them, it can provide an assurance of supplies at known prices in a world where both price and availability can be unpredictable. The question therefore is whether, without overthrowing the system, British interests as a large consumer can be accommodated to the principles of Community preference free circulation of goods, and Community financing. Provided some major changes are made, we believe that it would be possible to do so. We recognise that some of the effects of the CAP have been due to factors unrelated to agriculture, such as the complexity of the arrangements that have to be made where currencies within the Community change their relative values.

The major areas in which the UK wishes to secure improvements are as follows:

First, the cost of the CAP should be reduced in real terms. This calls for the establishment of firm criteria on which price policy is based, and for support mechanisms to be operated and with greater effect. We wish to see agricultural support maintained at realistic levels, and we accept that the aim of the Community should be to produce as much of our food requirements as we can provide efficiently and economically. I emphasise the last part of that sentence as much as the first, for as large importers it is in our interests that prices should be determined with closer reference to the costs of the more efficient producers and to the supply/demand situation for particular commodities. The CAP should aim to gear its policy to the modern farm, as the Commission itself has advocated. Such a policy would create difficulty for special groups of less viable farmers and it would be necessary to consider special provision for them. Indeed, some of their problems might be looked after better in the context of social and regional policy. On another aspect, there should be more recognition of present circumstances of the disparities which actually exist between markets in different parts of the Community. In our view it would be useful on occasion and for particular commodities if there was a right to seek directly a measure of differential pricing. In practice this could occur now as the indirect effect of the systems of compensatory payments. The exercise of such a right would not be intended to break the principle of common prices: the right would be exercised subject to the normal procedure for reaching agreement during annual price determinations.
A stricter price policy would need to be reinforced by improvements in the intervention and levy mechanisms so as to discourage costly surplus production, by a greater readiness to use direct production aids where it makes financial and economic sense to do so, and by strengthening financial controls and costing in general.

Next, we are concerned to secure speedy improvements in the marketing regimes for some major commodities. We know that the Commission shares our dissatisfaction with existing operations and we shall take full account of the proposals it will put forward. But there is a need for quick action, as the beef sector is demonstrating at this moment. It does not make sense to take large quantities of fresh beef off the market, freeze it, put it in store then watch the price of the remainder go up, to be followed in turn by a fall in the amount the housewife buys. In the end neither producer nor consumer benefits. We would be ready to consider as an alternative a combination of measures, such as slaughter premiums related to reasonable market prices, national or Community production aids, and a realistic import policy, which together would reduce the need for intervention to a minimum.

Finally, I want to stress the importance we attach to the Community's trading relationship with the rest of the world. We recognise that since our earlier criticisms were made three years ago, world prices for most agricultural commodities are much higher than they were then. It is likely (but not absolutely certain) that there will be a closer relationship between Community and world prices than in the past. We can turn this to our advantage for it gives the Community the opportunity to ensure that whatever the future movement of world prices, the CAP must not become an instrument of excessive protectionism or a threat to world trade through the generation and disposal of surpluses. The changes we propose would do much to ensure that, and to provide for a better balance between the interests of producers, consumers and taxpayers in the Community.

There is a strong case for improved terms of access for many kinds of foodstuffs from countries outside the Community some of which we do not even produce. This could be done without detriment to Community producers. There is need for a clear commitment to a positive approach in the international trade negotiations now in progress, and we shall put forward our views to the Community as soon as it resumes consideration of the question. More specifically, we also need satisfactory and continuing arrangements for Commonwealth sugar, which provide for adequate access linked to assurances of supply at prices fairly and realistically related to the Community's own price structure. Similarly we shall need satisfactory and continuing arrangements for New Zealand and we would wish to bring forward the review of the arrangements envisaged in Protocol 18 of the Treaty of Accession to the current year. As regards sugar, we remain firmly committed to the offer of access on fair terms for at least one decimal four million tons from the developing countries of the Commonwealth after the CSA expires. We shall be putting forward our proposals on sugar in the discussions about the Community's internal sugar regime and this will have a bearing on the Protocol 22 negotiations, to which I shall come in a minute.

We attach
We attach the greatest importance to an early examination of all these important matters with a view to finding adequate solutions. It is our view that everything I have suggested is compatible with the basic principles of the CAF and with the Treaties, and would prove beneficial to everyone in the enlarged Community, as well as to the rest of the world.

TRADE AND AID

This leads to the question of the trade of Commonwealth and developing countries. The need to offer a fair deal to Community consumers of food as well as to overseas suppliers has important implications both for the developed Commonwealth and the developing world. The problems in this sector fall into five main groups.

The first concerns the developed Commonwealth countries. The problems which they face over access to the Community are mainly in agriculture and here I have already outlined our approach, as to tariffs, in the case of a small number of products for example some canned goods of importance we wish to see an extension of tariff quotas. More generally, and as a permanent solution, the Community's detailed negotiating directive for the multilateral trade negotiations now under way should include an offer - subject naturally to reciprocity - to make substantial reductions of the tariff on these products as well as on certain industrial products of some importance to these countries.

The second group are the associable Commonwealth countries which under Protocol 22 have been offered the possibility of association with the Community. These negotiations offer the best chance of meeting the interests of these countries, including the interest of many of them in sugar, provided that certain important points are met. For example, I refer to the need for free entry for industrial products, and also to generous treatment of agricultural products, including, if necessary, tariff and levy-free quotas for agricultural products. It is also important that the Community should respect the developing countries' wish to avoid trade reciprocity.

In the discussions that have begun within the Community about the Commission's negotiating mandate, we shall seek these objectives. Then there is the question of aid. Here, as my colleague, Mrs Hart, recently explained to the Development Council, we want an evolution of Community policies which will take into account the needs not only of the associated countries, but of developing countries throughout the world. We look for a more balanced distribution of Community aid according to need and have in mind particularly the countries of South Asia who are among those hardest hit by the increase in oil and commodity prices. I am glad that in this matter the Commission has taken up our proposal and are preparing an aid framework covering possible commitments over the next five years.

We shall wish in addition to see these Asian countries accorded generous treatment both through the implementation of the Declaration of Intent and through a substantial improvement in the Community's Generalised Preference Scheme. I recognise that the Community was the first to introduce a generalised preference scheme, and that some other important countries have not. But the Community's scheme embodies restrictions which greatly limit its practical value to the developing countries and which are difficult to defend at a time when many of these countries face
countries face severe balance of payments problems as a result of the increase in oil prices. We must aim at the progressive abolition of these various restrictions over several years, recognising that there will have to be safeguards to deal with cases of material injury or threat of it in one or more member states and there might have to be special arrangements for textiles. We also need to see the scheme's coverage extended in the area of processed agricultural products. Further it seems to us unreasonable for India and Bangladesh to be disadvantaged in the UK market for jute and coir in the period during which the Community tariff is being lowered. And we need substantial improvement in the position of Hong Kong where at present the UK has to discriminate against one of its own territories. These issues will be for discussion in the Community's review of the generalised scheme of preferences. But I speak of these today to indicate that a substantial improvement in the present scheme is necessary not simply in our own interests but as a token of the responsibility which the Community shares for the future of the developing world.

REGIONAL AND INDUSTRIAL POLICY

There is one further question, namely the powers which we recognise to be able to pursue effective regional and industrial policies. The British Government consider that we recognise new policies to stimulate industry in order to arrest and reverse our relative industrial decline and these will entail interventionist measures that are systematic and comprehensive. We recognise the value of rules within the Community to ensure that one country, in attempting to solve its own problems, does not create problems for the others, and in strengthening our industrial system we certainly have no intention of damaging the economic and commercial interests of other member states. But we fear that our plans for British industry, including the steel industry, may be hampered by unduly restrictive interpretations of the treaties, and, as part of the renegotiation, we shall seek assurances that our fears on this score can be set at rest. I would hope that constructive exploratory talks with the Commission can begin as soon as possible to ascertain the impact of the treaties.

Linked with this is the question of regional aids, which a working party convened by the Commission has begun to study. As I said on 4 April, we accept that co-ordination of the rules under which each of us gives and has a useful part to play. We are taking part in the work and we intend to make a full contribution to it. Our objective will be to ensure that the rules take account of the needs of the UK and of the policies we devise to meet those needs. We are conscious that the regional problems of member states are different - some are agricultural, some are caused by sheer remoteness and others like our own by changes in industrial structure. The rules must therefore be broad enough in scope to cover all types of aid that may be required. In our experience, they will need to be flexible and capable of modification. It will be necessary from time to time for us to vary the level of aids, the definition of areas. Where particular problems arise, such as steel closures, we may also need to exceed whatever fixed ceilings are agreed. We welcome the Commission's statement that there may be derogations in these circumstances, but the problem may arise in other cases and the new rules should take account of this, as well as of the need to react quickly to particular regional and industrial problems as they arise. These matters are essential to us as an element of the renegotiation. We plan to do this by securing a satisfactory outcome in the working party.

/GENERAL POLICY
GENERAL POLICY

I have outlined the four main issues which we ask the Council to pursue and also have proposed methods for proceeding with them. We believe that our case speaks for itself. Some of the problems we have raised naturally affect us more than they do some other members. Some other issues could be dealt with and would bring benefit to other members of the Community. But whether they affect us alone or whether they affect the Community as a whole there can be no doubt that they are real problems. None has been manufactured. There is nothing contrived about them. There is a solid case for what we are proposing, and we look to the Community to examine these matters on their merits. In that spirit the UK will work for an early and successful result for these renegotiations.

I do not understand some of the comments I have heard, not uttered around this table, that we are not in earnest in trying to seek a successful solution. I can only say that if the UK was negotiating in order to achieve a negative answer and a breakdown I would not go about presenting our case in the thorough way we have chosen in addition to playing our full part in the ongoing work of the Community and in proposing solutions that can be reached without disrupting the treaties. If the negotiations are successful and they secure the approval of the British people we shall be ready to play our full part in constructing a new Europe.

Once renegotiation is complete, HMG will form a view on whether the needs of Britain have been met. In submitting the results of the renegotiation to the British people, we shall make clear our verdict on what has been achieved.

I fully realise that there is a long way to go before such a decision can be taken but we shall accept our responsibilities in this matter.

In April I referred to our readiness to intensify political consultation and co-operation provided that we could agree on our main aims. One of the issues I had in mind was the question of European/American relations. It seems to me that there is some hopeful evidence following the useful exchanges which we had at Schloss Gymnich that we shall now be able to proceed with our work in a way which will promote steadily improving European/American relations. Consultation, co-operation and co-ordination between Europe and the United States should be as natural as breathing. In our view it is essential. It remains our objective. What is happening in this field encourages us to go further in these matters not only with the US but with other countries and regions too. In a world which is grouping itself increasingly into regions it cannot be disadvantageous for Community members to discuss among themselves how they can act together in the world in political as well as in economic matters. We adhere to the view that some of the most important problems of the world will only be solved in a world context but the Community if it is properly organised has the capacity to contribute to the solution.

To sum up the
To sum up the Community is at cross-roads in its history. The problems raised by Britain today are only one of a number of issues that cloud the Community's future. Quite distinct and separate from the problems I have been discussing is the feeling that there exists among Community members a diminished unity of purpose, a growing divergence in our economies and a readiness to seek nationalist solutions to problems that demand common and joint action. All these things make me fearful for the future welfare of our people. The countries that make up the Community need to make a fresh start, and this can be done if all partners in the enterprise feel that their difficulties are understood, their case for changes is recognised and remedied and that the Community can respond to their needs. I have no doubt that this can be done if the will exists. Let us together put these matters right and when we do then the Community will be once again strengthened to play a constructive part in the affairs of Europe and in bringing its influence to bear on the problems of the world.
COMMONWEALTH ATTITUDES TO UK MEMBERSHIP OF THE EEC

My colleagues may be interested in the following summary account of Commonwealth attitudes, based on the most up-to-date information available. This information derives in part from the exploratory bilateral talks about food supplies which have taken place, with Canada, Australia and New Zealand and with the Commonwealth sugar producers, partly from the comments I have received from our High Commissioners in Commonwealth countries in response to my request for information on attitudes there, and partly from conversations I and other members of the Government have had with Ministers in Commonwealth Governments, for example when Mr Manley of Jamaica was here and when the Secretary of State for Trade was in Ottawa.

2. It would be misleading to speak of a "Commonwealth attitude" since there are so many different countries involved, with different interests and different preoccupations. But there is enough evidence to draw the following general conclusions, which apply to the developed as well as to the developing Commonwealth and to the countries eligible for association with the Community as well as to those which are not. These conclusions are:

(a) Earlier Commonwealth apprehensions about the consequences of our EEC membership have diminished. Commonwealth countries accept as a fact of international life both the existence of the EEC and our membership of it. I did not ask for their views on whether or not we should remain in membership but they are not actively seeking to undo what has been done.

(b) Commonwealth countries do not show an interest in returning to traditional patterns of economic relationship with the UK. They are out to sell their exports where it is most profitable, regardless of the political and cultural ties which they continue to have (and in many cases to cherish) with Britain and with the rest of the Commonwealth.

(c) Many Commonwealth countries think that the wider EEC market will be more important for them in the future (if it is not at present) than the British market. They therefore attach importance to securing improved access to the market of the Eight, which they expect to result from our membership of the Community. They believe that we are a useful ally to them in the Community's internal discussions.

(d) The potential associates seek trade advantages in Europe and a share of the European development fund. Some of them indicated that they would continue to seek association whether or not we were members of the EEC.

3. In the case of some countries this general attitude would no doubt change if we fail to secure special arrangements to safeguard certain important sectors of their trade. Of these the most important is sugar, where the UK is still expected to honour the Lancaster House assurances that we will secure from the Community access for 1.4
Another special case where a specific trade sector needs protection is Botswana beef, the arrangements for which are currently the subject of discussion in Brussels. Our task is to protect Commonwealth interests in sensitive fields such as these and to ensure that the Community maintains and improves the trade terms available to the rest of the Commonwealth, developed and developing. If we succeed in this it seems likely that the Commonwealth would not regard it as in their interest for us to withdraw from the Community. Once their essential economic interests have been safeguarded, then from their point of view it is better to have a strong British voice speaking for them than a Community without Britain whose policies would be likely to be dominated by the French and others who would pay less heed to Commonwealth preoccupations.

4. Clearly this is in no way conclusive for membership from the British angle, but we should not look for rejoicing from our fellow Commonwealth members if we withdraw.

5. I attach a summary setting out the current attitudes of all Commonwealth countries as far as we can ascertain them.
ANNEX

COMMONWEALTH ATTITUDES TO UK MEMBERSHIP OF THE EEC:
COUNTRY-BY-COUNTRY ANALYSIS

OLD COMMONWEALTH

Canada

1. As Canadian Ministers recently explained to Mr Shore, the Canadian Government believe that

   a. British membership will make the EEC more outward looking and more stable;

   b. inside the Community we would be a stronger trading partner for Canada;

   c. we would be helpful over Canada's own future trading relations with the Community, i.e. the UK is regarded as a "friend at court" within the EEC.

2. The potential for expanded UK/Canada trade would not be seriously affected by our continued membership of the EEC.

3. The Canadians have largely come to terms with the Community as it is at present, helped by the relatively favourable terms secured on accession for a number of products of special interest to Canada (e.g. mineral and forest products).

4. Nevertheless Canadians would like the CAP gradually reformed to present less of a hurdle to competitive Canadian exports. And in the GATT multilateral trade negotiations they hope for EEC concessions on manufactured goods of interest to Canada.

Australia

5. The effect of our entry on the Australian economy has been negligible. Fears however exist of permanent damage to export prospects of some minor commodities (notably fresh and canned fruits) as we phase in the CAP. In future, Australia, as a major good exporter, would like to see the EEC less dedicated to self-sufficiency. She would like better and assured access for food exports to Europe, which would require amendment of the CAP.

6. Our accession to the EEC emphasised changing relations between Britain and Australia, but major changes had already been taking place quite independently and are likely to continue whether or not we remain in the Community.

7. The Australians now see the enlarged Community as one of their major trading partners, especially for wool and increasingly for other raw materials, and it is her biggest supplier of imports.

8. The EEC and Australia's relations with Britain were not important issues in the recent election campaign.

/New Zealand
New Zealand

9. New Zealand's agricultural exports to the UK in 1973 were not in practice adversely affected by our entry into the EEC. The effects of future membership will depend largely on the outcome of review of the special arrangements for exports to the UK of dairy produce provided for in Protocol 18 of the Treaty of Accession, to which New Zealand continues to attach great importance. The New Zealanders would probably welcome guaranteed volume entry arrangements on a longer term basis, but would be unlikely to offer advantageous price terms in return for guaranteed access (for which they would regard guarantees on supply as an adequate quid pro quo).

10. The New Zealanders are now relaxed about the possible future EEC sheepmeat regulation and see little likely attraction in any long term arrangement for access to the UK market.

Africa

The Gambia

11. EEC membership has not so far had major consequences one way or another for the Gambians, largely because the terms of accession reasonably safeguarded their limited interest.

12. In seeking association, the Gambians are concerned primarily to ensure the market for groundnuts and to gain access to EEC aid. For the latter reason they will pursue association whether Britain continues as a member or not.

13. The Gambians greatly value the continued British presence in Community councils, from which they expect to benefit when particular Gambian interests are at stake.

Ghana

14. British membership of the EEC has so far had little effect on Ghanaian exports (at present largely unprocessed raw materials). They are concerned about prospects for semi-manufactures and manufactures. Their objective is to secure in Protocol 22 negotiations a regime which does not affect trade with important non-EEC markets, especially the United States and Japan. They are therefore adamantly opposed to reverse preferences.

Lesotho

15. Lesotho value the assistance we have been able to give to the African countries seeking association. For Lesotho, association means access to the EDF, the possibility of outlets for export potential still to be developed, and diversification of international connexions generally.

Mauritius

16. The Mauritians generally have long held the view that Britain should be a member of the EEC, for both economic and political reasons.
reasons. They have historical connexions with both the UK and France and regard it as natural that both should be members of the same Community. They do not see British membership as weakening bilateral UK/Mauritius links or as inhibiting development of Commonwealth institutions.

17. Mauritius' economic interests lie almost exclusively in securing satisfactory arrangements for the marketing of sugar from developing Commonwealth countries in the enlarged Community.

18. Mauritius would almost certainly wish to be associated with the EEC whether the UK is a member or not.

Swaziland

19. The Swazis, though suspicious by nature, do not see British membership of the EEC as affecting their relationship with Britain in any human or political sense. Economically, the Swazis hope that, through us, they can safeguard their exports to Britain, open wider markets in Europe, while maintaining their bilateral aid from the UK and getting additional aid from the EDF.

20. The Swazis regard Britain as "a friend at court" in Brussels, particularly over the difficult problem of reconciling Swazi association with Europe and their customs relationship with South Africa.

Tanzania

21. The Tanzanians do not appear to see adverse implications for bilateral or Commonwealth relations from British membership. Their main interest is to retain their market in EEC countries for primary exports of cotton, sisal, coffee and tea. Membership has not to date diminished the volume of exports of these commodities to the UK, or otherwise affected Tanzania. They have made no proposals about how their market in Europe should be guaranteed in the long term nor suggested any alteration in any aspect of the Community. They are opposed to reciprocity in the Protocol 22 negotiations and look forward through association to access on the easiest possible terms to the EDF.

Zambia

22. The Zambian attitude to UK membership is conditioned by their overriding interest in copper which provides over 90% of their foreign exchange earnings. The effect of British membership to date is therefore marginal since neither the UK nor the EEC impose tariff or other restrictions on copper imports.

23. They would like association, but have not given this high priority.

/Sierra Leone
Sierra Leone

24. British membership of the EEC has had virtually no effect on Sierra Leone's material interests (her main exports are minerals) nor her relations with the UK. She enjoys cordial and profitable relations with Britain, the German Federal Republic, France and Italy. Sierra Leone would not wish any weakening of these bilateral links and sees association with the EEC as strengthening them.

Kenya

25. During enlargement negotiations the Kenyans consulted us about the likely consequence and concluded that basic Kenya exports (coffee, tea, pyrethrum and sisal) would be unaffected by UK entry. Conversely, if we withdrew, Kenyans would expect no change in the situation.

26. Kenya's main interests now are that an association agreement should give right of entry for manufactured goods, for which Kenya hopes in the future to develop export markets in the Community, and to obtain a good cut of the EDF.

27. Kenyans believe that UK membership has already improved the attitude of the Community towards both associates and associables. They claim that francophones have commented similarly.

Botswana

28. UK membership is not, in the short term, to the economic advantage of Botswana, though Botswana sees association as an asset in their policy of lessening their political and economic dependence on South Africa.

29. Botswana's main concern is to preserve the market for beef exports which existed in the UK before enlargement. The High Commissioner was told recently of Botswana's concern that renegotiation should not weaken Britain's ability to assist Botswana over association.

Malawi

30. UK membership has had no discernible effect on Malawi so far. There have been no public statements about Malawi's own negotiations with the EEC or about the implications of UK membership. Associated status is seen as Malawi's best option. Tobacco is the only commodity causing Malawi concern.

Uganda

31. The Uganda Government's thinking on the EEC is unformed and unsophisticated. Uganda is keen to see the Protocol 22 negotiations completed, but none of her current exports are really affected. UK membership of the EEC has thus had little impact so far and is unlikely to affect our relations with Uganda.
Nigeria

32. When entry negotiations began, the Nigerians regarded them as a further demonstration that Britain was turning her back on the Commonwealth. They dismissed the suggestion that Nigeria's interest could be adequately safeguarded by adherence to a new Yaoundé-style Convention. Their attitude has since changed and the Nigerians now see association negotiations as a way in which the Africans, through unity, may obtain a new and advantageous relationship with Europe. This broad political objective is more important than detailed economic arrangements. A good deal of Nigerian political capital is by now invested in the Protocol 22 negotiations.

33. UK membership of the EEC is likely to have little economic impact on Nigeria since oil (which enters the Community duty free) accounts for well over three quarters of Nigeria's exports. If association negotiations are concluded satisfactorily, Nigeria should not feel any adverse economic effects.

34. If the UK withdrew from the EEC the Nigerians would probably continue to seek some kind of economic relationship with the Community while also seeking arrangements to enable the maintenance of Nigeria's position in the UK market.

35. The Nigerians accept the EEC as a fact of international life with which it should be possible to come to satisfactory terms. There is no indication that the Nigerians want to see the EEC as such altered.

CARIBBEAN

Guyana

36. UK membership of the Community has so far had little effect on Guyana. She wishes to associate with the EEC whether the UK is a member or not. Her objectives in the Protocol 22 negotiations remain as defined by the Guyana Foreign Minister, Mr Ramphal, on behalf of the Caribbean associatives at Brussels on 26 July 1973. She has no apprehensions over UK renegotiation; neither UK membership nor her withdrawal present the Caribbean with problems that cannot be overcome.

Jamaica

37. Over the past five years Jamaica has become progressively reconciled to UK membership of the EEC. She decided to seek association in the hope that preferential arrangements unwelcome to the Americans could be avoided and in order to secure continued satisfactory access to Europe for, in particular, sugar and bananas at remunerative prices.

38. She expects Britain to honour the Lancaster House assurances on sugar or, if she leaves the Community to continue to provide a satisfactory outlet for sugar and bananas, though Jamaica would not be ready to put the clock back and accept commodity arrangements as rigid as the CSA. Indeed in bilateral negotiations she might well press the UK for higher prices than she might be prepared to accept from Europe.
Jamaica has adjusted to the fact of UK membership. If Britain left, Jamaica would not necessarily cease her attempt to associate with the EEC.

**Bahamas**

The Bahamians do not think that UK membership of the EEC need necessarily weaken the ties between the UK and the Commonwealth. There have been no economic ill effects for the Bahamas from EEC membership to date. Bahamian principal concern in association negotiations is to secure satisfactory arrangements for rum exports.

**Barbados**

British membership of the EEC has had little impact on Barbados. Her initial misgivings about UK entry have been allayed by the concern which both major British political parties have shown to ensure that Commonwealth Caribbean agricultural products, in particular sugar, continue to enjoy a favourable market in the Community. Barbados is now reasonably confident that she will not suffer as a result of accession. Indeed she thinks that she may well derive some benefit, particularly from EDF aid resulting from association.

**Trinidad**

Trinidad has long accepted UK membership as a fact of life to which she must accommodate. There has been little recent public or private comment. Trinidad's lack of interest can perhaps be explained by the fact that her trade with EEC countries, including the UK, is relatively less important than trade with other areas of the world. (Petroleum products account for over 80% of Trinidad's exports, with the US and Sweden the principal markets.)

Trinidad, though having relatively less at stake, is ready to go along with association with the EEC for the sake of Caribbean unity, while critical of her Caribbean colleagues' emphasis on sugar, which Trinidad's Prime Minister has described as "the crop of colonialism par excellence".

**PACIFIC**

Tonga, Western Samoa

Both Tonga and Western Samoa are intent on pursuing associated status and securing free and unlimited entry for copra and, in the case of Samoa, also cocoa.

**Fiji**

Fiji's attitude is mainly coloured by the effects on her main export, sugar. There is concern to obtain access for sugar and coconut oil on the best terms, ideally (for sugar) through the equivalent of the CSA in Europe combined with EEC participation in a new international sugar agreement. Fiji is also concerned about whether our membership, and our contribution to the EDF, may mean less bilateral aid and less aid through such agencies as the World Secretariat and the UN Development Programme.
Singapore

Ministers consider that any loss of commercial advantage for Singapore goods (e.g. canned pineapple) in the UK resulting from British membership would be small and more than balanced by hopes for improvement in opportunities for Singapore exports to the enlarged EEC.

Singapore would like to see a strong outward-looking Europe as a political and economic counter-weight in SE Asia to the superpowers, Japan and China. To this end Singapore has set out to cultivate the EEC. Singapore's trade with the rest of Western Europe is now substantially greater than with the UK. She would not expect trade either with us or with other European countries to be significantly affected by UK withdrawal.

Sri Lanka

So far has been virtually unaffected by UK membership of the EEC as her main existing exports to the UK enter duty free. But, for the future, she fears competition from EEC associates.

At the time of accession the Ceylonese felt they had secured less good a deal than some other Commonwealth countries. But they have been reasonably encouraged by concessions subsequently negotiated and by the support they have had from the UK. They now see continental Europe, particularly Germany, rather than the UK, as the main potential growth market for their long-traditional export markets.

India

The Indians were originally worried about UK entry, but since enlargement, India's links with the EEC have been strengthened without consequent weakening of links with the UK. Some erosion of India's traditional exports to the UK due to the loss of the margin of preference and imposition of tariffs on a few items seems inevitable. But in general, the Indians believe that it would be difficult to put the clock back. And in any case, they think they have good prospects of expanding their exports to the UK and the rest of the Community, especially if we are in the Community and therefore able to help in safeguarding their position as we have done so far: they realise our value as a friend at court.

The Indians welcomed Mrs Hart's statement on 30 April about the Community aid policy. They recognised the important role played by the UK in widening European horizons.

Bangladesh

There is no disposition on the part of Bangalee leaders to suggest that our accession presents a serious threat to the special
They accept the argument that they are likely to find Britain a more useful friend as a leading "European".

They attach importance to the Community's implementations of a Joint Declaration of Intent. They admit that so far HMG has done well for them, particularly in ensuring the maintenance of the jute trade, where Bangladesh now enjoys access to wider markets than she can at present fully exploit. She looks to British influence to secure Community food aid and hope we shall be able to continue to back tariff increases on jute.

Malaysia

There is no vestige of Commonwealth trade ideals remaining in Malaysia, merely self-interest in securing the entry of Malaysian goods into the markets of the Nine. She is keen to secure further improvements in the GSP. But Malaysian exports are booming and the Malaysians are little concerned about the effects of accession.

Malaysia still values ties with the UK in the educational and political fields, but in the economic and commercial sphere she regards the UK as just one of a number of trading partners. She would not wish to return to a position of heavy dependence on trade with the UK.
CABINET

RENEGOTIATION AND RELATED EUROPEAN ECONOMIC COMMUNITY QUESTIONS

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. As promised in my memorandum of 19 June I am now circulating a further memorandum on renegotiation and related questions as a basis for discussion in Cabinet this week. I shall then be able to report orally on matters of interest which emerged from the Foreign Ministers Council meeting on 25 June.

2. The issue of the Community budget will be a major renegotiation problem within the Community. The Commission were asked by the Council on 4 June to produce a "stock-taking" of the situation since enlargement and up to 1980. This essential first step has placed the problem firmly on the Council agenda. We must hope that the Commission's report will help to convince other member Governments that we have a strong case for insisting that changes be made. But I do not and never have under-estimated the difficulties. We are still some way from achieving an active and constructive discussion of solutions. Even if we can get it agreed that this should go forward, other member Governments will at the least want to cut the benefit to us to the minimum in order that the additional burden on themselves (or in some cases the decrease in their net gain) should be as small as possible. As regards timing, it is now widely believed among other Foreign Ministers that we are going to have an election in the autumn and their Governments are unlikely to be willing to commit themselves very far until they know the result.

3. The Minister of Agriculture launched our Common Agricultural Policy (CAP) renegotiation at the 18 June Agriculture Council. He spelt out in greater detail the requests for changes which I outlined in my statement in the Council on 4 June. It was agreed that the various elements contained in his statement would be dealt with within the framework of the work which the Council has set itself to carry out in the course of the coming months. He will wish to describe reactions himself, but it was satisfactory that no delegation argued against this course.
4. On trade and aid, we are moving forward on a number of different fronts. The Minister of Overseas Development contributed significantly to the progress made at the Development Council on 13 June when:

a. subject to a German reserve, the Council accepted that the Community should this year make a $500 million contribution to a fund for those countries which are worst hit by the rise in oil prices (which, it is hoped, should to a considerable extent be financed by savings on the Community budget and to which we shall only contribute 11 per cent of any new money in accordance with the transitional arrangements for our contribution to the Community budget); and

b. subject to a French reserve, the Council accepted the principle of aid to non-associates.

The "reserves" are important because of the "consensus" policy but if these agreements are eventually confirmed, countries such as India should benefit, in the short term from a, above and in the longer term from b.; and an important first step will have been taken towards getting a better balance between the Community's aid policy towards its own associates and its policy towards other developing countries. A further meeting of the Development Council is to be held on 16 July to consider these matters. These meetings have in the past been held only rarely. We have thus already had some success in getting the Community to treat its aid obligations more seriously and more urgently.

5. The African, Caribbean and Pacific countries of the Commonwealth have made clear to us that an Association Agreement with the Community is of great importance to them. We hope to push forward during June and July towards a new convention acceptable to all the Commonwealth countries concerned, a convention which, we shall insist, ought not to be based, as was the Yaounde Convention, on a rather spurious trade reciprocity. In addition, on the trade front, the mandate for the multilateral trade negotiations and improvements to the Generalised Scheme of Preferences will also begin to be discussed before the summer holidays.

6. As regards Regional and Industrial policy, the Secretary of State for Industry visited Brussels on 18 June for exploratory talks. The next step is to pursue the question of regional aids in the Working Party on that subject, as agreed in the Ministerial Committee on European Community Strategy on 15 May. Discussions with the Commission on industrial policy will also be required.

7. Sovereignty is rightly a matter of concern to the House of Commons. It is now being examined by the Legislation Committee which is preparing papers on:
a. current Parliamentary practice in other member States for scrutiny of Community proposals;

b. possible institutional development in the Community and its implications;

c. suitability of existing United Kingdom Parliamentary procedures.

The Cabinet will not wish to anticipate the Committee's conclusions. We have already ensured, by the decisions we have taken in regard to the Scrutiny Committees, that the British Parliament will exercise control over the actions of Ministers in the Councils of the Community, where all the main decisions are taken. But the Legislation Committee will be considering what else needs to be done. I should therefore merely like in this memorandum to describe briefly some of the discussions I have had in the Community which have a bearing on the subject. A background note on the question is attached at Annex.

8. The agreement at the 1972 Paris summit to have "European Union" by 1980 turns out on investigation to have been completely without content. "European Union by 1980" is a slogan or a banner to which many Europeans attach great importance and which the German and other Governments need for internal political reasons to hold out to their people as a long-term aim. But from my discussions with the other Foreign Ministers at Schloss Gymnich in April and at Bonn in early June, it has emerged quite clearly that none of them (not even the Dutch who claim to be the most "federalist") seriously expect the Community to change the present basis for its decision-making in the foreseeable future. When further discussions of "European Union" take place I shall hold to the view that all important decisions should continue to be taken by unanimous consensus in the Council of Ministers and I believe the other member states will agree. Indeed, summing up the discussion at Gymnich, the then German Foreign Minister, Herr Scheel, said that one of the things that all members were agreed upon was that the Council was the motive force of any future progress. A confederal solution of this kind is certainly not inconsistent with maintaining the degree of sovereignty at which we aim. Nothing will be decided without Her Majesty's Government's agreement and Her Majesty's Government will only agree if it can expect to obtain the consent of Parliament.

9. The "political co-operation" machinery, where I have been discussing this question of European Union is, strictly speaking, outside the Community framework although the same countries of course take part in it. The object is to reach common positions of the Nine on international questions. In my view it has a very useful role to play. It is clear that national solutions on the crucial questions such as energy, inflation, commodities and the world international monetary crisis, are not sufficient. Equally, the Nine cannot by themselves find solutions. But they can
collectively influence events in a way which individual European Governments cannot. In the light of the discussions in which I have taken part I am forming the opinion that the political influence of the United Kingdom is of considerable importance to the rest of the Nine. It is valuable that we should play our full part in deciding what positions the Community should take up.

10. On specific "political co-operation" matters we have now achieved a far better relationship between the Nine and the United States and I am hopeful that two-way consultation across the Atlantic will now work properly, thus getting away from the transatlantic quarrels which characterised the last year of the Conservative Government. The Nine have also agreed to initiate a dialogue with the Arab states designed to improve economic and technical co-operation with them, and to set in hand something of an equivalent nature with Israel. I was impressed by the business-like way in which the last Ministerial meeting of the Nine reached its common positions on these and other matters such as the Conference on Security and Co-operation in Europe (CSCE).

11. To sum up, renegotiation is now under way on the basis of the Manifesto. So far we have not needed to seek a confrontation, but in the months ahead we may have to face a confrontation on some issues. I am ready for that if necessary. As regards sovereignty, we have already taken steps to enhance the role of the British Parliament, and there is no question of Council decisions being taken or Council legislation enacted against our will. In some ways our renegotiation has required the Community to take a new look at itself and make a fresh start after many months of stagnation. It is now looking in a more constructive direction at a number of important issues and I am grateful to my colleagues, in particular to the Minister of Agriculture, the Secretary of State for Trade and the Minister of Overseas Development for the influence they have exerted in the various Councils to achieve progress towards our renegotiation aims. Our own policy is proceeding along the lines agreed by the Cabinet and as satisfactorily as we could expect at this early stage. There are two further questions - timing and manner of consultation with the British people. We have not set any formal time limit to the renegotiations, although in conversation with other Foreign Ministers, I have indicated that we must be prepared to come to a conclusion on the issue by the end of December or at the latest in January or February. Given the slowness with which these matters proceed, this does not give us too much time, but if we are to avoid cynicism among our people (as we must) the negotiations cannot drag on indefinitely.

12. We must also reiterate constantly in our public statements our pledge that the British people will have the opportunity to express their view at the end of the renegotiations. If I can judge from my correspondence, some people value the pledge that they will be able to express their opinion, as much as they do the contents of the renegotiation package itself.
13. In due course, I shall be ready to put some proposals forward for the Cabinet's decision.

LJC

Foreign and Commonwealth Office

24 June 1974
SOVEREIGNTY AND THE EEC

1. All governments have to recognise an increasing degree of inter-dependance. The number of problems in the economic and strategic field which can be solved on a national basis has been diminishing and will probably continue to diminish. For example, the three great problems of 1974 - energy, the effect of petro-dollars on international monetary arrangements and world-wide inflation - all require international solutions. This will inevitably mean accepting some restrictions on the absolute freedom of individual governments to settle questions affecting their own vital interests or to take decisions which affect other governments and peoples.

2. The concept of national sovereignty has been affected to a major degree by the development of international organisations since the Second World War. By signing the United Nations Charter, member states (though Permanent Members of the Security Council have a special position) accepted that the Security Council should have powers to pass mandatory resolutions, e.g. Rhodesia. By joining NATO the European countries have learnt to live without a major attribute of absolute sovereignty in return for the benefits of collective security. By signing the revised Brussels Treaty setting up WEU, we not only entered into an automatic commitment to mutual defence, but agreed to keep a specific number of troops on the continent for fifty years. By signing the GATT, member states accepted important restrictions in regard to trading practices (e.g. import restrictions and dumping) in return for wider trading advantages. By joining EFTA, member states not only accepted certain further restrictions on absolute sovereignty in regard to trade but also some limitations in regard to industrial competition, e.g. public purchasing. Those who want to draw on the IMF have to accept a degree of surveillance of the management of their economies.

3. This is the background against which to consider the special position of the EEC. One important difference at once stands out. The Community is different in kind to other international organisations in the important respect of EEC secondary legislation. The operation of the Scrutiny Committees, and the application of the other measures derived from the Foster report, will be of the greatest importance here. Ministers will be considering the role of Parliament further in the Legislation Committee.
4. The Community was conceived by its founding fathers as a political organisation which would eventually go a good deal farther than other international organisations in the merging of sovereignty. The Commission was conceived as an embryo federal government. Majority voting in the Council was foreseen on a number of important issues. So far, however, the member states have not been willing to move in a federal direction. Nor have they any clear idea about the eventual political destination to which closer unity may take them. Meanwhile, decisions on all important matters are in practice taken unanimously. And, where the Commission has powers under the Treaties, for example in regard to competition matters, these are usually exercised in a way which shows that members of the Commission are politically sensitive to the national requirements of member states and to what is politically possible in them.

5. Between 1969 and 1972 the original Community of Six developed ambitious-sounding plans, first for "Economic and Monetary Union" and then, at the Paris Summit in 1972, for "European Union" by 1980. Plans for the first have gone awry and new and more practical policies will have to be evolved if any progress towards convergence between the economies of the Community is to be achieved. As regards "European Union", no definition exists and work on the subject is only just beginning. My understanding is that no one is going to press for changes in the basis on which the Community takes its decisions, namely by unanimous consensus of the member states in Council. On both these subjects we shall be in on the ground floor in all future discussions and nothing will be agreed in the Community which we do not accept.

6. It is undoubtedly true that by accepting continued membership of the Community we would accept certain restrictions on our freedom in a number of fields. At the end of the day we shall have to balance the advantages against the restrictions. We shall need to return to this important subject when the Legislation Committee has completed its work.
CABINET

TEACHERS' PENSIONS

Memorandum by the Lord President of the Council

1. On 28 November last, the then Secretary of State for Education and Science accepted in principle a Motion put down by the Labour Party, then in Opposition, calling for a, a reduction in the teachers' pension contribution from 6½ per cent to the 6 per cent which had applied until 1 April 1972; and b, the reckoning as to half for pension of the war service of post-war entrants to teaching "as is the practice in the Civil Service".

2. Since then the Social Services Committee (SS) has been considering a number of detailed points - the definition of the categories of teachers who should benefit, the operative date of the concession and whether the contributory principle should be applied. These matters have now been satisfactorily settled. A major matter for discussion has, however, been the repercussions which a concession to teachers would have elsewhere in the public service, particularly in relation to the police, the fire service and the health professions. On logical grounds it is difficult to deny to other professions what is being offered to teachers, since if it is right in principle to adjust teachers' pensions so as to reflect interruptions in normal career progression due to war service it must be right to do the same for other people in a like position. The problem thus lies not in the point of principle but in the practical consequences which would flow from giving effect to it across the board. The difficulties are particularly acute in relation to manpower (there might be some earlier retirements, which would be serious for the police in some areas) and public expenditure (the total additional cost, which would be spread over a very considerable period, would be about £80 million-£100 million if the concession applied also to those who have already retired - though rather more than half of it would fall within the next five years).

3. The conclusion reached by the majority of SS Committee was that in principle the use of resources to improve pension arrangements, whether for teachers or other groups, did not merit the highest priority, but that a firm commitment had been given in respect of teachers which we have no choice but to honour. SS also considered that the concession should benefit
those who had already retired as well as those who are still serving. The general view was that on public expenditure grounds we should do our best to limit the concession to teachers for the time being; but it was recognised that in due course extensions would almost certainly have to be accepted, and were probably right in principle, though it was hoped that they might be deferred at any rate until the public expenditure position was more favourable. The Secretary of State for Social Services and the Minister of State, Home Office, on behalf of the Home Secretary, argued, however, that if the proposed concession were given to teachers it was essential that a parallel concession should be given simultaneously at any rate to doctors and to the police. Such a concession would be costly, would have to be found from within the Public Expenditure Survey Committee allocations of the Departments concerned and would, it was argued, be an irrational and unacceptable use of financial resources which were already inadequate. The Ministers argued that these undesirable consequences could be avoided only by giving no concession to any groups at all; and, while recognising the difficulties presented by the terms of the resolution adopted by the House of Commons last November and by the subsequent discussions which have taken place with the teachers, they proposed that no concession on pensions should in fact now be offered to the teachers.

In view of the importance of these objections to the conclusion reached by the majority of SS Committee, I must ask my Cabinet colleagues to consider the matter and to decide whether they are prepared to endorse the majority view reached by the Committee.

Privy Council Office

26 June 1974
27 June 1974

CABINET

CHILE: RESCHEDULING OF EXTERNAL DEBT

Memorandum by the Chancellor of the Exchequer

1. I was invited (CC(74) 19th Conclusions, Minute 2) to circulate a paper about Chilean debt.

2. Chile defaulted on her external debt obligations in November 1971. In April 1972 debts falling due up to the end of 1972 were rescheduled in agreement with Chile's Western creditors, including the United Kingdom. Inconclusive discussions about the treatment of debt falling due in 1973 ended with the fall of the Allende Government. No payment has been made on outstanding debts falling due from 1973 onwards. The present Chilean Government announced last year its wish to arrange with its creditors for the repayment of Chile's outstanding debt, and negotiations took place accordingly. Thus, discussions about debt rescheduling have been conducted both before and after the change of regime.

3. The Defence and Oversea Policy Committee agreed in March that we should support the draft Agreement drawn up by the Paris Club on the renegotiation of Chile's 1973 and 1974 debt repayments. We have proceeded accordingly: the multilateral agreement now needs to be implemented through bilateral agreements between Chile and individual creditor countries.

4. Agreement in principle has been reached in the bilateral negotiations between Chile and the United Kingdom. The total sum due is some £25 million, of which payment for warships (contracted in 1969) accounts for some £7 million – well under one-third of the total. Chile has agreed to pay an interest rate of 7 1/2 per cent. Formal agreements are now being drafted, and unless any unexpected problems arise, signature should be possible within the next few weeks. Repayment of the debts owing to the United Kingdom can then begin.

5. I do not think it is right to describe debt rescheduling as the equivalent of a new loan to Chile. The argument depends on the assumption that if there had been no debt settlement, the debts would have been paid on time, and in full. It is virtually certain, however, that without a debt settlement most, if not all, of the debts would not be paid. The debt settlement is therefore very much in the creditors' interest.
6. The agreement eventually reached was the best that the creditors could hope to get, and it is very much in the United Kingdom's interest that the bilateral agreement should be concluded so that we may obtain payment from Chile of the debts, and the interest on debts, which she owes us.

7. United Kingdom policy on the four warships being built for Chile was agreed at CC(74) 9th Meeting. At that meeting it was stated that the warship contracts were guaranteed with the Export Credits Guarantee Department. It was decided then that we should go ahead with construction on the grounds that not to do so would almost certainly lead to retaliation and would have serious consequences, both financially, and for employment in the shipbuilding industry. These arguments remain valid, and are unaffected by the position on the debt rescheduling.

8. The Chileans have already made substantial cash payments in respect of the four warships and, in conformity with conventional practice in the shipbuilding industry, they are now the legal owners of the vessels. Indeed, they could remove the ships, either now, or when they are ready for handover, provided only that they kept up to date with their progress payments.

9. Whether or not we proceed with the bilateral debt rescheduling agreement, the Chileans can be expected to go on making the cash progress payments and thus put themselves into a position to take delivery of the ships within the terms of the contracts, payments under which continue until 1980, that is a number of years after the contractual date for delivery of the ships.

D H

Treasury Chambers

26 June 1974
CABINET

NORTHERN IRELAND CONSTITUTION: WHITE PAPER

Note by the Secretary of State for Northern Ireland

1. I propose to publish a White Paper accompanying a Bill which makes provision for the continued government of Northern Ireland now that the Northern Ireland Executive has ceased to exist and contains proposals for a constitutional convention. These matters were discussed by Cabinet on 13 June 1974 (CC(74) 19th Conclusions refers).

2. I attach a draft of the White Paper which has been approved by the Ministerial Committee on Northern Ireland. It summarises the political and other developments in Northern Ireland which led to the passing of the Northern Ireland Constitution Act 1973, and the setting up of the Northern Ireland Executive; it also gives an account of the circumstances which brought about the fall of that Executive. The White Paper then describes the proposals in the new Bill.

3. I invite the agreement of my colleagues to the White Paper which I would propose to publish on Thursday, 4 July. The Bill will be presented and published on the same day.

M R

Northern Ireland Office

28 June 1974
SECRET

THE NORTHERN IRELAND CONSTITUTION

Presented to Parliament by
the Secretary of State for Northern Ireland
by Command of Her Majesty
July 1974

LONDON
HER MAJESTY'S STATIONERY OFFICE

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CONTENTS

| PART 1—THE PROBLEM                      | 1 1 |
| PART 2—THE CONSTITUTION OF 1973        | 6 00|
| PART 3—THE NORTHERN IRELAND EXECUTIVE,| 15 00|
| JANUARY—MAY 1974                       |     |
| PART 4—THE PRESENT POSITION            | 27 00|
| PART 5—FINANCE                         | 35 00|
| PART 6—LAW AND ORDER                   | 41 00|
| PART 7—THE NEXT STEPS                  | 44 00|
Part 1

THE PROBLEM

1. About one-and-a-half million people live in Northern Ireland. History produced a divided community and has led it to have divided views about its form of government. The whole community has not yet found a way of living and working together. Northern Ireland is a part of the United Kingdom and Parliament has the ultimate responsibility for its future. By the efforts of the people themselves, and with the help and encouragement of the nation as a whole, Northern Ireland has made in recent years significant economic advances. But the bright prospects this created for future economic progress have been clouded by political instability and violence. In the past five years over 1,000 people—men, women and children; soldiers, policemen and civilians—have died by violent means. There has been great, continuous and widespread suffering and destruction.

2. In that same period, Northern Ireland has experienced four different patterns of government:-

(a) devolution of powers to the Parliament and Government of Northern Ireland under the Government of Ireland Act 1920, up to March 1972;

(b) "direct rule" under the Northern Ireland (Temporary Provisions) Act 1972, with the Government of Northern Ireland suspended and its Parliament prorogued, executive powers exercised by a Secretary of State and laws made by Order-in-Council, from March 1972 to January 1 1974;

(c) a new system of devolution of powers to an Assembly and Executive under the Northern Ireland Constitution Act 1973, from January to May 1974; and, since then

(d) discharge of functions of that Executive under the Constitution Act by Northern Ireland Office Ministers, with the Assembly prorogued.

3. The main impact of this violence and political instability has been upon the people of Northern Ireland themselves, but the United Kingdom as a whole has also had burdens to bear. Recognising the "ultimate responsibility for the protection of those who live in Northern Ireland" to which the Downing Street Declaration of August 1969 referred, successive Governments have committed large numbers of troops to keep the peace, involving them in a policing as well as a strictly military role. In August 1969 there were only 2,500 stationed in Northern Ireland. This figure rose to 22,500 by the end of July 1972 and has never been fewer than 14,500 since that time. From August 1969 to end of June 1974, 000 soldiers of the Regular Army and 00 of the locally-recruited Ulster Defence Regiment have been killed on duty, as well as 00 members of the Royal Ulster Constabulary and 0 of the RUC Reserve.
4. Expenditure in Northern Ireland has increased significantly in recent years and has required an increased subvention from the Westminster Exchequer over and above Northern Ireland’s share of taxation. In 1969–70 this subvention (excluding loans) amounted to about 16 per cent of Northern Ireland’s public expenditure and in 1973–74 to about 36 per cent.

5. The achievement of peace and political stability in Northern Ireland requires a major contribution by the people of Northern Ireland themselves. When the fear and instability of these wasted years is ended the Army will be relieved of its present role.
6. In March 1972 a period of "direct rule" was instituted, with the support of the three major parties in the Westminster Parliament. It was made clear that the new system of government was intended to be transitional. The aim was to allow all concerned to discuss how to bring into being a more permanent system, commanding the broadest possible support.

7. The consultative document "The Future of Northern Ireland: A Paper for Discussion" (October 1972) and the White Paper "Northern Ireland Constitutional Proposals" (Cmnd 5259, March 1973) record the various discussions which took place. In summary the consultative process involved the following stages:

(a) Intensive discussions between the then Secretary of State for Northern Ireland and a wide range of interests in Northern Ireland—political parties, community groups, representatives of social, economic and other interests.

(b) An invitation to individual citizens in Northern Ireland to submit proposals and suggestions.

(c) An invitation to each of the seven political parties which had representation in the prorogued Northern Ireland Parliament to take part in a conference to discuss suggestions for the future. Three parties attended this conference, held at Darlington in September 1972, and put forward proposals for discussion. Other parties and groups also published suggestions for the future.

(d) A comprehensive consultative document "The Future of Northern Ireland: A Paper for Discussion" was published in October 1972, and formed the basis for further discussions with representatives of a wide range of interests.

(e) The people of Northern Ireland were given an opportunity, in the Border Poll of March 1973, to indicate by their votes whether they wanted Northern Ireland to remain part of the United Kingdom or to be joined with the Republic of Ireland, outside the United Kingdom. An overwhelming majority of those who voted and a clear majority of the electorate as a whole, voted to remain within the United Kingdom.

(f) In the White Paper of March 1973, the then Government set out fully its proposals for the constitutional future of Northern Ireland. The Northern Ireland Assembly Act 1973 and the Northern Ireland Constitution Act 1973 were published and then passed into law in Westminster.
8. Throughout this process great efforts were made to find common ground between the Northern Ireland parties. This was made more difficult by the decisions taken by various interests at various times not to participate in discussions.

9. After the Assembly elections held at the end of June 1973, a further stage of consultation got under way. All the parties represented in the Assembly were asked to take part in discussions as to how a broadly-based Executive, likely to be widely accepted throughout the community, might be formed. Under section 2 of the Northern Ireland Constitution Act 1973, the ability to bring such an Executive into being was a prerequisite of devolution of legislative and executive powers to the new Northern Ireland institutions.

10. Paragraph 72 of the White Paper (Cmnd 5259) referring to the formal appointment of political Heads of Departments in Northern Ireland made it clear that:

"when an agreed understanding on the formation of an Executive is reached in discussion with elected representatives, it would be the intention to make appointments in accordance with that understanding".

Certain of the parties and members returned to the new Northern Ireland Assembly stated that they were opposed in principle to the formation of an Executive on the basis laid down in the Constitution Act. They therefore refused to take part in any discussions, either with the then Secretary of State or with other Northern Ireland parties, to seek the agreed understanding on the formation of an Executive. The Alliance Party, the Social Democratic and Labour Party and the then Official Unionist members, representing between them almost two-thirds of the total membership of the Assembly, eventually agreed to consider together whether such an understanding could be reached. Discussions were initiated upon the basis that all concerned fully accepted the Northern Ireland Constitution Act 1973, and continued for a period of seven weeks.

11. Finally, on November 22 1973 the then Secretary of State for Northern Ireland was able to report to the House of Commons that substantial progress had been made. The three Northern Ireland parties had reached agreement on a statement of aims and policies in the social and economic sphere and on the shape and balance of an Executive and Administration in which they would be prepared to serve together. This required a small amendment to Section 8(3) of the Northern Ireland Constitution Act 1973. This progress had made possible the nomination of an Executive-designate. It had, however, always been understood among the parties engaged in these discussions that it would be undesirable actually to form an Executive unless and until there was agreement on all the major issues under discussion.

12. One of these matters was the possible formation of a Council of Ireland, which required discussions with the Government of the Republic of Ireland. The Secretary of State therefore informed the House of Commons (Official Report, November 22 1973, Col 1576):
"If we are to make the advances on a Council of Ireland to which I have referred, it is essential that there should now be urgent discussions between representatives of the Government of Ireland and those persons who will be members of the Northern Ireland Executive. This conference will be held as soon as possible and will, I hope, reach a clear understanding. I also intend to invite the leaders of those parties in the Northern Ireland Assembly who have indicated that they are not prepared to participate in an Executive to discuss with me their views on a Council of Ireland, so that these will be known at the time of the conference. It will be necessary, therefore, to hold a formal conference between Her Majesty's Government, the Government of the Republic and the Northern Ireland Executive, which will have been appointed by then."

13. The leaders of those parties who had indicated they were not prepared to take part in an Executive, the Democratic Unionist Party and the Vanguard Unionist Party, protested that their parties should be invited to participate in the conference on the same basis as the other Assembly parties. They argued, as did the then leader of unofficial Unionists opposed to official Unionist policies, that the terms of paragraph 112 of the White Paper (Cmnd 5259) were not being fulfilled. This had stated that:

"following elections to the Northern Ireland Assembly, the Government will invite the Government of the Republic of Ireland and the leaders of the elected representatives of Northern Ireland opinion to participate with them in a conference,..."

Those leaders did not accept the proposal that they should discuss their views on a Council of Ireland with the Secretary of State. On December 5 1973 the leaders of the Democratic Unionist Party were invited to attend the first session of the conference and to address it. This too was unacceptable to them.

14. The Sunningdale Conference took place, from December 6 to 9 1973, between representatives of Her Majesty's Government, of the Government of the Republic of Ireland and of the three parties involved in the Northern Ireland Executive-designate. The principal features of an Agreed Communiqué issued on December 9 were:

(a) Declarations by Her Majesty's Government and by the Government of the Republic of Ireland on the constitutional status of Northern Ireland. These were to be incorporated in a formal agreement to be signed at the formal stage of the Conference and registered at the United Nations.

(b) Outline agreement on the basis for setting up a Council of Ireland, to be implemented after further detailed study of functions and finance.

(c) Agreement to establish a joint British-Irish Commission to recommend, as a matter of extreme urgency, the most effective means of dealing with those who commit crimes of violence, however motivated, in any part of Ireland.
(d) Agreement to give a Council of Ireland a recommendatory role in relation to human rights in Ireland, and a consultative role in relation to appointments to Police Authorities, North and South.

(e) A re-affirmation by Her Majesty's Government of their firm commitment to bring detention to an end in Northern Ireland for all sections of the community as soon as the security situation permits.

(f) Parliament would be asked to devolve full powers to the Northern Ireland Assembly and Executive as soon as possible. The formal appointment of the Executive would then be made.

(g) Early in the New Year the British and Irish Governments and the Northern Ireland Executive would hold a formal conference “to consider reports on the studies which have been commissioned and to sign the agreement reached.”
15. By a Devolution Order January 1 1974 was appointed as the day for the devolution to the Northern Ireland Assembly of legislative powers over a very wide range of matters, and to the Northern Ireland Executive and Administration of executive powers relating to these matters. At a ceremony on December 31 1973 the eleven members of the Executive and the four additional members of the Administration took the Oath or made the Affirmation required by law to uphold the laws of Northern Ireland and conscientiously fulfil my duties under the Northern Ireland Constitution Act 1973 in the interests of Northern Ireland and its people.

The following day, for the first time in the history of Northern Ireland, elected representatives of the majority and minority communities took up office as a government. While all those participating retained their long-term aspirations, they all accepted the principle embodied in section 1 of the Constitution Act, that Northern Ireland will not cease to be a part of the United Kingdom without the consent of a majority of its people.

16. The newly-appointed Executive at once took two important decisions which were communicated to the Assembly by the Chief Executive on January 24 1974. The first was that, although the Constitution Act did not so provide in terms, the Executive would hold itself responsible to the Assembly, and would therefore at once seek a Vote of Confidence there. The second was that the Executive would be bound by the principle of collective responsibility.

17. On January 24 1974 the statement of social and economic aims agreed during the inter-party talks was published. As soon as it took up office the new Executive set about the task of converting these broad policy objectives into comprehensive proposals for the future development of Northern Ireland. The new Heads of Departments assumed control of the various services for which they were responsible, and from the earliest days the new system showed itself capable of coping with difficult, controversial and potentially divisive matters.

18. The Assembly members of the “loyalist coalition” refused to play any part in much of the business of the Assembly and did not take up their role as the Opposition in the lawfully constituted Assembly.

19. The agreement reached at the Sunningdale Conference became the centre of deepening political controversy. Conscious that legal proceedings in the Republic of Ireland which had not been concluded until February 22 1974, had given rise to ambiguities about that part of the Agreed Communique which
included the declarations on the Constitutional status of Northern Ireland, the Taoiseach made a statement in Dail Eireann on March 13 1974, which included these words:

"The factual position of Northern Ireland is that it is within the United Kingdom and my Government accept this as a fact. I now therefore solemnly re-affirm that the factual position of Northern Ireland within the United Kingdom cannot be changed except by a decision of the majority of the people of Northern Ireland".

20. The Law Enforcement Commission (see paragraph 14c above) was appointed on December 21 1973. It reported on April 25 1974 (Cmd 5627). Its members were not able to agree unanimously as to the best method of dealing with the problem. Those members drawn from Great Britain and Northern Ireland recommended an amendment of the extradition laws but those drawn from the Republic of Ireland did not; they recommended a scheme of extra-territorial jurisdiction. The British and Northern Irish members agreed that if extradition was not available they would recommend extra-territorial jurisdiction.

21. On February 1 1974 a meeting took place in Northern Ireland at Hillsborough Castle between members of the Northern Ireland Executive and the Government of the Irish Republic, and decided how further studies of possible functions for a Council of Ireland should be conducted.

22. The comparatively slow progress in these respects meant that, when the United Kingdom General Election took place on February 28 1974, a number of important aspects of "Sunningdale" remained unresolved, and the formal Conference, which had been envisaged as taking place "early in the New Year" had not been held. Candidates in Northern Ireland opposed to the Sunningdale Agreement and particularly the Council of Ireland received over 50% of the vote and won 11 out of the 12 seats.

23. The Executive discussions on how to make progress in implementing the Sunningdale agreement were still in progress when, on May 16, a vote in the Assembly to reject a "loyalist coalition" Motion calling for re-negotiation of the constitutional arrangements was made the occasion for a general stoppage of work by the non-elected Ulster Workers' Council. This started in the electricity industry and spread into other essential services. The Executive brought to a successful conclusion its discussions on implementing the Sunningdale agreement on May 22, when the Chief Executive announced in the Assembly that the Executive now proposed that the agreement should be implemented in two phases. In the first, immediate phase, a Council of Ministers would be established as a forum for consultation, co-operation and co-ordination of action between the Northern Ireland Executive and the Government of the Republic of Ireland in relation to various social and economic matters. The other aspects of the Council of Ireland scheme—a "second tier" Consultative Assembly; transfers of functions to the Council; appointment of a Secretary General, etc.—would be part of a second phase, to be introduced only after the opinion of the people of Northern Ireland had been tested at a further general election to the Assembly.
24. Her Majesty's Government had been faced in the weeks before the strike by a renewed bombing campaign by the IRA. It made it clear that the IRA would not be allowed to bomb its way to the conference table. Similarly, throughout the stoppage, it held firmly to the principle that there could be no negotiation on constitutional issues with those who had not been elected as part of the normal democratic processes. The stoppage of work continued with the Ulster Workers' Council, the various para-military associations, and the "Loyalist Coalition" politicians associated with them demanding early Assembly elections as a basis for re-negotiating the constitutional arrangements. The effects of the stoppage were severe. A large part of the labour force, particularly in urban areas, stopped work and many business and commercial undertakings co-operated with those who had brought about the stoppage. The organisers progressively reduced the electrical power output; secured a virtual stranglehold upon the distribution of petrol and oil; and gained virtual control of other vital services and supplies. Many main and minor roads were blocked. The Army re-opened the main traffic routes and, on Monday May 21, successfully took over control of the main petrol and oil depots together with the means of distribution. The Army then began to distribute petrol and oil, with great competence, to essential users.

25. In response to this action taken by Her Majesty's Government, following requests received from the Executive, the organisers of the stoppage started to shut down completely the electricity system and withdraw labour from other essential services. On Tuesday May 28 the Chief Executive informed the Secretary of State that he, and his Unionist colleagues on the Executive, had come to the conclusion that some form of negotiation or mediation must be considered, and that if this could not be agreed, they should resign. The Alliance Party also favoured mediation, but not resignation. The SDLP members remained opposed to negotiation or mediation. The Secretary of State told Mr. Faulkner that the principle which had animated the Government's conduct must be maintained and Mr. Faulkner then offered his own resignation and that of his Unionist colleagues. The necessary broad basis for maintenance of the Executive accordingly ceased to exist, and on May 29 the Warrants of the remaining members of the Executive and Administration were revoked.

26. In plain terms the Ulster Workers' Council in association with the para-military organisations brought down the Executive, which, in a spirit of partnership, had undertaken the tasks of government in Northern Ireland since January 1. In the political history of these islands, few men had ever undertaken a more arduous yet honourable task, with a full awareness of the political and even personal dangers to which they were exposing themselves. What they attempted to do was undoubtedly distorted and misrepresented and they found it difficult to establish themselves and their policies against a background of continuing violence. The unremitting campaign of the Provisional IRA, and the violent actions of other extremist organisations including the sectarian murders of Roman Catholics created an atmosphere of growing polarisation and distrust, unreceptive to the politics of conciliation and compromise. Yet, if the Executive failed, the men who served in it did not fail. They disproved for ever the idea that it is not possible for Protestant and Roman Catholic to work together for the good of Northern Ireland and its people.
THE PRESENT POSITION

27. When the Executive came to an end, other provision had to be made urgently for the government of Northern Ireland. Under the Northern Ireland Constitution Act 1973 the powers devolved, since January 1 1974, to the Assembly and Executive did not automatically revert to Parliament and to Her Majesty's Government. Section 27 of the Act, however, enables the Assembly to be prorogued by Order in Council if it appears impossible at that time to appoint a new Executive on the statutory power-sharing basis; and such an Order can be made for a period of four months or less without parliamentary approval. Her Majesty's Government were satisfied that the circumstances for such a prorogation existed. Accordingly on May 29 Her Majesty by Order in Council directed that the Northern Ireland Assembly should stand prorogued for four months.

28. Section 8(6) of the Constitution Act provides a means for dealing with devolved executive powers under these circumstances by enabling the Secretary of State to appoint, for periods of up to six months, persons who do not comply with the normal statutory requirements—namely that there should be a broadly-based Executive, drawn largely from the Assembly. Using these powers, the Secretary of State has appointed the two Ministers of State and two Parliamentary Under Secretaries of State at the Northern Ireland Office to be political Heads of the various Government Departments and Offices in Northern Ireland formerly headed by members of the Northern Ireland Executive and Administration.

29. These very temporary arrangements, necessary though they were to preserve a framework of orderly government in Northern Ireland and adequate in the short term, would have two serious flaws if applied for a longer period. In the first place, on devolution day, January 1 1974, the simplified legislative procedures for Northern Ireland business, under the Northern Ireland (Temporary Provisions) Act 1972, lapsed. In the second place the position of Northern Ireland Office Ministers as Heads of Northern Ireland Departments or Offices is anomalous in that under the Constitution Act they are responsible for these duties not to Parliament but to an Assembly which is prorogued, and of which they are not themselves members.

30. There is therefore a need to make better temporary arrangements for the orderly government of Northern Ireland.

31. In the short term, the most pressing problem is that of legislation. The Northern Ireland Executive had prepared an extensive programme of future legislation over a wide range of the matters devolved to them. To proceed with a programme of this kind entirely by way of Bills in the United Kingdom Parliament is out of the question. Inevitably any less pressing legislative proposals for Northern Ireland, however desirable in themselves, will now have
to be deferred, to the disadvantage of various groups in the Northern Ireland community. There are, however, measures which cannot be put off if orderly government is to be carried on, for example to appropriate money for the public services. The Government will therefore be bringing forward legislation which would re-introduce temporarily procedures for making laws for Northern Ireland by Order in Council on matters within the legislative competence of the Assembly.

32. The temporary legislation will also make the Secretary of State responsible to Parliament for the devolved services.

33. These temporary arrangements will supersede, for the time being, various provisions of the Constitution Act concerned with the legislative functions of the Assembly and the executive functions of Heads of Departments and others. All other provisions of the Constitution Act, such as those dealing with the constitutional status of Northern Ireland, with financial arrangements, with the prevention of discrimination, and with appointments to various offices, will remain in full force and effect. The temporary arrangements will come into operation on the passing into law of the legislation providing for them, and will operate for a period of one year (which may be reduced, or extended for a further period of not more than one year, by order of the Secretary of State, and subject to the approval of Parliament).

34. Initially the Assembly will remain prorogued but the legislation will provide for dissolution on the date of calling a further election for the purposes described in paragraphs 50 to 56 below. On that day the first Northern Ireland Assembly, elected in June 1973, will be dissolved, but the powers necessary to prescribe a date for further Assembly elections, should this be considered desirable, will not be affected.
35. Although Northern Ireland is physically separate from Great Britain, and has had its own political institutions for more than 50 years, its economy is an integral part of the British economy. All parts of the United Kingdom share a common currency, the same external tariff structure and the same taxation systems. Northern Ireland is no different in this respect from Scotland or the North-East of England.

36. But because Northern Ireland has separate political institutions and a separate budget the support given through the public sector to the Province emerges clearly, as is not the case with other parts of the United Kingdom. Until recently the financial relationship was that laid down in the Government of Ireland Act 1920 and in a number of special agreements and arrangements. The arrangements in the Constitution Act of 1973 acknowledge the reality of the situation, namely that public finance in Northern Ireland is worked on an expenditure basis, that is to say that money is provided to the extent necessary to pay for approved programmes of expenditure. Under that Act, all taxes, though not the local rates, in Northern Ireland are levied and collected by the United Kingdom authorities. Northern Ireland's share of tax revenue is handed over to Northern Ireland; the amount to be handed over is calculated by the Treasury under rules which take full account of the fact that tax revenue properly attributable to Northern Ireland may not be collected there. This includes corporation tax on the profits of companies based in Great Britain which operate in Northern Ireland. In calculating Northern Ireland's share no deduction is made for the cost of defence, the diplomatic service or overseas aid; nor for the cost of the Army's operations in Northern Ireland.

37. The expenditure of Northern Ireland Departments, plus expenditure in Northern Ireland by United Kingdom Departments, considerably exceeds Northern Ireland's share of United Kingdom taxation. Expenditure by United Kingdom Departments takes various forms: the Northern Ireland Office meets the cost of the law and order services such as police, courts and prisons; money is paid into the Northern Ireland National Insurance Fund; and various agricultural and food subsidies are paid. In addition, to bridge the gap between receipts and expenditure, there is a direct transfer of funds from the United Kingdom in the form of a grant-in-aid towards the general expenditure of Northern Ireland.

38. The amounts required to supplement Northern Ireland's tax revenue have, in fact, considerably increased in recent years. Excluding loans, the total for 1971–72 was £126 million, for 1972–73 £181 million and for 1973–74 £310 million; and for 1974–75 the estimate is £350 million. Including loans, the corresponding figures are as follows: for 1971–72 £195 million, for 1972–73 £283 million, for 1973–74 £376 million; and for 1974–75 £430 million. In both sets of figures that for 1974–75 is subject to adjustment. A fuller explanation of the financial relationship and of the financial assistance will be published separately at a later date.
39. Within the constraints applicable to public expenditure in the United Kingdom as a whole the underlying principle determining Northern Ireland’s public expenditure programmes, the acceptance of which has led successive United Kingdom Governments to supplement Northern Ireland’s tax revenue, has been that of parity. This has meant that rates of benefit in the cash social services have been the same in Northern Ireland as in Great Britain; that Northern Ireland’s progress towards overall standards of services and welfare as high as those prevailing in Great Britain has not been frustrated through lack of finance; and that Northern Ireland has had industrial incentives greater than those available in the assisted areas of Great Britain to compensate for its relative disadvantages. The principle of parity has brought great benefits to Northern Ireland. While Northern Ireland has been recognised and helped by the United Kingdom Government as a region with economic and development problems as serious as any other in the United Kingdom, it is not the case that uniformly depressed standards of life, service and environment are to be found there. For example, proportionately more houses have been built post-war in Northern Ireland than in Great Britain; there are more doctors and hospital beds per inhabitant; and there is almost 10 times as good a chance of a place in a Government Training Centre as in Great Britain.

40. Nevertheless there are still gaps in standards of living, employment, housing and social conditions between Northern Ireland and Great Britain. The present Government is concerned with the welfare of those United Kingdom citizens who live in Northern Ireland. It wishes to make further progress towards closing these gaps, but it has to be appreciated that events in Northern Ireland itself, not least any resumption of industrial action for political ends, could frustrate that intention. The willingness of the Westminster Parliament responsible to the United Kingdom electorate as a whole to transfer additional money to Northern Ireland and to continue to invest resources in Northern Ireland will inevitably be affected by the progress of events there.
41. The Downing Street Declaration of August 1969 stated:

"the United Kingdom Government have ultimate responsibility for the protection of those who live in Northern Ireland when, as in the past week, a breakdown of law and order has occurred. In this spirit, the United Kingdom Government responded to the request of the Northern Ireland Government for military assistance in Londonderry and Belfast in order to restore law and order. They emphasise again that troops will be withdrawn when law and order has been restored.

"The Northern Ireland Government have been informed that troops have been provided on a temporary basis in accordance with the United Kingdom’s ultimate responsibility."

As long as the United Kingdom has ultimate responsibility for the government of Northern Ireland, its consequential responsibility for the protection of those who live there is inescapable.

42. The “temporary basis” has continued for almost five years. The burden upon the Army is heavy. It has responded magnificently. The nature of the present conflict is, however, very different from 1969. The problem now is essentially that of dealing with relatively small numbers of ruthless and vicious killers and bombers who care nothing for human life or human rights. The Army has in consequence had to respond and to change its tactics to deal with this threat. The Army cannot, however, replace the Police, nor should it be asked to be a substitute. The effectiveness of any Police Service stems from the fact that its lives within the community which it serves and draws its strength and support from that community. The community knows it and it knows the community. The people of Northern Ireland can make an essential contribution to ending violence, not by seeking to take the law into their own hands, but by showing their determination to create a just and stable society and by accepting and supporting the Police Service. Nothing would transform the security situation more quickly than a determination by the whole community to support the Police Service and co-operate with it. This is not happening. If it did take place it would also have a fundamental effect on the need for Emergency Powers in Northern Ireland, including detention, the operation of which is currently being examined by the committee sitting under the chairmanship of Lord Gardiner. It would also enable the Army to make a planned, orderly and progressive reduction in its present commitment and subsequently there would be no need for the Army to become involved again in a policing role. This is the aim of the Government and must be the wish, of the overwhelming majority of the people in Northern Ireland and elsewhere.

43. Political progress will help to produce a constitution in which the community will positively support the Police Service but peace, law and order are
not bargaining counters, nor are they matters for indifference; they concern the very fabric of society. The Government welcomes the holding of discussions within various groups in the community which have extended towards establishing peace and withdrawal from violence. It would equally welcome such discussions being extended throughout the whole community on a wider basis provided that the aim is equal security for all.
44. Since the fall of the Executive the Secretary of State for Northern Ireland has had extensive discussions with political leaders, with leaders from many other walks of life, and with representatives from a number of groups and interests. It is clear from these discussions that many people would welcome the chance of seeing whether they could resolve the problems of Northern Ireland themselves. The people of Northern Ireland must play a crucial part in determining their own future. No political structure can endure without their support and no just and stable society can be created without their full participation. Political structures should not be confused with political relationships. If the Northern Ireland community can reach a broad consensus of agreement any one of a number of possible patterns of government might well be workable. If agreement is not reached, the troubles in Northern Ireland will not only remain but could intensify. No one will be able to turn this defeat into a victory. That is reality.

45. It is only part of the reality which must also include recognition of a number of facts:

(a) the people of Northern Ireland are only a small fraction of the total population of the United Kingdom. Citizenship of the United Kingdom confers not only rights and privileges but also obligations. Any pattern of government must be acceptable to the people of the United Kingdom as a whole and to Parliament at Westminster. The part is not greater than the whole;

(b) Northern Ireland, unlike the rest of the United Kingdom, shares a common land frontier and a unique relationship with another country, the Republic of Ireland. Any political arrangements must recognise and provide for this unique relationship. There is an Irish dimension;

(c) history has caused divisions within the Northern Ireland community. Events of the past few years have amply demonstrated that no part of that community can, let alone should, be coerced into accepting the others’ view. Events have also shown that a consensus can be obtained on the basis of serving the interests of the whole community. There must be some form of power-sharing and partnership because no political system will survive, or be supported, unless there is widespread acceptance of it within the community. There must be participation by the whole community.

46. It would be premature at this stage to say that the approach embodied in the Constitution Act 1973 is untenable. Indeed, much of the content of that Act is not a matter for dispute. What is apparent is that there is little prospect of forming from the present Northern Ireland Assembly another Executive which meets the terms of that Act.
47. The temporary arrangements for the government of Northern Ireland outlined in paragraphs 31 to 33 offer no permanent solution. The Government believes it would now be right, as a first stage in further consideration of Northern Ireland's future, to provide a forum in which elected representatives of the people of Northern Ireland may have the widest possible discussions with the aim of determining what measure of agreement can be reached among themselves. No possible solution need be excluded from such discussions but any proposed solution must recognise the realities outlined above. Moreover, a majority does not have the right to impose its will in all circumstances; nor does a minority have any absolute right to veto. For its part the Government must weigh respect for majorities and protection for minorities.

48. The Government continues to believe that the best and most desirable basis for political progress in Northern Ireland would be the establishment of local institutions enjoying broadly-based support throughout the community. It has always been recognised that there is no means to impose such a system upon Northern Ireland if substantial sections of its population are determined to oppose it. Indeed, the final paragraph of the White Paper of March 1973 (Cmnd 5259) included these words:

"These, then, are the Government's proposals to Parliament, to the country, and above all to the people of Northern Ireland themselves for a way forward out of the present violence and instability. At every point, they require the co-operation of these people themselves if they are to have any prospect of success. They can be frustrated if interests in Northern Ireland refuse to allow them to be tried or if any section of the community is determined to impose its will on another."

49. Local institutions in Northern Ireland cannot be established on a basis unacceptable to broad sections of opinion there; equally they cannot be established on a basis unacceptable to the United Kingdom as a whole or to Parliament as representing it. Any system which results in the permanent exclusion from any real and substantial influence in public affairs of a whole section of the community is inherently unstable and would be unacceptable to Her Majesty's Government.

50. Against this background the Government proposes to introduce legislation for the election of a Constitutional Convention, to consider what provisions for the government of Northern Ireland would be likely to command the most widespread acceptance throughout the community there.

51. The legislation will provide for the convention to be based upon the constituencies and the methods of election prescribed by the Northern Ireland Assembly Act 1973. It will accordingly consist of 78 members, elected on a multi-member basis from the 12 Parliamentary constituencies in Northern Ireland by the Single Transferable Vote system.

52. The Convention will be required to make a report or reports on its conclusions which will be laid before Parliament. It will be dissolved on the date
of laying its final report, or six months from the date of its first meeting, whichever is the earlier; but the dissolution may be postponed or further postponed by order subject to Parliamentary control for periods not exceeding three months at a time. Provision will also be made for re-convening the Convention within six months of its dissolution, if it appears desirable that any matter should be considered or further considered.

53. The Government propose that there should be an independent Chairman of the Convention, a person of high standing and impartiality closely associated with Northern Ireland by birth or other connections. He will not be a member of the Convention. The appointment will be made by Her Majesty the Queen. Provision will be made for him to have any necessary supporting staff, who would also be available to assist any group or groups of members of the Convention if this was so desired. It will of course be open to any member or group in the Convention to obtain other advice from any quarter they wish.

54. The intention is that the Convention will be entirely a forum for elected representatives of the people of Northern Ireland. The Government will play no part in its proceedings but will, of course, be willing to make available factual information and to assist the Convention in any way which is likely to bring its deliberations to a successful conclusion.

55. In the event of the Convention producing recommendations which command majority and widespread support from its members the Government will give the most serious consideration to them. In any event it may prove to be desirable for the Government to test directly the opinion of the Northern Ireland electorate on their attitude to particular or to alternative proposals before any course is recommended to Parliament. The proposed legislation will therefore make provision for the Secretary of State to direct the holding of a referendum or referenda on questions arising out of the work of the Convention.

56. In short, the Government proposes that the following steps should be taken in order to allow the fullest discussion of the future.

(a) temporary arrangements to be made for the government of Northern Ireland

(b) A consultative Northern Ireland Constitutional Convention to be elected, to consider what provisions for the Government of Northern Ireland would be likely to command the most widespread acceptance throughout the community there;

(c) The Convention to have an independent Chairman and 78 members elected under the Single Transferable Vote procedure;

(d) The Government to lay the Convention's Report before Parliament and also the results of any referendum.

This course offers the people of Northern Ireland every opportunity to take the lead in shaping their own future in accordance with the realities described earlier.
57. It has become clear during recent discussions in Northern Ireland that many people will welcome an opportunity of this kind. This belief has been strengthened by a new awareness in the Protestant and Catholic working class of their real interests and by their wish to play a real part in political activity. It is clear that adequate time for preparation is needed. Indeed, in recent months, various groups within the Northern Ireland community have shown an increased desire to participate in the political processes and a growing belief that they can best find for themselves political relationships which will be acceptable to them. The Government believes it essential that participation in these processes should take place not only between like-minded groups, but equally between groups which hold apparently strongly opposed views. Some time is required for political groupings to emerge and develop, to engage in discussion with other parties and interests, and to clarify but not foreclose their positions. The Government considers that this process of discussion and consultation is a necessary preliminary to the holding of the election of members to the Constitutional Convention. It would not, therefore, propose to hold an immediate or early election and would aim to give about four weeks' notice of an election. In the meantime Her Majesty's Government would hope that the process of discussion and consultation leading to an election to the Convention would develop on as wide a basis as possible.

58. Her Majesty's Government believe that these proposals offer a new opportunity to all the people of Northern Ireland to contribute directly, and in their own way, to the solution of their own problems. The need is for a joint and stable society. It can be achieved by the people of Northern Ireland with their awareness of the realities of the situation. Failure will bring defeat to all. Success will bring the only real victory.
CABINET

NORTH SEA OIL POLICY: DRAFT STATEMENT

Memorandum by the Secretary of State for Energy

1. I attach for the agreement of my colleagues the statement I propose to make in Parliament at an early date about North Sea Policy. It has already been discussed in Energy Committee, and incorporates the Committee's comments.

2. We should consider the timing of the statement. It is essential to make it before the start of the Recess. But I should advise against a statement this week unless there are overwhelming political reasons for it. This is because:

   a. We want to minimise the chances of a debate before the Recess. The attitude of the other Parties is uncertain. If we were defeated, it would make renegotiation more difficult. Even if we were not we should be under some pressure to define our attitude to renegotiation in more detail than would be tactically wise. Although I can see political advantages in having a debate and even being defeated.

   b. The presentation of these proposals to the companies and foreign Governments is very important. It can make all the difference to success or failure in the renegotiation, and we must prepare it properly. We should for example tell the United States Administration, whose attitude will be crucial, a reasonable time before the statement is made.

   c. I should not be able to consult BP, as I have undertaken to do: to inform them the day before the announcement would not discharge this obligation.

3. I should therefore prefer to postpone a statement until after this week. Its exact timing after that should depend upon Parliamentary and political considerations at the time.

EGV

Department of Energy

1 July 1974
The Labour Party election manifesto expressed "Labour determination to ensure not only that the North Sea and Celtic Sea oil and gas resources are in full public ownership, but that the operation of getting and distributing them is under full Government control with majority public participation". We also made it clear in the Gracious Speech that it was our intention to ensure that as a result of the exploitation of these resources maximum benefit is conferred on the community, and particularly on Scotland and the regions elsewhere — such as Wales, which is well-placed to benefit from any Celtic Sea discoveries — in need of development. The statement I am about to make deals with the steps we are to take to implement the first of these undertakings. My Rt Hon Friend the Secretary of State for Scotland will shortly be announcing special measures designed to benefit Scotland.

Britain's oil is of course already publicly owned. That was carried out by the last Conservative Government but one under the Continental Shelf Act (1964). It was therefore our task to work out a new structure and taxation arrangements which would combine our manifesto commitment with an assurance to the oil companies about the substantial role that would remain to them.

Accordingly, immediately on taking office the Government began a fundamental review of our Continental Shelf policy. This review is now largely complete and I thought it right to let the House know straight away of our main conclusions. We have of course had very much in mind the excellent report by the Public Accounts Committee under the Chairmanship of my Rt Hon Friend the Paymaster-General, and the many representations which we have received from all interested parties since we came into office.

The House will know of the new forecasts of oil production published by the Government in May. We now expect our oil production to reach 100-140m tons in 1980 and 100-150m tons, or even more, throughout the 1980s. During the past year, the world price of oil has more than quadrupled: the f.o.b. price of Middle Eastern oil, a year ago about £2 a barrel, is now £9-10. If prices remain high and with the high production now expected, profits on our offshore oil will be enormous. By 1980 we expect annual pre-tax profits, assuming the current price of oil continues, and on a realistic estimate of output, to total over £3,000 million. It might be substantially more. Under present arrangements, tax and royalty would take a relatively small proportion of profits in the early years, and would never take much more than half. The result is that North Sea licensees would reap enormous and uncovenanted profits on their investment. A half or more of the post-tax profits are likely to be remitted overseas; by 1980 the cost of such remittances to our balance of payments could under present arrangements approach, or indeed exceed, £1,000 million annually.

This shows that an intolerable situation would arise. Prominent leaders in the oil industry themselves accept that a more equitable arrangement is essential. It also shows how much is at stake in developing this major natural resource for the benefit of the nation. This is what the Government intend to do. We have two objectives:

- to secure a fairer share of profits for the nation and to maximise the gain to the balance of payments. This must mean
a big increase in Government revenue from our Continental Shelf. On the other hand, the oil companies must have a suitable return on their capital investment; we recognise that the costs of exploration and development have been very heavy.

- to assert greater public control - essential if we are to safeguard the national interest in an important resource, a resource which belongs to the nation.

To achieve these objectives, the Government intend to take action under five heads.

First, we shall propose legislation in an early Finance Bill to impose an additional tax on the companies' profits from the Continental Shelf and to close various loopholes in the rules governing existing taxation on their profits. My Rt Hon Friend the Paymaster-General will make a statement on the Corporation Tax aspects immediately following my statement.

Secondly, we shall make it a condition of future licences that the licensees shall, if the Government so requires, grant majority participation to the State in all fields discovered under those licences. This will broadly follow the "carried interest" pattern successfully developed in Norway.

Thirdly, it is our belief that majority State participation in the existing licences for commercial fields provides the best means for the nation to share fully in the benefits of North Sea oil without unfairness to the licensees since the State contributes its share of the costs. Certainly this is the solution adopted with the consent of the oil companies in almost every other major oil and gas producing country in the world, not only those in the Middle East. Indeed, as the participation of the National Coal Board and British Gas shows, public sector participation has worked successfully in the British Shelf, without injury to oil company interests. I hope that the companies will recognise the strength of our views on this. We want the oil companies to continue to invest in the North Sea on profitable terms. We shall be very ready to listen to what they say and consider with them how our common interests can best be served. I am sure the industry will want to put to us their views at the earliest possible moment and to enter into talks with us on this basis and I shall be inviting them to do so shortly.

Fourthly, we shall set up a British National Oil Corporation through which the Government will exercise its participation rights. This Corporation will represent the Government in the present consortia and also build up a powerful supervisory staff expertise that will enable it to play an active part in the future development, exploration and exploitation of the Continental Shelf. It will also have powers extending to the refining and distribution of oil. The main office of the BNOC will be in Scotland.

Fifthly, we shall extend our powers to control physical production and pipelines. Experience has shown that there are many weaknesses in our present system. We shall, therefore, for current as well as future licences take power to control the level of production in the national interest. This does not effect our determination to build up production as quickly as possible over the next few years. The question of reducing the rate of depletion is unlikely to arise during this decade but we believe that we should take the necessary powers now. We shall
also take powers to receive royalty in kind, and to remit royalty in
certain circumstances; to control the development of undersea pipe-
lines, in the same way as we do on land; introduce tighter powers
over exploration and development; and require licensees to provide
more information about their activities than is now obligatory. All
these new proposed powers, together with existing powers, will enable
us also to ensure that proper precautions are taken to protect the
environment.

We shall be discussing the detailed implementation of these and other
changes with the companies.

We intend to bring legislation on these matters, and on the establish­
ment of a British National Oil Corporation, before Parliament as soon
as possible.

There are other matters which we are still considering, for example
how the new arrangements will apply to gas, but the House will wish to
know the decisions we have reached so far.

These are comprehensive and far-reaching proposals. They show the
Government's determination to act, and act quickly, to ensure that we
get full national benefit from our newly-discovered wealth. The oil
companies are fully aware that the present system could not continue
and will welcome the end of uncertainty which has hung over this
operation for two years now. I am confident that they will be ready
to join with us in working out a new structure which they know will be
durable because it will be accepted by the people of Britain.

DEPARTMENT OF ENERGY
1 July 1974
CABINET

NUCLEAR REACTOR POLICY

Note by the Secretary of State for Energy

1. Following the Cabinet's discussion of the choice of nuclear reactor systems on 13 June (CC(74) 19th Conclusions, Minute 5), I attach a draft of the White Paper which I propose to issue with a statement in Parliament in more or less identical terms.

2. Subject to consultation with the Lord President of the Council and Lord Privy Seal on timing, my aim is to make the statement during the second week of July and to attach to the White Paper the report of the Nuclear Power Advisory Board, the draft of which is currently being cleared with the members of the Board.

3. I am currently holding confidential discussions on our decision with the main nuclear interests and will report the outcome orally to the Cabinet.

4. I invite the Cabinet to approve -

a. the draft White Paper;

b. the procedure for announcement and publication outlined above.

E V

Department of Energy

1 July 1974
NUCLEAR REACTOR SYSTEMS FOR ELECTRICITY GENERATION

1 This White Paper sets out the Government's policy on nuclear reactor systems.

2 The Government have taken account of the report by the Select Committee on Science and Technology (House of Commons Paper 445 73 i-vii Session 1973-4). This White Paper forms their reply.

3 The Government have had advice from the Nuclear Power Advisory Board (NPAB). The Secretary of State for Energy has agreed with the NPAB that their advice should be published. It is set out as an Annex to this White Paper. The NPAB's working papers must remain confidential.

4 The Secretary of State for Energy has had wide discussions with the organisations represented on the NPAB, reactor component manufacturers, trade union and staff association representatives and organisations concerned with conservation and the environment.

NEXT NUCLEAR ORDERS

5 The Government have decided that the Electricity Boards should adopt the pressure tube Steam Generating Heavy Water Reactor (SGHWR) for their next nuclear power station orders.

6 The SGHWR offers substantial advantages. In the Government's judgement it will provide power reliably and we can proceed to order it quickly. We must maintain public confidence in nuclear power. The Chief Inspector of Nuclear Installations advises that there should be no fundamental difficulties in giving SGHWR safety clearance. Reliability and the confidence we can have in a system are more important to our electricity supplies than a narrow calculation of capital costs. SGHWR offers particular scope for British nuclear technology and we should exploit it. The 100 megawatt (MW) prototype at Winfrith has now been operating successfully for 5 years and is designed to reproduce the operating conditions of a commercial unit. Canadian experience with their commercial heavy water pressure tube system - CANDU - is also successful at a reactor size of about 500 MW.

7 It is for these reasons that the Government believe SGHWR is the right system for the UK to pursue. We shall be moving forward from a prototype to a commercial size and design. While we are gaining experience, it therefore seems sensible for us to start with reactor units of 600-660 MW rather than a larger size so as to reduce the problems of scaling-up; also for the initial programme to be relatively modest - not more than 4000 MW over the next 4 years. The Government are asking the Central Electricity Generating Board and the Scottish Boards to set preparatory work in hand jointly. A first order for a 2 x 660 MW station will be placed as soon as possible.

8 After the initial programme the aim should be to build up orders as rapidly as progress allows. For this we shall need to establish a strong industrial capability. It is important that industry and the people working in it should have sufficient confidence in the
development of the programme to invest in skills and facilities. The initial orders will provide a sound base for the future.

Co-operation with Canada

9. Both the British and Canadian Governments see great advantage in co-operation, covering the technology and supply of heavy water, reactor R & D and the design and manufacture of components. In particular the Canadian authorities have provided assurances on the supply of heavy water for our first stations. At a later stage we expect to construct our own heavy water plant. UK nuclear organisations and the Electricity Boards will be discussing co-operation with their Canadian counterparts at the earliest possible opportunity.

OTHER SYSTEMS

10. Our first commitment to the future must be the success of SGHWR. On the other systems the Government's policy is as follows:

Magnox

11. The Government accept the advice of the NPAB that Magnox, despite its generally good operation, would not be suitable for a major new programme. This could detract from our main effort for the future.

Advanced Gas-cooled Reactor (AGR)

12. It is essential to complete the AGR programme satisfactorily. But the system has yet to provide operating experience to offset the problems encountered in construction. The Government accept the NPAB's advice that it would be unwise to place further orders for AGR before evidence of successful operation.

High Temperature Reactor (HTR)

13. The Government are asking the nuclear organisations to pursue further the prospects of participating in international development of HTR. The system has considerable potential. Our experience of gas-cooled technology would be of great value to its international development. But HTR is not suitable for the Electricity Boards' main programmes at this time. Further, the Government accept the advice of the NPAB that we do not have the resources for a substantial effort on HTR, while we are launching SGHWR and completing the AGRs. In particular an immediate demonstration order is not practicable. Participation in an international programme could lead to orders in the UK in the future if we so wish.

Light Water Reactor (LWR)

14. The Government are not prepared to authorise any commitment to LWR. This does not imply any judgement about the validity of the technical doubts expressed by some on safety. The Government have asked the Nuclear Installations Inspectorate to carry through to conclusions their examination of the generic safety issues.

Fast Reactor

15. The Government will maintain our effort on the Fast Reactor on which we are in the forefront of technology. The 250 MW prototype at Dounreay is now being brought to full power. The Government are
asking the nuclear organisations to pursue urgently the prospects for further international co-operation, covering development and the start of commercial ordering. Work on safety will be particularly important.

Fossil Orders

16. The present decision will dictate the pattern of nuclear and fossil ordering over the next 3-4 years. For reasons of prudence we must limit the initial programme of SGHWR and shall need to meet the balance of our further requirements during this period with new fossil plant. But we are fortunately placed with major fossil reserves. The Government will take decisions on the capital investment for new fossil stations progressively, depending on load growth.

17. In the later 1970s our nuclear options should widen. We should in particular be able to step up the SGHWR programme given satisfactory initial experience of construction.

Management of radioactive waste

18. Public confidence in nuclear power will depend not only on the safety of the systems we build. We shall have to keep very careful watch over the environmental implications of radioactive wastes. The Royal Commission on Environmental Pollution are examining these and related issues. The Government will consider with care any recommendations they make.

19. The Government Inspectorates concerned at present believe it unlikely that the accumulation and storage of wastes need restrain our planned nuclear power programme.

Implementing policy

20. The Government are discussing with the Electricity Boards and the nuclear industry the detailed implementation of their policy.

21. Discussions on reactor policy have been prolonged. Strong views and positions have naturally developed. But the period of uncertainty is now over. The Government's decision offers the prospects of a further - publicly acceptable - development of nuclear power in the UK. It is important that all concerned should work together to make a success of our nuclear programme.

July 1974
2 July 1974

CABINET

GOVERNMENT STATEMENT ON COLLECTIVE BARGAINING
AFTER THE ABOLITION OF PAY CONTROLS

Memorandum by the Secretary of State for Employment

1. I was invited (CC(74) 20th Conclusions, Minute 2) to circulate for clearance by my Cabinet colleagues a revised draft of the Government statement to be made when the draft Order to abolish the statutory pay controls is laid before Parliament. The attached draft takes account of comments from my colleagues on the earlier version, which has been shortened to the form of an oral statement, rather than a White Paper. The main changes have been to omit the rehearsal of measures already taken by the Government under the social contract, and the section on the economic outlook which is less appropriate for an oral statement by me.

2. The draft is still rather too long for an oral statement and also lacking in new substance. My present view therefore is that a statement on these lines would be better made during the debate on the draft Order later this month, rather than as a statement when the Order is laid. This later timing would also make it possible for the statement to follow rather than precede the proposed announcement by the Secretary of State for Prices and Consumer Protection of the arrangements for her review of the Price Code.

3. The draft Order is to be laid as soon as the Prices Bill receives Royal Assent - on present plans on or about Monday 8 July. It could be debated in both Houses about a week to ten days later, subject to intervening consideration by the Joint Committee on Delegated Legislation. This timing could slip by several days if we were to run into difficulties with the Prices Bill in the Lords, and I very much hope we can avoid this.

4. I therefore seek my colleagues' approval to speak on the lines of the attached draft during the Commons debate on the draft Order, hopefully in the week commencing 15 July. A similar statement would be made in the Lords debate.

M F

Department of Employment
2 July 1974
I wish to make a statement on the preparations the Government has been making for the abolition of compulsory pay controls. A draft Order under the Prices Bill has now been laid for this purpose, and subject to its approval by both Houses, the statutory controls will have disappeared before the end of this month.

TRANSITION TO VOLUNTARY SYSTEM

In the interests of securing an orderly transition to a voluntary system we have tried, within the limits imposed by the Counter-Inflation Act, to mitigate the worst of the anomalies to which the pay controls have given rise. Consents have been issued in a number of cases. Special reviews have been set up for the nurses and teachers; and negotiations have been allowed to proceed for Post Office workers and, in the light of the Pay Board report on London Weighting, to deal with the special circumstances of those on national rates of pay who are working in London. The long-standing problems of railway and London Transport pay will also have to be resolved following the current arbitrations.

With arrangements made for these particularly hard cases, the Government look to other people not to re-open settlements but to abide by the guidance given by the General Council of the TUC that the 12 month interval before major increases should generally be maintained. Unless it is, all our policies within the social contract on rents, food subsidies, pensions and the rest, will be in jeopardy and we would lose any chance of bringing the intolerable rate of inflation under control. As to those who suggest this might lead to a new freeze, I would ask how they would deal with all the fresh anomalies to which that would give rise. A freeze is not a solution and I say there is a better way.

Certainly we must avoid a general wage explosion. However, resumption of voluntary collective bargaining should better enable employers and unions to make settlements suited to their circumstances and conducive to the increase of output and efficiency. Within the framework of this system and to help it work more effectively we propose to establish two new institutions: the Conciliation and Arbitration Service and the Royal Commission on the Distribution of Income and Wealth.

CONCILIATION AND ARBITRATION SERVICE

The Conciliation and Arbitration Service will be managed and developed by an independent Council, including representatives of the TUC and CBI. It will provide conciliation and arbitration services which are freely and readily available both nationally and locally and it will seek to develop and improve collective
bargaining machinery. Both the TUC and CBI have welcomed the creation of such a service and have agreed to give it their full support. Arrangements for its establishment are well advanced and the Government aim to have it in full operation by 1 September under the chairmanship of

ROYAL COMMISSION

The Royal Commission has a different role. The Government are determined to help create a fairer society and as a first step towards this we need to establish in a much more thorough and comprehensive way than has been attempted hitherto, the facts about the distribution of incomes and wealth of all kinds—earned and unearned. The Government envisage the Royal Commission ranging over the whole field, on the basis of references made to it by the Government, producing reports of a factual nature which will assist and inform policy makers and those who are active in collective bargaining. The Commission will thus have a wide educational and indicative function. The Government intend to set it up at about the same time as the pay controls are abolished, under the chairmanship of

TUC RESPONSE

With the restoration of voluntary collective bargaining in sight the General Council on 26 June issued their report on Collective Bargaining and the Social Contract giving guidance for union negotiators for the period after the abolition of statutory controls. We warmly welcome this constructive response by the TUC to the measures already taken by the Government.

In this report, the TUC recognise that although the groundwork is being laid for increasing consumption and living standards in the future, the scope for real increases in consumption at present is limited, and a central negotiating objective in the coming period will therefore be to ensure that real incomes are maintained. They suggest this will entail claiming compensation for the rise in the cost of living since the last settlement, taking into account that threshold agreements will already have given some compensation for current price increases. Alternatively, they suggest negotiating arrangements to keep up with the cost of living during the period of the new agreement. They stress that it is important that the twelve month interval between major increases should in general continue to apply. Within these central aims, they recommend that priority should be given to negotiating agreements which will have beneficial effects on unit costs and efficiency, to reforming outdated pay structures, to improving job security and non-wage benefits, to eliminating discrimination against particular groups (for example by equal pay) and to attaining reasonable minimum standards, including the target of a £25 minimum weekly rate.
The General Council say they will be keeping the situation under review, and will expect unions who have difficulty in conforming to the spirit of this policy to inform the General Council of the circumstances and to seek their advice, or to respond to an invitation to discuss the situation with them.

THE GOVERNMENT'S POSITION

However, it is not possible to retain the proper balance in the TUC's statement in a short summary. I invite Members to read it as a whole. The Government welcome it as an extremely important statement responding to the requirements of the national situation in a clear and helpful fashion.

The CBI have issued no statement but I understand that they have welcomed much of what the TUC have said and, in general, the abolition of pay controls. They have pressed only for the retention of the 12 month rule on a statutory basis. But I have to say to them that, while everyone is agreed that the 12 month rule should continue to apply, and the TUC have given it particular emphasis in their recommendations, it would be quite out of the question to retain the Pay Board and the whole apparatus of pay control, simply on this one point.

We recognise that the TUC guidance applies equally to the public and to the private sector and there must be no discrimination. As an employer, the Government will seek to reach responsible settlements along similar lines through the existing procedures for determining public service pay.

On the particular question of equal pay, it is necessary to remember that the Equal Pay Act - introduced by an earlier Labour administration - will come into force in December 1975. Every agreement or pay structure must meet the requirements of the Act by that date. So all concerned with pay determination should bear in mind the need to make steady and orderly progress towards full implementation of equal pay by the end of next year.

For months, even years past, the rate of inflation facing us has presented grave dangers and growing tensions; yet to attempt to curb it too crudely or dramatically could produce mass unemployment. In the presence of these perils, coupled with the huge gap in the balance of payments and the urgent demand for more exports and investment, there can be no room in the year ahead for a general improvement in the standard of life. Even with the measures for the fairer distribution of the national wealth which this Government is determined to pursue, it will take great exertion and intelligent co-operation throughout the whole community to prevent the standard of life from falling and to ensure that the poorest are not hit hardest by the inflation. It is necessary to state these facts in order to be able to grapple with them.
CONFIDENTIAL

However, the removal of the pay controls and a return to a system of consent is not a negative measure. This is something progressive employers no less than the unions have wanted, and it can play a major part in enabling us to increase production, avoid industrial disputes, restore genuine collective bargaining and generally unleash anew the democratic vigour of our society.
1. The Ministerial Committee on Economic Policy recently discussed possible changes to assisted area boundaries, on the basis of the attached report by officials on proposals put forward to the Committee by the Secretaries of State for Industry and for Wales. Officials had recommended that no changes should be made for the present, but that the matter should be looked at again towards the end of the year in the light of decisions on steel closures and of possible changes in the regional employment pattern.

2. It was generally acknowledged during the Committee's discussion that there was a strong case for a fundamental review of assisted area policy at an appropriate time. But the Committee were divided on whether or not there should be some immediate changes in advance of such a review. Those who favoured immediate changes considered that the package should include the following 5 areas:

- Merseyside
- North West Wales
- Edinburgh
- Cardiff travel-to-work area (excluding Newport)
- Chesterfield

If this package were adopted, the upgrading of Merseyside could affect Shotton, but a decision on the latter's status would need to await the outcome of the review of steel closures.

3. The following arguments were advanced in favour of immediate changes:

   a. Each of the proposed upgradings could be justified on merits, since in each case the rate of unemployment, either male or total, was worse than in similarly graded areas.
b. There would be clear political advantage to the Government in demonstrating its concern for these areas.

c. The cost to public expenditure would be relatively low (up to £20 million a year for the changes listed in paragraph 2).

4. Against this, there were the following arguments:

a. Upgradings without compensating downgradings would further dilute the effectiveness of regional policy aids, and make it harder to conduct a more fundamental review of regional policy. Each upgrading of one area tends to diminish the relative attractiveness of another.

b. The extra incentives that would be provided by the proposed upgradings would have little short-term impact on employment in those areas.

c. Because of the constraints on public expenditure as a whole, additional expenditure on assistance to these areas would inevitably reduce the scope for other expenditure.

5. I invite the Cabinet to consider whether or not changes to assisted areas should be made on the lines set out in paragraph 2.

D H

Treasury Chambers
9 July 1974
POSSIBLE CHANGES TO ASSISTED AREA BOUNDARIES
REPORT BY OFFICIAL COMMITTEE ON REGIONAL POLICY

INTRODUCTION

1. At their meeting on 13 May the Ministerial Committee on Economic Policy instructed the Official Committee to re-examine, on the lines indicated by the Chancellor of the Exchequer, the upgradings of certain assisted areas which had been proposed in memoranda by the Secretary of State for Industry and the Secretary of State for Wales, and to report to the Ministerial Committee by mid-June. (EC(74) second meeting item 2, EC(74)6 and 7). The re-examination should take account of the points made at the meeting, including the possible repercussions on other areas and the progress made in the review of steel closures.

BACKGROUND

2. The powers to specify an area as a development or an intermediate area lie in Section 1(1) of the Local Employment Act 1972 (as amended) and those to designate a special development area in Section 1(4) of the Industry Act 1972. In exercising these powers the Secretary of State is to have regard to all the circumstances actual and expected, including the state of employment and unemployment, population changes, migration and the objectives of regional policies. The coverage of the assisted areas is shown in the map at Annex A.

3. Under the Industry Act regional development grants are payable in special development and development areas in respect of capital expenditure on industrial buildings and plant at rates of 22% and 20% respectively; regional development grants are also payable in intermediate areas at the rate of 20% in respect of expenditure on buildings only (generally much the smaller part of total cost). These grants are automatic, but in addition the Secretary of State has very wide powers under the Act to give selective assistance to projects in all categories of assisted area which are likely to provide or maintain employment. Regional employment premium is payable in special development and development areas at the rate of £1.50 weekly for every adult male employed in manufacturing industry, with reduced rates for other categories of worker.

4. Two points stand out. The first is that it is the change from intermediate area to development area status which confers the major benefits and is correspondingly the most expensive to the Exchequer; only limited assistance is given automatically in intermediate areas, while upgrading from development area to
special development area merely increases the rate of regional development grant by 2%. The second point is that selective assistance provides a powerful and flexible instrument which is particularly appropriate for dealing with the specific problems of difficult areas.

**GENERAL CONSIDERATIONS**

5. The present classification of areas has remained unchanged since the major review of March 1972 and is therefore related to the economic situation as it was then seen. In the past two years unemployment in Great Britain has fallen by over a third; all parts of the country have shared in the improvement, though in varying degrees. The present pattern of unassisted, intermediate, development and special development areas is not necessarily therefore what would be recomended if the system were being set up de novo at the present time. There are obvious anomalies, with areas with relatively high unemployment and poor prospects being less favourably treated than others which are faring better.

6. Nevertheless there are substantial arguments against over-frequent changes, Incentives lose their persuasive effect unless industrialists feel that they can rely on a reasonable measure of stability. This was recognised in the previous Administration's undertaking (in their March 1972 White Paper*) to maintain the system until 1978, and again in the recent statement by the Minister for Industry. The main problem would be downgrading; there could be charges of breach of faith from industrialists who had embarked on schemes in the expectation that the later stages would enjoy the same assistance as the earlier. Consequently though it would be reasonable in present circumstances to expect that any upgradings could be matched by the downgrading of areas no longer in the same need of assistance, in practice substantial period of notice would have to be given of downgradings. This would defer any saving to the Exchequer.

7. If, however, because of this difficulty changes are limited to upgradings, this is bound to dilute the effectiveness of the incentives offered at the same time as it increases the cost to the Exchequer. Extending the assisted areas, although it may stimulate the development of local industry, will not add to the total amount of mobile industry available in the country as a whole; it will merely alter its distribution. In the main one area's gain will be another's loss, and this is likely to be particularly marked if the extensions are large in relation to the size of the existing category; at present SDAs contain just over 9% of the employment population but this would rise to 12% if Merseyside were added. Again DAs and *Industrial and Regional Development, Cmnd 4942.
together include 21% of the employee population, but if all the upgradings now proposed were implemented the proportion would become 24%. Upgrading of one area must also be expected to have a shadow effect on neighbouring areas and to generate pressure from them for further changes, in addition to pressures from areas which consider their case for upgrading to be at least as strong as those of the areas selected. Given the variety of factors on which decisions about assisted area status depend, it is seldom possible to prove conclusively that one area deserves selection while another does not; and it is particularly difficult to do so when circumstances have changed so much since the system was established. Steps taken to remedy one set of anomalies may create another.

8. The question which needs to be asked when examining the proposals for change is, therefore, not so much whether they are justified in themselves as whether the case for them is so pressing as to outweigh the general arguments against any change. The present map of the assisted areas was deliberately drawn on very broad lines, reflecting the circumstances of regions and sub-regions rather than individual localities; changes which produced islands of one category in the middle of areas of a different category would be inconsistent with this policy. On the other hand major changes ought to be preceded by a fundamental review. At the present time pressure for change does not seem to us such as to make some sort of revision inevitable.

Timing

9. There are three factors which suggest that Ministers would be better placed to take decisions on regional strategy towards the end of the year. The first is that the general direction of the economy should then be clearer; if rising unemployment were in prospect this might point to different conclusions than would seem appropriate on the basis of recent trends. Second, this would make it possible to take the decisions when more is known about the proposals for the new Industry Bill and, if desired, to announce them as part of a single strategy. Third, it is hoped that the review of the British Steel Corporation's programme of closures will have been completed by November, thus providing a further basis of fact on which to take decisions; it might also be possible to link the two sets of announcements.

EEC Aspects

10. The upgrading of unassisted areas to intermediate areas should not cause concern to the Commission since it would not disturb their classification as central areas; and reclassification of DAs as SIMDs seems unlikely to be controversial. Reclassification of intermediate areas as development areas would, however, need careful handling in the Community, though where this can be presented as remedying a serious
anomaly (as with Edinburgh) there seems no reason to suppose that either the Commission or our partners would create difficulties. The Commission have indicated that they would be sympathetic to proposals to increase assistance in the case of areas affected by steel closures; though there might be more resistance on their part to proposals to grant DA status for the whole of SE and NE Wales. However, the UK Government have made clear that one of their important negotiating objects is to secure the adoption of rules flexible enough to allow the pursuit of the regional policies they consider necessary.

CONSIDERATION OF PARTICULAR AREAS

11. We have re-examined the case for the upgradings proposed by the Secretaries of State for Industry and for Wales, taking account of the possible repercussions on other areas and of the anomalies and pressures to which they might give rise. In order to show up the anomalies we have made a quick survey of areas which have a male unemployment rate at least 1.5% above or below the average for their type of area. We have discarded those which were not regarded as serious candidates for change of status because they were too small or isolated or because a change in status would create a patchwork effect, as well as some areas where special considerations obtained. The table at Annex B summarises the result. This table gives the male unemployment rates for March and May 1974* (as well as the employed population) for each of the areas proposed for upgrading by the Secretaries of State and for the areas identified in the course of our review, as well as noting some special factors such as seasonal effects. For purposes of comparison the table also shows the average male unemployment rates for each category of assisted area. It should, however, be emphasised that unemployment is by no means the only relevant factor, though the fact that it can be measured with some accuracy means that it is the one most often quoted. Moreover, in areas such as seaside resorts, the figures are distorted by seasonal influences and by the presence of occupational pensions on the register.

12. The following paragraphs discuss both the areas suggested for upgrading by the Secretaries of State for Industry and for Wales and certain of the others which seemed to us to warrant further consideration.

Merseyside

13. There is no doubt that the scale and severity of the Merseyside unemployment problem is matched only by that of West Central Scotland, which is already an SEZ.

* Latest figures available are for May 1974; March 1974 figures are also given since these were the figures used in the earlier papers by the Secretaries of State for Industry and for Wales (EC(74)6 & 7).
But it is difficult to believe that reclassification as an SDA — an extra 2% on regional development grants — would have any decisive effect in attracting new industry, given the width of the Secretary of State's powers to give selective assistance. Its value would be mainly psychological, as an earnest of Government support for local authorities, trade unions and employers in their efforts to improve the unfavourable labour relations image of Merseyside which is mainly responsible for the area's failure to attract new industry. Moreover upgrading Merseyside would increase by some 37% (about £ million) the employee population of the SDAs and, to the extent that it was successful in attracting more industry, it would adversely affect other SDAs, especially West Central Scotland which is less accessible than Merseyside. It could also have adverse effects and generate pressures for upgrading in the NW Wales DA and the NE Wales IA, and adjoining towns to the East.

Edinburgh

14. Edinburgh/Leith is the only part of Scotland not a DA and its position as a small IA well over 100 miles from the next IA is unique; this would limit the repercussions. Industry has been leaving the city for the surrounding DA, primarily before it became an IA, though this seems to be in some degree typical of all large towns. Unemployment rates (total 3.4%, male 5.1%) are however below the average for development areas. Reclassification of Edinburgh would lead to pressure for similar treatment for Cardiff.

Chesterfield and Notts/Derby Coalfield

15. The Chesterfield area lies between South Yorkshire (part of the Yorkshire/Humberside IA) to the north and the Notts/Derby Coalfield IA to the south; local unemployment is only marginally below that in the latter, though considerably below that in the former. Chesterfield's position is undoubtedly anomalous and it has suffered as a result; but even so unemployment has declined locally over the past two years faster than the national average and job prospects are good. Giving IA status to Chesterfield could stimulate claims from other places in the Midlands, eg Cannock, Lincoln, Newark and Stoke.

16. Since the main argument for upgrading Chesterfield is its position between two IA's it is worth considering the alternative possibility of down-grading the IA status of the Notts/Derby coalfield. This is a small isolated IA where good progress has been made in attracting new industry in recent years and prospects for the future are good, with vacancies high in relation to the numbers unemployed. On the other hand unemployment is still above average for an IA.
There are parallels between the case for up-grading Cardiff and that for Edinburgh. But the main argument for upgrading is the employment outlook which will result from the closure of the East Moors Steel Works. Closure would involve the loss of 4600 jobs in 1976/77, virtually all at once. Eventually the works will have either to be closed or modernised, though the timescale could be lengthened. If the works were modernised, there would still be a loss of some 2000 jobs. On the other hand unemployment is at present low at only 2.9% (4.1% male) and well below the average for development areas. Moreover the number of manufacturing jobs in prospect in the Cardiff area - over 2,600 - is encouraging and shows that industrial jobs can be attracted by the present range of incentives. Selective assistance has been used generously in the area to attract industrial projects. The SE Wales IA also includes Newport which is currently better placed than Cardiff (male unemployment 3.9% and no known major factory closures in prospect), Barry, Cwmbran New Town and a surrounding rural area. The application of the broadband principle would point to the uniform treatment of this whole area. Cardiff's communications with the Midlands and the South East make it attractive as a location for industry, and in the longer term it stands to do well out of the Hardman on Government dispersal. Up-grading Cardiff with its greater environmental attractions could have implications for the surrounding areas, and attract projects which would otherwise have gone to the Welsh SDA and other areas less favourably placed.

Unemployment at Shotton is currently low at 2.8% (male only 3.0%) and the present position could not justify upgrading. (To consider Shotton alone would leave small areas to the west as isolated pockets and it would be appropriate to treat the whole of the NE Wales IA as one). The present BSC proposals for the ending of steel making at Shotton would involve the net loss of some 6,000 jobs if basic oxygen steelmaking replaced the open hearth steel-making at least 2,000, possibly 3,000, jobs would still be lost. There is little labour available at present and industrialists are reluctant to commit themselves to Shotton until they are convinced that they will be able to recruit. Here again the result of the closing review should be awaited.

Unemployment is high at 7.1% (9.3% male) - above the average for SDAs. Its geographical remoteness makes it relatively unattractive to mobile industry and...
inadequate opportunities have resulted in a continuing drift of young people from
the area. The case for upgrading needs to be considered along with that for
Shotton and Merseyside since the upgrading of these two areas would reflect on the
relative position of NW Wales. But it seems unlikely that the limited advantages
of SDA status would have much effect in attracting industrial projects to a rural
area such as this where the numbers of unemployed are relatively few and widely
scattered; it is understood that the Anglesey Aluminium Company have had difficulty
in recruiting suitable workers.

Mid and South Yorkshire

20. Unemployment in the Yorkshire coalfield is well above the average for all IAs
at 4.0 per cent total (5.1 per cent males) and vacancies are low in relation to the
numbers unemployed; further heavy job losses are in prospect. Present plans for
development of the Selby coalfield will require about 2,000 miners when build-up is
completed. The Coal Board expects most of these will transfer from other parts of
the Yorkshire coalfield. In the Sheffield/Rotherham area, as in other steel areas,
employment in the steel industry may decline over the next 10 years and the future
of the BSC Templeborough works is in question. The number of jobs in prospect is
however quite high. All in all therefore, there would seem to be no present need
to consider upgrading.

North-East Scotland

21. Unemployment in this area — at 2.2 per cent total (2.8 per cent males) — is well
below the average for DAs and below the average for IAs: it has fallen by 51%
over the last 2 years compared with a fall of 36% in Great Britain as a whole.
Downgrading to IA would save the payment of REP and of RDG on plant and machinery
for oil-related activities which need no Government incentives to locate in the
area (although it is estimated that under a tenth of the oil-related jobs in the
region are in activities which qualify for these incentives). But although migration
from the area has been arrested, the oil boom has created difficulties for existing
companies unconnected with oil, in the form of labour shortages and higher costs
which threaten the longer term prospects of the area. The area is remote from
major UK markets; retention of existing incentives would assist in strengthening
the relative position of indigenous firms and so help to preserve a more balanced
employment structure against the time when the peak of oil exploration has passed.
The majority of the Committee consider that downgrading should only be entertained
as part of a far more fundamental review.

South Wales SDA

22. The economic position in the South Wales valleys has improved in recent years
with the introduction of new industries and the slower loss of jobs in coal-mining. Average unemployment in the SDA as a whole is well below other SDAs and about average for all DAs. The vacancies are low but jobs in prospect are greater than the number unemployed. The probable loss of jobs at the ESC Ebbw Vale works and the possibility of further job losses in coal mining rules out the question of down-grading the eastern valleys. But unemployment in the Neath, Maesteg and Glynfer areas is only 3.4% and SDA status here seems hardly justified.

CONCLUSIONS

23. The primary choice seems to us to lie between making no changes in the near future, which is what most of the Committee would advise, and making only limited changes. Major changes would produce in effect a different system and should only be made after a fundamental review of the present one; this would in our opinion be premature only two years after the present system came into operation. If limited changes are in prospect, Ministers may think that (for the reasons given in paragraph 9) they would be better placed to take decisions towards the end of the year.

24. Upgrading of Merseyside, Edinburgh and Chesterfield, as originally proposed by the Secretary of State for Industry, (cost to the Exchequer about £10 million a year), could be presented as designed in the main to remedy anomalies. Even so, there would be repercussions; not every one would accept that these cases were sufficiently distinct to warrant special treatment and there would be claims for upgrading other areas, in particular North West Wales. At the same time the Secretary of State for Wales has suggested that the upgrading of SE Wales, North East Wales and North West Wales would be a necessary corollary (at an estimated extra cost of about £15 million a year). The totality of these changes would substantially upset the balance of the present system and increase the pressure for further changes.
### UNEMPLOYMENT PERCENTAGES OF CERTAIN SELECTED AREAS

<table>
<thead>
<tr>
<th>Areas which have been proposed for Upgrading</th>
<th>Code</th>
<th>Present Population (000s)</th>
<th>Male Unemployment Rate March 74</th>
<th>Male Unemployment Rate May 74</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerseysey DA</td>
<td>757</td>
<td>7.8</td>
<td>7.6</td>
<td></td>
<td>See para 13</td>
</tr>
<tr>
<td>Edinburgh IA</td>
<td>270</td>
<td>5.1</td>
<td>4.7</td>
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<td>See para 14</td>
</tr>
<tr>
<td>Chesterfield UA</td>
<td>77</td>
<td>4.2</td>
<td>4.1</td>
<td></td>
<td>See para 15</td>
</tr>
<tr>
<td>Y Wales DA</td>
<td>47</td>
<td>9.3</td>
<td>8.4</td>
<td></td>
<td>See para 19 Rural area</td>
</tr>
<tr>
<td>Y Wales IA</td>
<td>75</td>
<td>5.1</td>
<td>4.1</td>
<td></td>
<td>See para 18</td>
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<tr>
<td>Shotton only IA</td>
<td>40</td>
<td>3.0</td>
<td>2.8</td>
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<td>See para 17</td>
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<table>
<thead>
<tr>
<th>Areas where employment is relatively high</th>
<th>Code</th>
<th>Present Population (000s)</th>
<th>Male Unemployment Rate March 74</th>
<th>Male Unemployment Rate May 74</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ansonc UA</td>
<td>25</td>
<td>4.6</td>
<td>3.9</td>
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<td></td>
</tr>
<tr>
<td>North Humberside IA (part of IA)</td>
<td>182</td>
<td>5.8</td>
<td>5.5</td>
<td></td>
<td></td>
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<tr>
<td>Southport IA</td>
<td>31</td>
<td>8.1</td>
<td>7.2</td>
<td></td>
<td></td>
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<tr>
<td>Derby UA</td>
<td>62</td>
<td>7.2</td>
<td>5.9</td>
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<tr>
<td>Yorkshire Coalfield (part of IA)</td>
<td>418</td>
<td>5.1</td>
<td>4.5</td>
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</table>

<table>
<thead>
<tr>
<th>Areas where unemployment is relatively low</th>
<th>Code</th>
<th>Present Population (000s)</th>
<th>Male Unemployment Rate March 74</th>
<th>Male Unemployment Rate May 74</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Scotland DA</td>
<td>163</td>
<td>2.8</td>
<td>2.4</td>
<td></td>
<td>See para 21 Oil Devt</td>
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<tr>
<td>Notts/Derby Coalfield IA</td>
<td>66</td>
<td>4.4</td>
<td>3.8</td>
<td></td>
<td>See para 15 Adjacent to Chesterfield</td>
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<tr>
<td>Yorkshire etc DA</td>
<td>104</td>
<td>4.1</td>
<td>3.3</td>
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<td>Rural area</td>
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<tr>
<td>Border Counties DA</td>
<td>75</td>
<td>3.1</td>
<td>2.7</td>
<td></td>
<td>Outward migration</td>
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<tr>
<td>Port of S Wales SDA (Neath, Maesteg, Penmaen) SDA</td>
<td>34</td>
<td>3.9</td>
<td>3.1</td>
<td></td>
<td>See para 22</td>
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<td>Halifax/Huddersfield IA</td>
<td>151</td>
<td>1.7</td>
<td>1.6</td>
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<td>Other Areas</td>
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<td></td>
<td></td>
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<td>N Lancs IA</td>
<td>202</td>
<td>2.4</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warrington IA</td>
<td>77</td>
<td>2.2</td>
<td>2.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Average for type of area                  |      |                          |                                 |                               |         |
| All SDAs                                  | 2,045| 6.6                      | 6.0                             |                               |         |
| All DAs (excluding SDAs)                  | 2,742| 5.6                      | 5.1                             |                               |         |
| All IAs                                   | 4,807| 3.8                      | 3.4                             |                               |         |
| W                                    | 22,417| 3.6                      | 3.3                             |                               |         |
I. HW Wales DA
This comprises Blaenau Ffestiniog employment exchange areas (EEAs), Caernarvon, Pwllheli, Holyhead travel-to-work areas (TTWAs).

2. NE Wales IA
The percentage rates relate to an amalgamation of travel-to-work areas and employment exchange areas, which, in addition to the IA, also includes Conway in the DA.

3. SE Wales IA
The percentage rates relate to an amalgamation of travel-to-work areas which, in addition to the IA, also includes Caerphilly, Senghenydd, Pontypool, Blaenavon, Crickhowell and Risca within the DA, and Newbridge in the SDA.

4. North Humberside – part of IA
This comprises the Goole EEA and Hull travel-to-work area (TTWA).

5. Yorkshire Coalfield – part of IA
This comprises: Maltby, Rotherham, Wakefield, Worksop, Dinnington EEAs, Doncaster, Barnsley, Castleford, Mexborough, Hemsworth TTWAs.

6. NE Scotland
This comprises: Aberdeen TTWA, Elgin TTWA, Forres TTWA, Banchory, Banff, Buckie, Fraserburgh, Huntley, Keith, Nairn, Peterhead, Turriff.

7. Notts/Derby Coalfield
This comprises: the Alfreton, Heanor, Sutton-in-Ashfield EEAs.

8. N Yorkshire, etc.
This comprises: Whitby, Scarborough, Pickering, Malton, Thirsk, Northallerton, Richmond EEAs, Penrith, Keswick, Kendal EEAs.

9. Border Countries
These comprise: Hawick, Berwick-on-Tweed, Eyemouth, Peebles, Galashiels Kelso EEAs, Dumfries TTWA.

10. Part of South Wales SDA
Maesteg, Cymmer and Neath. (The percentage rates relate to the Neath and Port Talbot TTWAs).

11. NE Lancashire
This comprises the part of the NW IA which was designated in 1970: Barnoldswick, Todmorton EEAs, Colne, Burnley, Blackburn, Accrington, Rawtenstall TTWAs.
PUBLIC OWNERSHIP OF THE SHIPBUILDING AND AIRCRAFT INDUSTRIES

Memorandum by the Secretary of State for Industry

1. At its meeting on 4 July (IDV(74) 2nd Meeting) the Ministerial Committee on Industrial Development considered my proposals for the public ownership and control of the shipbuilding (including ship-repairing and marine engineering) and aircraft industries in accordance with the commitments in our Election Manifesto and invited me to inform the Cabinet of the work which had been put in hand.

2. The Committee agreed in principle that these industries should be taken into public ownership. A number of questions remain to be decided:

   a. Shipbuilding. The structure of the proposed nationalised body; the role of the National Enterprise Board (NEB); the special requirements of warship building; the possibility of expansion into chemicals as well as marine engineering; and the timing.

   b. Aircraft. It was considered that plans should not be finalised until the future of Concorde and the outcome of the Defence Review were settled. Meanwhile further consideration should be given to the form of legislation needed; the role of the NEB; the corporate structure of the new body; the firms to be nationalised; the principles and timing of compensation; the reserve powers needed to safeguard military aircraft and guided weapon capability; and the likely future size and shape of the industry.

3. I was invited to establish interdepartmental groups of officials to prepare proposals for further consideration by the Committee. The proposed terms of reference and membership of these groups are annexed.

A W B

Department of Industry

9 July 1974
ANNEX

TERMS OF REFERENCE AND MEMBERSHIP OF OFFICIAL WORKING GROUPS

Shipbuilding

The Group will include representatives of the Department of Industry (who will provide the Chairman), and of the Treasury, Department of Employment, Department of Trade and the Ministry of Defence. Other departments concerned will receive papers and be free to attend as desired. The Group's terms of reference will be:

"To prepare a statement, to be made before the Parliamentary recess, confirming the Government's intention to take the shipbuilding, shiprepairing and marine engineering industries into public ownership and setting out points on which the views of interested parties would be sought, and, after completion of consultations, to draft a White Paper, for issue in October, embodying the Government's detailed proposals."

Aircraft

The Group will include representatives of the Department of Industry (who will provide the Chairman) and of the Treasury, Foreign and Commonwealth Office, Department of Employment, Department of Trade, Ministry of Defence, Central Policy Review Staff and Cabinet Office. Other departments concerned will receive papers and be free to attend as desired. The Group's terms of reference will be:

"To prepare proposals for taking the aircraft industry into public ownership and control with particular reference to the form of legislation, the role of the NEB, the corporate structure of the new body, the firms to be nationalised, the reserve powers needed to safeguard military aircraft and guided weapon capability, and the likely future size and shape of the industry."

Compensation

A separate and restricted Working Party from the Department of Industry and the Treasury is already considering possible methods of compensation for both shipbuilding and aircraft nationalisation.
INTRODUCTION

1. The Government undertook in The Queen's Speech to make proposals for securing equal status for women. I propose to make a statement outlining my proposals for a Sex Discrimination Bill before the House rises (copy attached) and to publish a White Paper in late August or early September. I hope to introduce the Bill before Christmas so that it can become law well before the Equal Pay Act enters into force (29 December 1975).

SCOPE OF THE BILL

2. The Bill will supplement the Equal Pay Act by making discrimination generally unlawful in employment, training and related matters. The existing protective legislation, contained mainly in the Factories Act 1961, will be retained for the time being. In education, the Bill will lay a duty (subject to a saving for the maintenance and provision of single sex institutions) on all educational authorities to provide facilities for education to either sex of the like quality, in the like manner and on the like terms in and on which they are provided for members of the other sex.

3. There are problems, however, about how far the Bill should go beyond this. Although employment and education constitute the main areas of complaint, serious complaints have also been made about discrimination in the provision of financial facilities such as credit and mortgages, housing accommodation and access to licensed premises, restaurants and hotels: these may be symptomatic of a wider problem.

4. One way of dealing with this would be for the Bill, from the beginning, to make it unlawful to discriminate in the provision to the public of those facilities and services which have been the subject of complaint: taking power to add by Affirmative Resolution any other of the activities and public places subject to the Race Relations Act, if and when abuses come
to attention. Alternatively, the Bill could in principle and from the beginning make it unlawful to discriminate in the provision to the public of the generality of goods, services and facilities (including access to all places of public resort) covered in that Act. The second approach would ensure that nothing important is omitted but could, inadvertently, bring in a number of areas where discrimination by sex is unexceptionable or unavoidable and thus expose us to a certain amount of ridicule.

5. The wide approach will have much more impact and I commend it to my colleagues. I shall, however, need urgent help from my colleagues in identifying and framing the possibly complex exceptions necessary to ensure that this approach will stand up to examination in Committee and to the subsequent test of experience; and that the timetable of the Bill will not be put at risk.

6. The Bill will not deal with discrimination in the social security or tax systems, in pensions or in nationality and related matters: these are governed by separate legislation.

ENFORCEMENT AND THE EQUAL OPPORTUNITIES COMMISSION

7. The Bill will provide individual civil remedies for the victims of unlawful discrimination (compensation, an order determining the rights of the parties, or a recommendation as to a course of action) and will make provision for dealing with general practices of discrimination. Employment complaints, which will be closely linked with those under the Equal Pay Act, will be considered by industrial tribunals; other complaints will go to the courts except that those concerning the maintained sector of education will be dealt with in the first instance by the education Ministers.

8. I propose to set up a strong Equal Opportunities Commission. This will help to carry forward proceedings in suitable and significant cases but its main role will be to identify and deal with discriminatory practices by industries, firms or institutions; it will be able to issue non-discrimination notices, to follow up court and tribunal decisions, and will also undertake more general advisory, investigatory and promotional functions. The Commission will have certain powers to compel the production of relevant information.

9. The main point at issue on enforcement is whether (particularly if the wider approach is adopted on scope) the courts should be protected from frivolous or perverse complaints by providing that cases should not go to them unless first referred to the Commission. I doubt, however, whether such a compulsory sieve would be welcome to the women's organisations; it could not, because of the great bulk of likely complaints, operate in employment cases, which will go to tribunals, yet it would be difficult in principle to distinguish these cases from the others; and it would run contrary to the conception that the Commission should concentrate mainly on the broad strategy and not get bogged down with individual case work.
INCITEMENT TO DISCRIMINATE

10. The Trades Union Congress are being consulted about the difficulties which an incitement provision might create as regards unions and individual groups of workers. Subject to advice in the light of these consultations, I propose that the Bill should treat any person aiding and abetting an unlawful discriminatory act as doing that act. There should be no question of any criminal sanction.

CONSULTATIONS

11. Some further consultations with interested bodies will be necessary before the proposals can be finalised, particularly if the wider ranging scope is approved. As time is short, however, I seek general approval for the proposals outlined as the basis for our further work.

CONCLUSION

12. I invite my colleagues to approve the general approach described in this paper with a view to the publication of a White Paper in the Recess preceded by a statement before the Recess, consultations with interested parties to proceed meanwhile; and in particular:

1. to indicate which of the alternatives outlined in paragraph 4 above should be adopted;

2. to agree that it is not practicable to use the Commission as a sieve for dealing with non-employment cases;

3. to approve, subject to advice from the Secretary of State for Employment, a provision making aiding and abetting discrimination unlawful.

R J

Home Office

11 July 1974
DRAFT STATEMENT

1. The Government undertook in The Queen's Speech to make proposals for securing equal status for women. With your permission, Mr. Speaker, I will give a brief outline of my proposals for a Sex Discrimination Bill. They will be set out at greater length in the White Paper which I intend to publish in a few weeks' time.

2. Employment and education constitute the main areas of complaint. As to the first, the Bill will supplement the Equal Pay Act by making sex discrimination unlawful in employment, training and related areas. There will be specific exceptions for employment in private households, for the clergy and the Armed Forces and, initially, for small firms: as well as for a few carefully defined instances where sex is a genuine occupational qualification for a particular job. The Bill will apply to employment agencies and training organisations; in the granting of licences connected with employment; and to the membership of, and facilities offered by, employers' organisations, trade unions and professional bodies.

3. Education requires a somewhat different approach. Subject to a saving for the maintenance and provision of single sex institutions, the Bill will lay a duty on educational authorities in both the public and private sectors to provide facilities for education to either sex of the like quality, in the like manner and on the like terms in and on which they are provided for members of the other sex.
4. The House will be aware that serious complaints are made about sex discrimination in a number of other fields of activity, notably the provision of financial facilities, such as credit and mortgages, housing accommodation, and of access to licensed premises, restaurants and hotels. There is no reason to assume that the complaints we have received are definitive; they could be symptomatic of abuses extending into a much wider field than this. The Bill will therefore deal with the same range of matters as the Race Relations Act, making it unlawful in principle to discriminate on the grounds of sex in the provision to the public of the generality of goods, services and facilities covered in that Act. The Government recognise, however, that certain differences in the nature and incidence of sex and racial discrimination will make it necessary to include in the Bill a limited number of exceptions and savings additional to those contained in the Race Relations Act.

5. The Bill will not deal with discrimination in matters governed by separate legislation, of which social security and taxation are the most important.

6. As to enforcement, the Bill will provide individual civil remedies for the victim of unlawful discrimination and will make provision for dealing with general practices of discrimination. Employment complaints, which will be closely linked with those under the Equal Pay Act, will be considered by industrial tribunals; other complaints will go to the specially designated county courts in England (sheriffs' courts in Scotland), except that those concerning the maintained sector of education will be dealt with in the first instance by the education Ministers. The Government is taking action to increase the number of women appointed to industrial tribunals.
7. I propose to set up a powerful Equal Opportunities Commission to act as the pivot of the whole system. This will help to carry forward proceedings in suitable and significant cases but its main role will be strategic; to identify and deal with discriminatory practices by industries, firms or institutions. It will be able to issue non-discrimination notices, enforceable by the courts, and to follow up court and tribunal proceedings. It will also undertake more general advisory, investigatory and promotional functions. The Commission will have adequate powers to require the production of relevant information.

8. Departments will conduct urgent consultations with interested organisations; the aim must be to introduce the Bill before the end of the year.

9. In sum, these proposals, which are founded on the principles outlined in the Green Paper published while the Government were in Opposition, go well beyond those previously put forwarded both in scope and in the powers given to the new enforcement agencies. I believe this will be an effective approach, learning from the Race Relations Acts, and avoiding a number of the weaknesses that have been revealed in them. My aim is to harmonise the arrangements for dealing with sex and race discrimination to the greatest extent possible and I see this Bill as being a model for later improvements in the race relations machinery.
12 July 1974

CABINET

ALLOWANCES OF MEMBERS OF PARLIAMENT

Memorandum by the Lord President of the Council

1. The Top Salaries Review Body which was invited by the Prime Minister on 31 May "to review the current rates of allowances payable to Members of the House of Commons, and to recommend the levels to which they should be increased" has now submitted its report and we need to consider whether to adopt its recommendations.

2. A copy of the report is attached. There are four recommendations as follows:

   i. Car Allowance - present rate 5 pence a mile
      - recommended rate 7.75 pence a mile

   ii. Secretarial allowance
       - present maximum £1,000 pa
       - recommended maximum £1,750 pa

   iii. Additional Costs Allowance
       - present maximum £750 pa
       - recommended maximum £1,050 pa

   iv. London supplement
       - present rate £175 pa
       - recommended rate and £228 pa a small change in the rules governing entitlement

3. The recommended increases in car allowance and additional costs allowance result directly from corresponding increases in the equivalent Civil Service rates of allowance and I suggest that they be accepted. The increases in percentage terms are large but as it is nearly 3 years since they were last reviewed they are well justified in relation to increases in costs.
SECRETARIAL ALLOWANCE

4. The increases recommended in secretarial allowance and the recommendations for London Supplement merit closer consideration. An increase in secretarial allowance from £1,000 to £1,750 more than compensates for increases in secretaries' salaries since 1 January 1972, but the Review Body believes that Members of Parliament (MP) now employ more secretarial assistance and should be paid a larger allowance on that account also.

5. I do not consider that this large increase in secretarial allowance will attract valid criticism. The allowance is on a reimbursement basis and the increase will not therefore go in a Member's own pocket. I therefore recommend that we accept this recommendation.

LONDON SUPPLEMENT

6. The recommended increase in London Supplement from £175 to £228 corresponds with the increase awarded to civil servants serving in inner London from 7 November 1973 since the present allowance for MPs was pitched at precisely the same rate as the Civil Service inner London rate. However, some Members may urge that they should be paid £400 London Supplement following the recent Pay Board report which was not available by the time the Review Body completed its own report. There are three grounds for limiting the increase to £228:-

a. The Review Body has not recommended any increase in the light of the then forthcoming Pay Board report - and wish to leave open the position for a complete re-examination next time.

b. No Civil Service increase in London Weighting has yet been negotiated, nor have other public sector groups so far made settlements. It would be better if MPs were not in the lead in this matter.

c. Although the amounts of London Supplement for MPs and the inner London Weighting for civil servants were the same, the criteria for determination and conditions of entitlement were different. Furthermore since MPs are paid travelling allowance and the Pay Board figure of £400 includes an element of £75 for the extra costs of travel to work, as well as special elements for 'wear and tear', the Pay Board recommendations cannot be said to be automatically applicable to MPs.

I therefore recommend that the increase to £228 in London Supplement should be accepted.
7. Finally the Review Body recommends that those Members who represent constituencies in the Greater London area but who do not claim additional costs allowance should have the option of being paid London Supplement instead. The reason for this is that a few MPs live sufficiently near both to Westminster and their constituency to carry out all their Parliamentary duties from a single home in the London area. They incur the extra costs of living in London but are not entitled to London Supplement since this is payable only to those with constituencies in the Inner London Education Authority (ILEA) area. They have no need to claim additional costs allowance since they do not normally need to stay away from home. Thus they receive neither allowance. Few Members are in this category but what they consider to be an unjustifiable anomaly will be rectified if we accept this recommendation. Of course, a new boundary - the Greater London Council (GLC) area rather than the present ILEA area - will be created and some Members representing constituencies just beyond the GLC boundaries may now feel that they too should be similarly treated. But if this arises, it could be resisted on the grounds that

a. the Members concerned do not represent London constituencies, and

b. such Members do not necessarily incur the extra cost of living in the London area even though some may choose to do so. The Review Body's recommendation represents a useful concession and I therefore recommend its adoption without further extension of it.

10. Subject to colleagues agreement, I propose to make an early announcement in the House and arrange for simultaneous publication of the Review Body's report. Resolutions will have to be moved subsequently, and provided that this can be done by the end of this month I propose that the effective date of the changes should be 1 August 1974.

E S

Privy Council Office

12 July 1974
Confidential

REVIEW BODY ON TOP SALARIES

Report No 5

MEMBERS OF PARLIAMENT : ALLOWANCES

Chairman:
THE RT HON LORD BOYLE OF HANDSWORTH

Presented to Parliament by the Prime Minister
by Command of Her Majesty
1974

LONDON
HER MAJESTY'S STATIONERY OFFICE

net
On 31 May 1974, the Top Salaries Review Body was invited by the Prime Minister to review the current rates of allowances payable to Members of the House of Commons and to recommend the levels to which they should be increased.

The members of the Review Body are:

The Rt Hon Lord Boyle of Handsworth, Chairman
H W Atcherley
Lord Beeching
Sir George Coldstream, KCB KCVO QC
A J L Lloyd, QC
Lady Seear
Sir Mark Turner

The Secretariat is provided by the Office of Manpower Economics
REPORT ON MEMBERS OF PARLIAMENT ALLOWANCES

Introduction

1. Immediately after we were appointed in 1971, we were asked to review the remuneration (including allowances and expenses) and pension arrangements of Ministers of the Crown, Members of Parliament, and other paid office-holders in both Houses of Parliament. Our report was accepted by the Government and was published in December 1971. The recommendations on the remuneration of Members of Parliament were implemented with effect from 1 January 1972 and those affecting Ministers of the Crown and other paid office-holders, together with the new pension arrangements, were implemented from 1 April 1972. We have now been invited to review the rates of allowances payable to Members of Parliament to meet necessary expenses incurred in the course of their Parliamentary duties. We have not on this occasion been asked to look at the basis on which they are paid, or at the level of salary.

2. In our first report, we described in some detail the system of remuneration for Members of Parliament. Briefly, Members are paid a salary (at present £4,500 a year) and, to assist them in the performance of their Parliamentary duties, they are provided with certain facilities, including free stationery, postage and telephone usage in the House of Commons, and with certain allowances towards defraying expenses. Those expenses towards which no allowances are payable, as well as the excess expenses where allowances are payable, have to be met out of income. Tax relief is, of course, available provided that the normal requirements under Schedule E of being "wholly, exclusively and necessarily incurred" in the course of work, are met. Members are entitled to four allowances towards their expenses; car allowance, in lieu of free travel vouchers, which is of long standing; secretarial allowance, which has been payable since 1969; and, since 1971, subsistence allowance and London supplement. We discuss each of these in turn.

Car allowance

3. Car allowance is payable towards the expenses for journeys by car in the performance of Members' Parliamentary duties. It is payable in respect of journeys between Westminster and constituency, Westminster and home, home and 1

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constituency, and within constituency. It also covers return journeys from home to rail station or airport, as well as journeys outside Westminster and constituency to visit central and local government authorities concerned with a Member's constituency problems.

4. The current rate is 5p per mile. It was fixed in November 1970. When it was first introduced in 1961, the car allowance was restricted to the equivalent cost of first class rail but, since 1969, it has borne a close relationship to the "standard rate" of motor mileage allowance for the civil service. We consider that this remains an appropriate basis of comparison. In November 1970, the standard rate was 3.5p for cars with engine capacity below 1000 cc, 4.5p for those with engine capacity between 1001 cc and 1750 cc, and 5.0p for those with engine capacity of more than 1750 cc. The corresponding amounts payable currently are 6.0p, 7.1p and 7.7p respectively. We recommend that the car allowance should be increased from 5p to 7.7p per mile.

Secretarial allowance

5. The object of the secretarial allowance when it was introduced was to contribute to the cost of providing secretarial assistance. At the outset in 1969, the amount was fixed at a maximum of £500 a year. In 1971, we found that nearly all Members either employed, or shared in the employment of, a secretary and that, while limited office accommodation and equipment was available in the House of Commons, Members had to provide all facilities in their constituencies. We also found that a number of Members made use, or shared in the use, of a research assistant to supplement the service available from the House of Commons library (which was fully extended and could not be expanded to provide additional research assistance because of the accommodation limitations). In these circumstances, we proposed that the conditions of payment of the secretarial allowance should be extended to cover both secretarial and general office expenses, and that part of the costs incurred in employing a research assistant on work undertaken in the proper performance of a Member's duties should be admissible under it.

6. The maximum rate payable currently is £1,000 a year (as we recommended in 1971); of this, £300 may be used towards the cost of employing a research assistant. In making our 1971 recommendations, we took account of the salary level payable to a personal secretary in the civil service, as well as of the

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expenses of providing office accommodation, stationery and equipment. We also had regard to the fact that most Members required part-time secretarial assistance only; our inquiries at that time showed that 70 per cent of Members employed a secretary for less than 30 hours a week, and that the median period of employment was 23 hours a week. We have not carried out an inquiry into the present amount of secretarial assistance, but we have evidence which suggests that it may have increased considerably since our previous review. Based on these considerations, we recommend that the secretarial allowance limit should be increased from £1,000 to £1,750 a year. We also suggest that up to £550 should be allowable against the cost of research assistance: our reasons for distinguishing between these two elements are set out in our 1971 Report (paragraph 44). In making this recommendation we are aware that a small part of the increase must count against the Stage 3 pay limit.

Additional costs (subsistence) allowance

7. We recommend the introduction of subsistence allowance to help defray the additional cost of living away from home when engaged on Parliamentary duties. We found that this was the largest item of expense incurred by Members, particularly for those provincial Members who were not resident in London, and we suggested a scheme that involved payment of a daily subsistence allowance based on the "regular" visitor" rates for senior civil servants (Class A(1)).

We also recommended that provision should be made for the scale of these payments to be adjusted in line with adjustments made from time to time in the related civil service rate, and we understood that our recommendation was accepted. Under the scheme we proposed, provincial Members would be required to choose between being regarded as living and working either in London or in their constituency, and would receive the appropriate allowance towards the additional cost incurred in attendance at their other place of work. While accepting our recommendation in principle, and after consultation with the House of Commons authorities, the Government decided against the introduction of a daily allowance on the grounds of its complexity and practical difficulty in operation, and introduced instead an annual allowance (also subject to a limit). At the same time, the rate of allowance was made common for all provincial Members regardless of where they lived, in order to meet Inland Revenue objections to tax-free treatment of the allowance for Members whose real homes were in London or in their constituency, but who chose for them not to be so

1 Grades with a minimum salary not less than that of an Assistant Secretary.
Provincial Members are required to register with the authorities of the House their ‘main home for the purpose of performing their Parliamentary duties' if they live either in London or in their constituency, and may claim the allowance towards the cost of staying away from home overnight while carrying out their Parliamentary duties at their other place of work; those whose home is in neither are eligible for the allowance, but must choose whether to claim it for living in London or in the constituency (but not both). We understand that expenses in excess of the allowance for living away from the nominated home may be claimed as a deduction from income before tax, and that notwithstanding the position which we described in our 1971 Report (paragraph 40) in practice Inland Revenue may allow such claims.

8. The present maximum rate payable is £750 a year. This is slightly higher than the total of a daily subsistence allowance at the Class A(1) civil service "regular visitor" rate for London (£5.25 in December 1971), for four nights a week over 3½ weeks (the average period since 1964 in which the House of Commons sat in one year). Adopting the same approach, but making use of the latest figures for the "regular visitor" rate for London (£7.20) and the duration of the average Parliamentary session since 1971 (36 weeks), we recommend that the subsistence allowance for provincial Members should be increased from £750 to £1,050 a year.

London supplement

9. For London Members and for those provincial Members who elect to be treated as resident in London, we suggested the payment of a London supplement of £175 a year, based on the amount of London weighting paid to civil servants who work in the inner London area. However, in making a common subsistence allowance payable to all provincial Members, the Government found it necessary to restrict the payment of the London supplement to London Members only. The amount of London weighting for civil servants has been increased to £228 a year with effect from 7 November 1973. Accordingly, we recommend that the London supplement for London Members be increased now from £175 to £228 a year.

10. We are aware that a limited number of Members who represent constituencies within the area of the Greater London Council but outside the Inner London Education Authority Area, incur the extra cost of living and working in the capital without any recompense. These Members carry out all their Parliamentary duties from a single home, but are unable to claim either London Supplement or subsistence allowances. Our 1971 recommendations for a differential structure of subsistence allowance would have permitted the payment of London supplement
in these circumstances. We consider that there is still a case in equity for
such payment now to these Members. Although strictly this is outside our terms
of reference, we see a strong case for rectifying the anomaly. We make this
recommendation now, but we consider that the arrangements as a whole should be
re-examined on the next occasion when remuneration is reviewed.

Stage 3 Pay Code

11. We have taken the necessary steps to assure ourselves that our
recommendations are in conformity with the Stage 3 Pay Code.

BOYLE OF HANDSWORTH
H W ATCHERLEY
BEECHING
GEORGE COLDSTREAM
ANTHONY LLOYD
SEEAR
MARK TURNER

OFFICE OF MANPOWER ECONOMICS

27 June 1974
CABINET

CONCORDE

Note by the Lord Chancellor

In accordance with the Cabinet's invitation at their meeting on 27 June (CC(74) 21st Conclusions, Minute 4) I submit for their approval the negotiating brief for the Prime Minister's forthcoming discussions with the French President, in the form in which it has been agreed by the Ministerial Committee on the Concorde Project.

E J

Lord Chancellor's Office

12 July 1974
CONCORDE: DRAFT BRIEF FOR THE PRIME MINISTER'S MEETING WITH PRESIDENT GISCARD d'ESTAING

Introduction

1. When Concorde was discussed between the Prime Minister and the French Prime Minister, M. Chirac, on 26th June, M. Chirac said that this was one of the matters which the French would like to be discussed at the later meeting between the Prime Minister and President Giscard. The Cabinet decided on 27th June that this meeting should precede any meeting on Concorde between the Secretary of State for Industry and his French opposite number, the Secretary of State for Transport, M. Cavaille (CC(74) 21st Conclusions, Minute 4).

The United Kingdom Position

2. The view taken by the Cabinet on 23rd May was that it would be preferable for Concorde to be cancelled if the consent of the French Government, however reluctant, could be secured; but that if they did not consent, we should not withdraw unilaterally from the project but should complete the programme to build 16 aircraft (the number already authorised). The Cabinet's final decision would be taken in the light of the discussions with the French Government (CC(74) 17th Conclusions, Minute 8).

The French Attitude

3. Although the new French Government have yet to make a formal statement of their policy on Concorde it is quite clear that they will not acquiesce in cancellation. Their immediate objectives appear to be to secure HMG's agreement to:

(a) continuation of the production programme with early authority being given for the production of three more aircraft (nos. 17 to 19);

(b) an additional development programme designed to give the aircraft longer range by the provision of extra tanks and weight saving modifications - estimated to cost £27 million in total.
United Kingdom Objectives at Meeting with President Giscard

4. These are to rehearse the major problems concerning the continuance of the programme and:

(a) test at the highest level the strength of French resistance to HMG's preferred course of outright cancellation; if as is likely the French President is quite immovable on this;

(b) be prepared to agree to the continuation of the present development and 16 aircraft production but nothing beyond that; and if possible obtain French agreement to this policy;

(c) secure agreement in principle to the drafting of a new agreement which takes fully into account the situation which has developed and provides for any necessary modifications of the 1962 Treaty. This could be effected by Exchange of Letters.

Legal Aspects

5. The 1962 Treaty has for many years proved difficult to apply to actual developments: resulting uncertainties have hampered clear and quick decisions. It is therefore important that if any understanding is now reached between the two Governments it should be embodied in a formal and binding Exchange of Letters. Such an exchange would need to:

(a) make clear that no obligation on either party has arisen to finance any activity beyond the 16 aircraft programme;

(b) confirm by express words each party's right which is implicit in the 1962 Treaty to refuse to authorise further production; and define the circumstances in which either party will be entitled to give notice terminating all obligations under the Treaty.

Tactics

6. It is suggested that the tactical line might be as follows:
(a) We have carefully studied all the options for the future of Concorde. And we are advised that circumstances have so changed since the original 1962 Treaty that neither side is under any obligation to continue with the project. (Annex D sets out the legal position.)

(b) The economic arguments - loss of all development expenditure, continuing production losses, very poor market prospects - point clearly to immediate cancellation. In any event the Concorde programme may run down before long for lack of orders; a continuation merely postpones the problems arising on cancellation.

(c) There are other broader considerations which may be relevant to a policy decision, such as (amongst others) the future of Anglo/French co-operation, the money already spent in development and production, the implications for employment and of a capability in this area of high technology; and the effect on national morale.

(d) In view of these considerations we are prepared, subject to suitable safeguards, to continue with the existing 16 aircraft programme. But we are not prepared to agree to French proposals for additional development work and the production of three more aircraft.

(e) Our agreement to continue with the 16 aircraft programme would be conditional on an Exchange of Letters which made it clear that there was no legal obligation on either side to agree to any development or production work beyond this programme; and set out clearly defined circumstances in which either party would be entitled to give notice terminating all obligations under the Treaty.

(f) If new and unforeseeable circumstances should later arise which seem to justify the resumption of the programme by further authorizations or otherwise, the parties should consult together. But any final
agreement to extend the programme would have clearly to define the commitment of the two parties.

(g) If the French President agrees to a settlement on this basis, the Secretary of State for Industry and his French opposite number (M. Cavaille) might be asked to meet urgently to agree the details.

(h) If the French President insists on French proposals for the immediate extension of the development and production programme, the Prime Minister might simply indicate that we cannot agree to this.

Other Points which may arise

7. Organisational changes in the Concorde Programme. The French are known to feel strongly that the official machinery for Anglo-French consultation and decision should be strengthened; and that overall responsibility for the Concorde airframe and engine should be given to Aerospatiale and Rolls Royce 1971 respectively. If broad agreement is reached with the President, these are matters which Mr. Benn and M. Cavaille might usefully consider.

Annexes

8. The following are attached:-

Annex A - Talking points on the case against the French proposals for extending the existing development and production programme.

Annex B - A note on French views on a second generation supersonic transport.

Annex C - The costs of the 0, 16 and 19 Options.

Annex D - The legal position.
French Proposals for Authorising 3 More Aircraft and Work to Achieve Extra Fuel Capacity and Weight Saving

Talking Points

The Production of Three More Aircraft

Five of the aircraft whose production has already been authorised remain unsold.

British and French officials are agreed that 'great uncertainty surrounds the prospects for further sales beyond those already made to British Airways and Air France, whatever version is offered to airlines.'

The only serious sales negotiations now in progress are with Iranair, a very special case.

Recent fuel price increases, and the weak finances of many airlines, give no reason for optimism for an early improvement in the market prospects.

To produce an extra 3 aircraft would add about £80m to the total cost of the programme. Even if the aircraft were sold, these extra costs would exceed the extra receipts by £15-20m.

Each aircraft will cost more to produce than it sells for until sales reach 60 or 70. The chances of this figure being reached are virtually nil.

French Proposals for Extra Fuel Capacity and Weight Saving Improvements

The cost of these modifications is substantial - £27m at the latest estimate.

They would improve the aircraft's range only marginally, and would not fundamentally improve its attractiveness to major airlines.
For example, the following routes could still not be flown with full payloads:

- Lufthansa: Frankfurt/New York
- Japan Airlines: Tokyo/Anchorage
- QANTAS: Sydney/Singapore

The modified version with these improvements would be just as noisy as the standard version.

**Overall Costs**

Taking into account estimated effects on airline operating economics, adoption of the French proposals would add about £100m to the overall programme cost. This is illustrated by the table below:

<table>
<thead>
<tr>
<th>Total cost from now £m</th>
<th>Cost to UK £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stop</td>
<td>210</td>
</tr>
<tr>
<td>Build 16 (14 sold)</td>
<td>550</td>
</tr>
<tr>
<td>Build 19, (including French modifications) (17 sold)</td>
<td>650</td>
</tr>
</tbody>
</table>
A Second Generation Supersonic Transport (SST)  ANNEX B

The French have in the past seen as one of the advantages of Concorde that it would enable Britain and France to stay in the supersonic transport business in the longer term, instead of allowing it to become a Soviet/American monopoly. They have floated ideas for a second generation SST which would be about twice the size of Concorde and have a much longer range; such an aircraft would be developed jointly by the US, Britain and France. The French view now seems to be rather that this is an option that should be preserved than we and they should make an early approach to the Americans about the launching of a second generation SST.

For several reasons, we do not think that the possibility of taking part in a second generation SST should weigh heavily in the present decision on the future of Concorde. These reasons are

i) There is no sign of current interest in a second generation SST on the part either of the main US aircraft manufacturers or the US Government. The manufacturers would take a cool commercial view of such a proposal, and would certainly be influenced by the recent steep increases in fuel costs and the weak financial position of many airlines. There is no sign that opposition in Congress to the provision of Federal funds for the development of an SST has lessened since the cancellation of the Boeing SST a few years ago, or that the Federal Government is willing or able to do battle with Congress on the issue.

ii) Even if a second generation SST were developed in collaboration with the USA the financial burdens for Britain and France would be huge. A French estimate of £1500m for the total development cost has been quoted, of which it was admitted that none would be recovered. We think that a
more realistic figure might be 50-100% higher. It is difficult to see how substantial additional production losses, of the sort now occurring on Concorde itself, could be avoided.

iii) The technology of Concorde would have only limited relevance to that which a second-generation SST would require. It would be necessary for this aircraft to have an engine which combined efficient supersonic propulsion with noise characteristics at airports at least as good as those of the most modern subsonic engines. The technology to achieve this has yet to be proven; if the problem can be solved at all the solution may owe little to work on Concorde. And while a second generation SST would probably retain Concorde's basic shape, the 'scaling up' of the airframe needed to achieve the extra size and range would be neither simple nor cheap.

iv) It is not clear that the demand of the business community for faster travel will continue to increase in the future as it has in the past. The expansion and evolution of direct communication systems could for example make substantial inroads into that segment of the market to which any SST must primarily appeal.
The Costs of the 0, 16 and 19 Options

<table>
<thead>
<tr>
<th>Expenditure from 1 July 1974</th>
<th>0 to UK</th>
<th>Total</th>
<th>16 to UK</th>
<th>Total</th>
<th>19 to UK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Development</td>
<td>30</td>
<td>30</td>
<td>110</td>
<td>228</td>
<td>123</td>
<td>255</td>
</tr>
<tr>
<td>ii) Net production</td>
<td>37</td>
<td>67</td>
<td>21</td>
<td>46</td>
<td>25</td>
<td>63</td>
</tr>
<tr>
<td>iii) Social costs</td>
<td>32</td>
<td>64</td>
<td>21</td>
<td>37</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Total, excluding airline costs</td>
<td>99</td>
<td>211</td>
<td>152</td>
<td>311</td>
<td>168</td>
<td>348</td>
</tr>
<tr>
<td>iv) Airline capital investment</td>
<td>-</td>
<td>-</td>
<td>90</td>
<td>174</td>
<td>90</td>
<td>174</td>
</tr>
<tr>
<td>v) Airline operating results (profit (-) loss (+))</td>
<td>-</td>
<td>-</td>
<td>+110</td>
<td>+67</td>
<td>+170</td>
<td>+127</td>
</tr>
<tr>
<td>Total expenditure from 1 July 1974</td>
<td>99</td>
<td>211</td>
<td>352</td>
<td>552</td>
<td>428</td>
<td>649</td>
</tr>
<tr>
<td>Total programme expenditure</td>
<td>635</td>
<td>1302</td>
<td>888</td>
<td>1643</td>
<td>964</td>
<td>1740</td>
</tr>
</tbody>
</table>

Notes

i. The development and net production figures for Option 0 represent the contractual costs of terminating the programme.

ii. The figures for the 16 and 19 Options assume that all but two aircraft are sold.
The Legal Position

The development and production of Concorde is governed by the Anglo-French Agreement of 1962. Owing to events which have occurred since 1962, neither party is now under any obligation under this Treaty to continue with the Concorde project.

The fundamental objective of the 1962 Agreement was the production of a marketable aircraft. Since it is now apparent that this fundamental objective cannot be achieved neither country is under any obligation to authorize further development or the production of further aircraft. As regards work which has already been authorized, in particular the 16 aircraft, events have occurred which constitute a fundamental change of circumstances entitling either country to withdraw from the Agreement now.

Marketability of Concorde

The present position in regard to the commercial prospects of Concorde is as follows:

(a) It is now accepted by both countries that there is no reasonable expectation that the
aircraft which has been developed will be sold at anything but a loss, even if foreseeable sales are greatly exceeded (and there is no evidence that they will be exceeded);

(b) The Concorde Directing Committee have reported to the two Governments that 'great uncertainty surrounds the prospects for sales beyond those already made to British Airways and Air France, whatever version is offered to airlines'.

It is thus clear from the available evidence that neither the existing version of Concorde nor the modified version proposed by the French Government is a commercially marketable aircraft. There is no evidence that this situation will change.

Fundamental change of circumstances and work already authorized

The giving of authority for development work and the production of the 16 aircraft were stages in the process of implementing the fundamental purpose of the Treaty to produce a marketable supersonic aircraft. Since this purpose can no longer be achieved,
it follows that the fundamental underlying basis on which this work was authorized has disappeared.

The consequences are -

(a) that there is no obligation on either party to authorize further development or production; and

(b) either party is entitled to discontinue its support for any development or production already authorized.
Cabinet

Maplin Airport Project

Memorandum by the Secretary of State for Trade

1. The review of the Maplin Airport project which I announced on 21 March has now been completed. A report by officials will be published as a Departmental paper within a few days.

2. The air traffic forecasts, made after the fuel crisis, are lower than those of the Roskill Commission made in 1970 or of the Civil Aviation Authority made last year. Taking account of the growth of wider-bodied aircraft and an anticipated continued move towards a higher proportion of passengers per aircraft, no need is seen for further runway capacity at Heathrow, Gatwick, Luton and Stansted before 1990. The case for Maplin, therefore, rests on the need for further terminal capacity, and involves considerations of cost, noise, and other environmental factors.

3. A new airport at Maplin would ensure an adequate margin of terminal capacity even if the traffic turned out higher than the forecasts, and, from the date it became operational, it would allow a ceiling to be placed on further expansion at Heathrow and Gatwick and the closure of Luton and Stansted to passenger transport movements at least. Maplin could be further expanded to provide a solution to the growth of traffic as far ahead as can be foreseen. On the other hand, the maximum terminal capacity of the existing London area airports would set a limit on expansion at some point.

4. The expansion of Heathrow and Gatwick under existing plans, with some support from Luton and Stansted, would, however, be able to handle the forecast demand up to the mid-1980s. Beyond that there are a number of alternative options to Maplin, but they lie within the broad limits of expanding Heathrow and Gatwick beyond their existing plans, or a substantial expansion at Luton and Stansted. In either case the possibility of the use of regional airports needs to be further considered, although real relief in this way appears to be limited.

5. A Maplin Airport built to accommodate 28 million passengers in 1990 is estimated, with all its consequentials, to cost about £650 million (at 1973 prices). This would be some £300 million more than expanding Heathrow and Gatwick beyond their existing plans, which is, itself, the most expensive of the alternatives.
6. Aircraft noise will remain a very sensitive issue although, by 1990, it should be considerably less of a problem than at present and less than that foreseen by the Roskill Commission. I shall be giving particular attention to the encouragement of quieter aircraft and to measures to relieve noise nuisance at airports. In any case since Maplin could not become operational before 1985, expansion at Heathrow and Gatwick, at least, would still be needed within their existing plans.

RECOMMENDATIONS AND FUTURE ACTION

7. From the point of view of noise and safety a decision to abandon Maplin will be bitterly opposed by those who live around the existing four London area airports, and around those regional airports which might take traffic diverted from the South East. To abandon Maplin now entails risks about future airport capacity, but, on cost, the scales are heavily weighted against it and Maplin could turn out to be a most unprofitable investment.

8. I have discussed these issues with my colleagues on the Ministerial Committee on Economic Policy who have agreed to recommend that we should now abandon the Maplin Airport project. I propose to make an announcement in the House of Commons on the lines of the attached draft on Thursday 18 July.

9. Once this statement has been made, attention will need to be turned speedily to the alternatives. I recommend that the Government should allow time for a debate when the House has had time to digest the review and the content of my statement. This could clearly not be before the Recess.

P S

Department of Trade

12 July 1974
MAPLIN STATEMENT BY SECRETARY OF STATE FOR TRADE

1 With permission, I will make a statement about the review of the Maplin Third London Airport project.

2 The reappraisal which I announced on 21 March has now been completed and the results will be published this afternoon. This is a factual assessment by officials with the help of the Civil Aviation Authority, the British Airports Authority and the airlines. It deals essentially with the growth of air traffic in the London area up to 1990 and the way in which this might be handled.

3 The conclusions of the review of the need for a third London airport are significantly different from those of the Roskill Commission. Firstly, the review has produced forecasts of passengers and air traffic, taking account of the oil situation and a range of other factors affecting passenger growth. Demand in 1990 is forecast in the range of 72 to 106 million passengers, allowing for a Channel Tunnel. Without a Tunnel, the range goes up to 114 million. These are lower than past forecasts, but I would emphasise that accurate forecasting is difficult at this stage as we still have to see the continuing effect of higher fuel prices and how those prices might move over the next 16 years.

4 The passenger forecasts have been converted into air traffic movements, taking into account the development of wider bodied aircraft, higher passenger load factors, and the estimated composition of airline fleets in 1990.

5 The review has also re-assessed the runway and terminal capacity of the existing airports in the London area. The main conclusion, even on the highest forecast, is that looking ahead to 1990, there is no need for additional runway capacity in the London area. This means that the case for and against Maplin Airport rests on the need for passenger handling capacity, noise and other environmental matters, and costs.
6 The review shows that there are various ways in which passenger traffic could be handled if Maplin is not built. I particularly asked for consideration to be given to the possibility of diverting part of the South East traffic to regional airports both to relieve the pressure and to help in the development of other regions. Although it appears unlikely that passengers with origins or destinations in the South East will readily accept having to travel to airports very far to the north and west, I have asked my officials to consider these regional possibilities in greater depth and to report to me further. This will give time for fuller consultation with the authorities concerned and for account to be taken of the series of studies by the Civil Aviation Authority into regional airports.

7 I fully sympathise with, and understand, the anguish suffered by those whose lives are disturbed by aircraft noise. They do not want any airports near their homes. Therefore, quite independently of this review, the Government is urgently considering what can be done to reduce the noise nuisance by, for example, night jet curfews, the use of revised operational techniques, and improved facilities for noise insulation. My Department will consult with airport consultative committees and others similarly concerned with airport operation on this matter.

8 The review has paid particular attention to the anticipated noise levels in considering the various options. There have been important advances from the Roskill Commission. Quieter, new types of aircraft are appearing in our skies in growing numbers and I have recently required new production of existing types to conform to stricter noise standards. I am urgently examining with our operators and manufacturers how we can quieten those older aircraft now flying and achieve a progressive improvement in noise standards. For the future, even quieter engines are being developed and as older aircraft
are replaced by newer, larger types, more passengers can be moved without increasing the number of flights.

9. The review shows that, in the years to come, substantial numbers of people now suffering from serious noise at airports will be relieved and that, even with more passengers, the total noise nuisance will be less than foreseen by Roskill. Since an airport at Maplin could not, in any case, become operational until the mid 1980s, some development of existing airports is inevitable to handle increased traffic over the next 10 years.

10. The review has also produced comparisons of the cost of building Maplin and of developing alternatives. Because it would involve the reclamation of land, the removal of the Ministry of Defence establishments at Shoeburyness, and extensive new road and rail access, its total cost is not likely to be less than about £650 million. The review shows that there are other much less expensive ways of handling the traffic of the London area.

11. The Government has, therefore, decided to abandon the Maplin airport project.

12. The alternative options for 1990 will need careful consideration and more detailed consultation with local interests than it has been possible to undertake in the course of the current review. The review shows that, because of the slower growth of traffic, we now have more time to look at the alternatives. Because these do not involve a single massive investment like Maplin but a series of smaller planning decisions, their timing can be adjusted according to the need.

13. Consultations with local authorities and other bodies concerned will need to be held to enable their views to be fully taken into account in producing proposals for handling
the extra traffic which can no longer look to Maplin. Consultation will also take into account the possibility of diverting traffic to airports outside the South East. I am considering with my right Hon Friend the Secretary of State for the Environment the arrangements that should be made.

14 My right Hon Friend the Secretary of State for the Environment will be making a statement shortly about the Maplin Development Authority. He is still considering proposals from the Port of London Authority for a seaport.

15 I am sure that the House will wish to debate the matter of London air passenger traffic as soon as it has had a reasonable time to digest the review.
1. We need to take stock of our position on the Pay Board's report in the light of the various London weighting negotiations and the fresh fact of the Trades Union Congress (TUC) Conference called for next Wednesday.

2. The Government's position, as I stated it on 1 July, is to allow free negotiation on London Weighting while commending to negotiators the principles of the Pay Board's report as affording the most comprehensive factual basis for settlement which is fair to the rest of the country as well as to London. If those outside London think that London weighting is being increased beyond reasonable bounds they will try to follow with inflationary effect. This is what worries a number of manual unions who do not favour large increases in London weighting and this is the case for trying to encourage negotiators to keep to the principles of the report.

3. So far this position has been maintained in the public sector negotiations. The local authority employers have refused to exceed the kitty provided by the £400 and £200 figures; so have the Gas Council and the Burnham Committee; and the police negotiators are due to make an offer consistent with the report next Tuesday.

4. There has, however, been no sign yet of any union involved being prepared to settle on this basis. Indeed, the National and Local Government Officers' Association - who are concerned in several negotiations - seem less concerned at the moment to negotiate than to press employers to exceed the Pay Board figures under the threat of further industrial action. With teachers the Government are in the front line as employer and the National Union of Teachers are especially set on raising the £200 limit for outer London where most of their London members are.

5. There is the unhelpful prospect that the clearing banks - unless they can be dissuaded - will, later this week, make an agreement with the National Union of Bank Employees giving larger sums than £200 to people within a 10-mile limit. They will thus breach the Pay Board's principles and the insurance companies will probably quickly follow suit.
6. A marked feature of the situation is the confusion which now appears to exist about the Government's position. London Labour MPs, employers and unions are all pressing to know whether the Government really mean that there can be free negotiation or whether the Pay Board's recommendations must be followed. This question has arisen sharply with the teachers where there is the possibility of using the Government veto to stop any settlement which breaches the Pay Board's report; and is expected to come to the fore at the Conference of unions that the TUC are holding next Wednesday on the subject. It is quite possible that the Conference will end with the TUC General Secretary being commissioned to seek from me an explicit assurance that the Pay Board report is not seen by Government, either generally or as employer, as a strait-jacket but simply as guidance to negotiators who will have the responsibility of deciding whether and how it should apply to their particular circumstances.

7. With these developments, actual and prospective, in mind it seems to me that:

i. I should be prepared to give such an assurance to the TUC if they seek it. This would be no more than a clarification of my statement of 1 July which left the responsibility squarely on negotiators to reach settlements, even if these were not entirely in line with the Pay Board's report; and since then, the local authority employers have been told that there is nothing to stop them exceeding the kitty given by the Pay Board's figures if they decide that this is necessary for a settlement. At the same time I would repeat that, in so far as the case for London weighting is one of the compensation for additional cost, negotiators need to take account of the Pay Board's conclusions if increases in London weighting are not to favour Londoners at the expense of the rest of the country.

ii. The Government, as employer, should still try to get settlements consistent with the Pay Board's principles and ought not themselves to lead the breach, eg with the teachers or police. So long as we can get other members of the management panels to refuse to go along with a breach of the Pay Board's principles at this stage, we should not be disturbed even if this does mean that negotiations run on or even break down for a time. The teachers, for example, are in a weak position with the end of term coming soon and they are the group which have had the most done for them by the Government.

iii. Nonetheless, it will not do for us to adopt a rigid attitude by ruling out in advance any possibility of some departure from the Pay Board's report. To do that - for example, by contemplating a veto in Burnham on any settlement which did so depart - would expose the Government to charges of not allowing free negotiation and put us in an untenable position if the banks or others eventually breach the Pay Board's report.

8. I invite my colleagues to agree with the approach proposed in the preceding paragraph.

M F

Department of Employment
15 July 1974
17 July 1974

CABINET

PEERS ALLOWANCES

Memorandum by the Lord Privy Seal

1. In an agreed Statement to the House on 21 May I undertook that the rate of the Peers' daily expenses allowance should be considered in the light of any recommendations made by the Boyle Committee on Members' allowance.

2. I therefore seek the agreement of colleagues to my proceeding as follows:

3. First, that I should announce before the Recess that the present daily allowance be raised from a maximum which may be claimed of £8.50 to £11.50 as from 1 August. Second, that I also announce that the whole basis of the allowance is to be considered by an independent enquiry, by say the Boyle Committee, with a view particularly to deciding whether a differential allowance favouring provincial Peers would be the best way of proceeding in the future.

4. It is accepted that Members' allowances should be increased. I propose the increase in the Peers' allowance on the following grounds:

1. The basis for the Peers' allowance has always been a linkage with the night subsistence allowance for senior civil servants; the civil servants tax free night allowances have now been raised three times since January 1972 with no accompanying increase for Peers. By applying the same rules as in the past this should now give the Peers a daily expenses allowance of £11.50.

The Lord President of the Council says at paragraph 5 of his memorandum (C(74) 71) with regard to the secretarial allowance that "the allowance is on a reimbursement basis and the increase will not therefore go into the Member's own pocket". This argument applies exactly to the Peers' allowance and it must be accepted that the reason why the increase is substantial is because of inflation.
2. The average of the increases recommended for Members by Boyle (apart from the car allowance which will automatically apply to Peers also), is 48 per cent compared with a proposed 33 per cent increase for Peers. I would also remind colleagues that Peers do not enjoy free postage, unlike Members, and the most recent increase here is of the order of 25 per cent.

5. I believe an enquiry to be essential because the time is coming when the whole basis of the present allowance may no longer be appropriate for the House of Lords. I recommend that the enquiry should particularly consider the question of a differential allowance for provincial Peers whose expenses are different from those of London-based Peers. There are considerable difficulties in such a scheme, particularly in relation to tax considerations.

6. I recommend therefore that I should announce, at the same time as the Lord President of the Council announces the increases for Members, that as from 1 August the daily expenses allowance for Peers will be raised to £11.50 and also that the Boyle Committee have been asked to consider the present basis of the allowance with a view to making recommendations for the future, particularly on the question of a differential allowance.

House of Lords

17 July 1974