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EDUCATIONAL DISADVANTAGE AND THE EDUCATIONAL NEEDS OF IMMIGRANTS

Note by the Secretary of State for Education and Science

For the information of my colleagues I am circulating with this note a copy of the Confidential Final Revise of a White Paper about Educational Disadvantage and the Educational Needs of Immigrants. The White Paper will be published at 11.00 am on Wednesday 28 August.

R E P

Department of Education and Science

23 August 1974
Educational Disadvantage and the Educational Needs of Immigrants

Observations on the Report on Education of the Select Committee on Race Relations and Immigration

1. The Government welcome the Report on Education by the Select Committee on Race Relations and Immigration. They believe that the education service has important contributions to make both to the well-being of immigrant communities in this country and to the promotion of harmony between the different ethnic groups of which our society is now composed. This is because, first, the education service has some responsibility to assist citizens of all ages to develop their abilities to the full and, within that responsibility, a special obligation to children who for one reason or another are most at risk of not achieving their true potential; and second, education can be a potent instrument for increasing understanding and goodwill between the races. It would be wrong to suppose that education alone can achieve all the objectives on which society may set its sights, or that it can function unaffected by conditions in society at large. As the Select Committee point out, these must have an impact on the environment in which pupils, students and teachers work. Nevertheless, the Government believe that over the years the education service has achieved significant results, and at the same time they accept that much remains to be done to meet the needs of immigrants and their children. The Committee's Report contains valuable suggestions for action; these the Government have carefully considered from the standpoint of how they can promote the objectives indicated above. Among other measures, they have decided to set up within the Department of Education and Science a special unit to deal with the needs of all those suffering from educational disadvantage including the special needs of different ethnic groups (see paragraph 10 below).

2. The arrival in our society of people with a variety of social and cultural backgrounds has faced the education system with particular challenges. Many may wish to pursue the social objectives associated with their own culture as well as that of the host society. All, of whatever ethnic group, aspire to employment and levels of income commensurate with their abilities; but many enter the education system with sizeable handicaps. These are most pronounced for the new arrivals—children and adults—who are confronting for the first time an alien culture and have, additionally, inadequate command of the English language or indeed no knowledge of it at all. Lesser, but still serious, difficulties may face adults from some ethnic groups after many years in this country, who, although reasonably settled in a way of life here, had all or most of their education in their country of origin. The Government accept that members of the immigrant communities recently established in this country have specific educational needs arising from the fact of immigration and its continuing consequences—needs which may differ according to the country of origin. Some of the measures taken to meet them are described elsewhere in this Reply. There will be a continuing requirement for such measures for many years.

3. At the same time the likelihood is that arrivals of new immigrants into the United Kingdom, both adults and children, which have fallen in recent years, will not again rise to the levels of a few years ago and will eventually fall further. Thus an ever-increasing proportion of the children of immigrant descent entering
the schools will have been born in this country, many of them to parents settled here for many years or indeed themselves born here. It is true that some of these children may have been reared in the language and customs of the country of origin and may need the same sort of help as a newly arrived immigrant child. But, where immigrants and their descendants live in the older urban and industrial areas, the majority of their children are likely to share with the indigenous children of those areas the educational disadvantages associated with an impoverished environment. The Government believe that immigrant pupils will accordingly benefit increasingly from special help given to all those suffering from educational disadvantage. They accept the Select Committee's view that many of those born here, of all minority ethnic groups, will experience continuing difficulties, which must receive special attention from the education service. But others, including many children and adults of indigenous origin, also have particular problems to which the education service must respond; and in large, if not in complete, measure much the same effort and attention will be called for. The pattern of special help must thus provide for all those suffering educational disadvantage, taking account of the distinct needs of different ethnic groups and of individuals, whatever their origin.

4. The Government are thus concerned that children in this situation should receive the help that they need. This requires that they should be identified by those—in the main the local education authorities and the schools—who can give them this help. It is not, however, necessary for this purpose that individuals should be identified by means of national statistics. The Department of Education and Science formerly collected national statistics of immigrant pupils, based upon part only of the relevant population. These statistics were not, of course, the Government's only source of information on the education of immigrant pupils; there were also reports from Her Majesty's Inspectorate and the findings of research commissioned by the Department of Education and Science, in particular the two reports published by the National Foundation for Educational Research, "Immigrant Pupils in England" and "Organisation in Multi-Racial Schools". But in themselves the statistics, as the Select Committee concluded, yielded very little information of educational value; the criteria were too unselective for the resulting figures to serve as a basis for Government policy, while local authorities, schools and teachers required their own more refined assessments of needs in order to take the various types and levels of decision within their responsibilities. As the Select Committee know, over a considerable period the Department of Education and Science devoted effort to exploring whether some other satisfactory basis of statistical return could be agreed, but these efforts did not succeed. In the Government's view the main reason for failure was that no general factual definition could answer such need as is felt within the education service for information about the educational needs of immigrants, and that a proper assessment of these needs through the mass collection of national statistics was not feasible. The previous Government therefore accepted the Select Committee's recommendation that the count of immigrant pupils in schools on this approach should be abandoned forthwith. As the next count fell due to be made in January 1974, the decision was made known last November in advance of this Reply.

5. Clearly new initiatives are required for the future. It is the local authorities and schools which need to identify individual children who are suffering from educational disadvantage. But the Government need a soundly based appraisal
of the extent of the problem. This appraisal could be based on a sample of the
relevant population and the procedures used to make it should have no implica­
tions for the educational treatment of the individual pupils in the sample. This
is an operation which both raises issues of principle and involves difficult
technical problems. Initially, the Department of Education and Science will
consult with the associations of teachers and local authorities on the objectives
and methods involved. Thereafter it will be necessary to commission detailed
study and investigation of the extent to which it is feasible to measure the
attainment of boys and girls at school, and differences in that attainment
between those suffering from social disadvantage, and others, and between
immigrants and others.

6. The steps described in the previous paragraph will take some time to yield
results. They should give the Government a better measure of the problems but
will not in themselves suggest remedies. Meanwhile there is much that can be
done to secure improvements in the education of immigrants and disadvantaged
children generally, and there is every reason to do it. To a large extent this is a
matter of the dissemination of existing good practice. It has always been part
of the role of Her Majesty's Inspectorate to identify promising developments
in this as in other fields and to advise local authorities and teachers on the
introduction of such developments in new settings. Much of this, of course,
relates to local situations but the Inspectorate has helped the Department to
produce three pamphlets on the more general aspects of the education of
immigrants; “The Education of Immigrants” and “Potential and Progress in a
Second Culture” both published by Her Majesty's Stationery Office in 1971,
and “The Continuing Needs of Immigrants” published in 1972. In addition
most local authorities employ inspectors or advisers and many of those with
substantial immigrant populations have a specialist adviser on immigrant
education. Teacher training, more especially in-service courses, also has an
important part to play, as the Select Committee noted in their Report. The
Government's views on these matters find expression in their later comments
on the recommendations explicitly addressed to the question of teacher training,
Nos. 9-13 below.

7. The Select Committee's Report rightly draws attention to the contribution
of further and adult education to the educational needs of immigrants. But much
more is being done by these services than the Committee were able to comment
on in their Report. For instance, by March 1974, twenty further education
establishments were offering preparatory courses mainly, but not exclusively, for
immigrants with an inadequate knowledge of English and Arithmetic. These
courses are arranged by the Department of Employment in conjunction with
local education authorities and are intended for adults whose standard of
literacy or numeracy is a bar to vocational training under the Training Oppor­
tunities Scheme, or to suitable employment. In addition there are part-time
courses in English for unemployed immigrants, and some further education
establishments are able to take account of the special language problems of
some immigrant students in the wide range of GCE, vocational and non­
vocational courses which they provide. There is also the contribution made
by the Youth Service and similar provision for young people. Many immigrants
participate in the facilities on offer. In recent years the Department of Education
and Science has devoted a considerable proportion of its grants for experimental
work to action-research into the ways in which the Youth Service can assist with the integration of young immigrants and in which the Service can respond to their needs. Here too it appears that immigrants share many problems with other disadvantaged young people.

8. The above is not intended to be a comprehensive list of what is being done, nor would the Government claim that enough is already being provided. However, while they do not dissent from the Select Committee’s view that in the immediate future local education authorities may have to give priority to improving their services for immigrant children, the Government believe that provision is also required for adults. Such provision will be for the sake of the adult immigrants themselves (to enhance their opportunities of self-fulfilment and of integration in our society), for society’s sake (to assist racial harmony and enable immigrants to make their fullest contribution to national life), and for their children’s sake (to increase the number of immigrant homes where English is spoken). The Government therefore welcome the initiatives that are already being taken by local education authorities and voluntary bodies in these fields and wish to encourage further developments. The Government will sponsor research into the educational needs of immigrant adults and into ways of meeting those needs. They will also encourage local education authorities in areas where there are immigrant communities to co-ordinate their work with that of the voluntary bodies so that adequate opportunities can become available for those who require them.

9. The Government attach importance to the advancement of harmony between the races in this country’s multi-cultural and multi-racial society and believe that such harmony must be based on mutual understanding and respect. For the education service this implies that all pupils and students should be enabled to acquire a greater knowledge and appreciation of the cultural traditions of the countries of emigration as well as of this country, and to develop rational attitudes to race and colour. A condition for success in this aim is that the teachers should have had the opportunity to gain the necessary knowledge and skills through initial and in-service training. “Teacher Education for a Multi-Cultural Society” — the recently published Report of a Joint Working Party of the Community Relations Commission and the Association of Teachers in Colleges and Departments of Education—will stimulate and inform discussion among all concerned with teacher education and training of how this may be better ensured for the future. The Government also welcome the initiative of the National Foundation for Educational Research, the National Union of Teachers and the National Association for Multi-Racial Education in proposing to the Schools Council for Curriculum and Examinations (which is gran-vaided equally by the Department of Education and Science and the local education authorities) a research project to develop curriculum materials on the theme of education for a multi-racial society. This project has already produced two preliminary reports surveying existing work. The Government acknowledge the work of the educational staff of the Community Relations Commission in promoting by a variety of means good race relations in educational establishments. Numerous voluntary bodies are engaged in similar work.

10. The Government believe that it is necessary to make more formal arrangements for the development of the work which is now being done on the education
of immigrants and education for a multi-racial society. But they also see a need to provide for all those suffering from educational disadvantage, and, consistently with the approach described in paragraph 3 above, they have decided that the arrangements which they create, while allowing for any distinct educational needs of different ethnic groups, should have this broader concern. The Government will therefore establish as a fully integrated part of the Department of Education and Science a unit to be called the Educational Disadvantage Unit. A statement of the terms of reference and principal tasks of this Unit is at Annex A.

11. The Government also believe that the local authorities, school teachers, and staff in further and adult education would welcome a source of information and advice on curriculum and teaching methods for the disadvantaged. This could be provided by the establishment of a centre which would draw together the results of research and development undertaken by other bodies such as the Schools Council and the National Foundation for Educational Research or sponsored by the Department of Education and Science, local education authorities and others, disseminate advice to teaching staff and encourage new developments in the schools and colleges. The centre would be independent of Government control, as is the tradition in matters affecting the curriculum. As the work of this centre develops, the Government will consider whether it would be expedient to link to it a number of regional centres to facilitate the task of dissemination. There might be scope for such regional centres to develop some amount of specialisation to take account of local needs.

12. These then are in the Government’s view the general directions of advance for the education service. There will be new initiatives to identify educational disadvantage and to tackle the problems which it presents. The need to educate children and adults for life in a multi-racial society is recognised and the implications of this for the education service are accepted. There will be new machinery geared to improving the performance of the education service in tackling the needs of those suffering educational disadvantage, including the majority of immigrants. The success of these policies will depend in very great measure not on the Government itself but on the local education authorities, the teaching profession and voluntary bodies. In all this the Government will seek their close co-operation.

13. Subsequent paragraphs deal with various specific recommendations listed in paragraph 228 of the Select Committee’s Report.

RECOMMENDATION (1)

“Local education authorities should be in no doubt that facility in English is of crucial importance, not merely at the first stage of simple communication, but to a standard which will enable immigrant children to compete on equal terms with their contemporaries.”

The Government accept that a good command of English is of crucial importance for immigrant, as for other, pupils. Advice and assistance to local education authorities have consistently reflected this principle.

RECOMMENDATION (2)

“The Department of Education and Science should institute a survey of the various methods of dealing with the education in English of immigrant children, with a view to advising local education authorities on the best practice.”
There is a need to distinguish here between teaching methods, i.e. the professional methods used by a teacher with an individual or class, and the organisational arrangements adopted by a school or local education authority.

At national level the Schools Council seeks to develop new methods and materials so as to widen the range of choice open to teachers. Its work on the education of immigrants and on race relations is described in Appendix 24 in Volume III of the Committee’s Report. The Council has supported two major projects in language teaching for immigrants, one for non-English speakers and one for pupils from the West Indies. Both projects incorporated surveys and field trials.

In choosing what arrangements to employ for teaching English to immigrant pupils, the local authorities and schools need to take account of local circumstances (such as the degree of concentration of immigrants in the area and the time elapsed since their arrival) and of the particular needs of the pupils whom they have to educate (which will vary according to age, country of origin, home circumstances, and so on). In the Government’s view, it would not be practicable to cover all the factors of this kind which would need to be studied in a single national survey, or to distil from such a survey a body of good practice for application throughout the country.

The Government do, however, support research into certain aspects of teaching English as a second language. A project on the “Educational Arrangements for Schools with Immigrant Pupils”, undertaken at the National Foundation for Educational Research has been looking at language teaching in the context of a general survey of the education of immigrants, and some of its results have been published. Another project at the NFER has devised and published standardised tests of the proficiency in English of immigrant pupils. As a follow-up of the original project, these tests have been administered to a sample of children of varying educational experience.

Members of Her Majesty’s Inspectorate of Schools advise authorities and teachers on arrangements and methods of tuition in English suited to their circumstances. In 1969–70 a special programme of inspections was drawn up to study an aspect of English teaching which seemed to need more attention: “second-phase” teaching for immigrant pupils who had had some initial instruction in English and had then been placed in secondary schools. Some conclusions from this programme were summarised in “The Continuing Needs of Immigrants” which followed on the general advice given in “The Education of Immigrants.” There have also been a number of local surveys by Her Majesty’s Inspectorate which have proved their value to the education authorities concerned. In drawing up its future programme of inspections, the Inspectorate will have regard to the desirability of devoting more time to the teaching of English to immigrants whether by inspection of schools with large numbers of immigrants or by surveys.

RECOMMENDATION (3)

“Local education authorities to whom it is applicable should consider how best to approach, with tact and discretion, the convincing of West Indian parents that some of their children may need special English teaching, without implying that their children, because they lack standard English, are basically inferior.”

The Government trust that local education authorities will take note of this recommendation. In a circular letter on “Educational Arrangements for
Immigrant Children who may need Special Education" sent to Chief Education Officers on 1 November 1973, the Department of Education and Science drew attention to the fact that West Indian children as well as non-English speakers may have language difficulties. The letter also advised that, when teachers first began to think that a child might need special assistance, the matter should be discussed unhurriedly and sympathetically with the parents. The expansion of nursery education should increasingly make it possible for appropriate steps to be taken at an early stage of children's development.

RECOMMENDATION (4)

"Local education authorities should seek to expand contacts between families and schools by all possible means, paid or voluntary".

The importance, for all children, of strengthening the links between home and school is now widely recognised within the education service. As the Committee say, this must primarily be a matter for local initiatives tailored to the needs and opportunities which present themselves in the areas concerned. The maintenance of good relations makes heavy demands on staff time and voluntary help, often supplied by the parents themselves, can be of the greatest value. The Government have been able to support the efforts of the local authorities and voluntary interests in a number of ways. Following a recommendation in the Report of the Plowden Council “Children and their Primary Schools” (Her Majesty's Stationery Office, 1967), the Department of Education and Science prepared a booklet containing examples of good practice in home and school relations, which was published as “Parent Teacher Relations in Primary Schools” (HMSO, 1968). More recently the report of the Educational Priority Area action-research project financed by the Department of Education and Science, the Scottish Education Department and Social Science Research Council ("Education Priority", Volume 1; HMSO, 1972) has suggested methods whereby parental interest and co-operation in education may be enlisted in socially disadvantaged areas. Some local education authorities have been able to undertake appropriate developments of their services from the resources ordinarily available to them. In Phase 9 of the Urban Programme the Government invited bids from local authorities for home-school projects and this met with a ready response. The invitation has been renewed in Phase 11. In the selection of such projects for approval under the Programme the Government will keep the claims of multi-racial areas very much in mind. In Circular 2/73, which gave guidance concerning the expansion of nursery education, the Department of Education and Science asked local education authorities to do everything possible to provide amenities to make it easier to welcome parents into schools and enable them to participate in their work. The Circular also recommended that authorities should provide opportunities in colleges of further education and elsewhere for parents to learn more about young children.

RECOMMENDATION (5)

"The DES should seek to discover and evaluate what is being done by social/educational aid to alleviate the problems of urban deprivation, advise local education authorities of their findings and encourage them to follow the best practice".

It will be among the tasks of the special unit in the Department of Education and Science and of the information and advice centre proposed in paragraphs 10
and 11 of the main part of this Reply to develop advice of this nature. Meanwhile DES is undertaking a limited follow-up of some of the projects approved under Phase 9 of the Urban Programme, and local education authorities will find many helpful suggestions in "Educational Priority, Volume 1."

RECOMMENDATION (6)

"Careers advisory services should be strengthened".

Under the Employment and Training Act 1973 local education authorities are required (from April 1974 in England and Wales and from May 1975 in Scotland) to provide a vocational guidance and employment service for pupils at school and for all students attending full-time and for certain students attending part-time courses of further education. These arrangements supersede the previous system whereby the Youth Employment Service was provided in most of the country by local education authorities but in some areas by the Department of Employment direct, and enlarge the responsibilities of the Service for students at further education establishments.

It is for the local education authorities to determine how many careers advisers to employ subject to the guidance of the Secretary of State for Employment. This guidance suggests that the needs of immigrant young people warrant special consideration and that extra staffing resources should be provided. It is open to local authorities to apply for assistance with the cost of such appointments under Section 11 of the Local Government Act 1966. The arrangements whereby careers officers are able to call on the help and support of the Department of Employment's race relations employment advisers in each region will continue.

The Survey of Careers Education in England and Wales recently issued by the Department of Education and Science is likely to prove an incentive to local education authorities and teaching staffs to give high priority to the process of educational and vocational guidance—an essential element in secondary education. In this context, the special needs of immigrant boys and girls will be a matter for joint concern on the part of teachers in school and the careers officers who work in partnership with them. The new emphasis on providing a service for students at further education establishments will help to increase and improve the already strong links between those establishments and industry to which the Committee refer in Recommendation 16.

RECOMMENDATION (7)

"All local education authorities should draw the attention of head teachers to the need to keep their ideas up to date on the choice of books in a mixed society".

The choice of books for use in schools is, as the Recommendation implies, a matter for the judgment of local education authorities and the governors or managers and heads of schools. A number of bodies, both national and local, produce reading lists for the guidance of teachers.

RECOMMENDATION (8)

"Her Majesty's Inspectorate, the Schools Council and teachers should seek every opportunity within the curricula for broadening horizons, for giving this half of the world more chance to discover how the other half lives. This should be reflected in the content of examinations and in greater use of the multi-racial Commonwealth as a new dimension in the study of many subjects in the curricula".
The Government accept that it is essential for children and young people to learn about the backgrounds of their future fellow citizens and, on a wider canvas, to be made aware of the conditions of life in countries other than their own. In practice the teachers have to decide within the context of an overcrowded curriculum how much time they can devote to these needs, and the best methods of meeting them. General Studies Courses in schools and further education establishments often include learning about such subjects. The work of some agencies which advise teachers on this aspect of the curriculum has been described in paragraph 9 above. In the ordinary course of its work of advising local education authorities and teachers, and through its short course programme, Her Majesty's Inspectorate helps to identify good practice and to encourage development in this area of work. The Commonwealth Institute and the Royal Commonwealth Society organise courses and conferences, and provide materials and information for teachers on many aspects of the Commonwealth. Local authorities also include material about the Commonwealth in their in-service training courses for teachers and in displays at teachers' centres.

External examinations for the GCE and CSE cover only the final stages of schooling and, at any rate before the school leaving age was raised, about 40% of school leavers did not attempt them. The GCE and CSE Boards, as independent bodies, are responsible for setting their own syllabuses; the Schools Council's supervisory powers are limited to the approval of new syllabuses proposed by the GCE Boards at Advanced Level. However, the teachers are strongly represented on all the examining boards and the boards have always shown a flexibility of approach to changes of emphasis in the curriculum.

RECOMMENDATION (9)

"Students at colleges of education should be made aware that, wherever they teach, they will be doing so in a multi-cultural society. This should be reflected not so much in special courses, but throughout the training, more particularly in such aspects of it as the sociology of education."

RECOMMENDATION (10)

"Specialist courses in race and community relations should be considered by colleges of education in immigrant areas".

RECOMMENDATION (11)

"Local education authorities, with the co-operation of university departments, polytechnics, colleges of education and other suitable bodies, should expand in-service courses of special training for teachers in schools with pupils of different cultures. They should also introduce or strengthen, perhaps by visiting groups, specialist training of teachers in such schools. The advice and help of DES should be sought".

RECOMMENDATION (12)

"The DES should make a close study of the problem of shortage of teachers able to teach English as a second language and of people to train them".

RECOMMENDATION (13)

"The DES should seek finance to ensure that the level of visits and exchanges of teachers and others overseas does not drop and preferably increases. They
should also ensure that the experience of those who go overseas should be as widely spread through the educational system as possible”.

The Government are in general agreement with the Select Committee’s recommendations in the field of teacher training and in particular with the relative emphasis placed by the Committee on the role of in-service training. Consultations have been initiated with those concerned to establish guidelines for a programme of progressive expansion of in-service training opportunities for teachers generally. It may be expected that within this programme the pattern of local development will reflect, in both the content and structure of courses (including the balance between school-based and other forms of training), the specific needs of the education service in each area. The Government share the concern of the Committee to ensure that there are sufficient teachers equipped to teach English as a second language and propose to make a careful study of how this may be best achieved. The increased opportunities for in-service training and the improved arrangements which are to be introduced for the induction of new teachers are likely to make a particular contribution in this field.

As far as initial training is concerned, colleges and departments of education (with whom responsibility for the curriculum rests, under the general supervision of their area training organisation) are increasingly alive to the need to introduce their students to an awareness of the multi-cultural society, and where appropriate to provide more specialised courses in race and community relations and associated subjects.

The Government accept that visits and exchanges of teachers and others overseas have a useful, though necessarily limited, role to play, and that it is important that the experience of those who go overseas should be widely disseminated. The Department of Education and Science have funds available to assist exchanges of teachers with developing Commonwealth, as with other, countries. Concerning visits, the Government take the view that it is for local education authorities, as providers of the education service and employers, to determine in the light of their other financial commitments what priority to assign to supporting teachers on future visits or courses overseas. If there is evidence of a demand by authorities for further courses, the Department of Education and Science will be ready to make appropriate arrangements and, as in the past, to meet the central course expenses.

RECOMMENDATION (14)

“Local education authorities should seek vigorously to increase the provision for nursery education, particularly in areas of deprivation. The Government should, when considering the cost, take into account the implications for race relations”.

The Government accept that nursery education is particularly valuable as a means of reducing the educational and social disadvantages suffered by children from homes which are culturally and economically deprived. The importance of language difficulties as a source of educational handicap is recognised; these difficulties are acute for many immigrant children with non-English-speaking home backgrounds.

The new building programme for the systematic expansion of nursery education begins this year. The allocations to local education authorities have been weighted in favour of areas of social deprivation and will thus be of special benefit to areas in which there are large numbers of immigrant children. Although the initial allocations to local education authorities also reflect the
deprivation which exists in rural areas, the large conurbations will maintain their accelerated start in the expansion of nursery education provision.

The Government take the view that local education authorities are in the best position to assess the needs of their own areas, and their proposals show that they intend to give priority to disadvantaged children. Over half the new places which they proposed to provide in 1974–75 are for areas of special social need, including the inner city areas. The Government are confident that, where appropriate, authorities will continue to have regard for the needs of immigrant pupils, not only in the distribution of new places but also in the range of facilities provided and in the choice of teaching programmes. The Government also recognise that in areas of social disadvantage the proportion of children needing to attend on a full-time basis will be higher than average.

RECOMMENDATION (15)

"Where local education authorities are satisfied that a voluntary or semi-official body is meeting the need for the education of adult immigrants they should offer advice and (limited) funds to enable the work to continue and expand".

The Government's general views on the role of adult education in providing for immigrants are set out in paragraph 8 above. This recommendation might best be considered in the light of the Report by the Committee of Enquiry into Adult Education, chaired by Sir Lionel Russell, CBE, "Adult Education: A Plan for Development". A number of the recommendations of that Report, published in March 1973, relate to the education of the adult disadvantaged, amongst whom are those with a limited educational background or with an inadequate command of English, and with the co-ordinating role of local education authorities in the provision of adult education. The Government are not yet able to announce their conclusions on the Russell Committee's Report but, in the meantime, they will draw this recommendation to the attention of local education authorities; and will continue the support already available through Section 11 of the Local Government Act 1966 and the Urban Programme.

RECOMMENDATION (16)

"Local education authorities should seek to make links with industry for further education of immigrant employees".

The Government will draw this Recommendation to the attention of local education authorities. Consultations have begun with selected authorities with a view to establishing a number of units which will provide language training at the employers' establishments on the lines of the Pathway Centre at Ealing, to which reference is made in paragraphs 135–6 of the Committee's Report.

RECOMMENDATION (17)

"The Home Office should reconsider whether 15 hours a week is long enough to be classified as a full-time course for overseas students, and whether colleges should not be made responsible for notifying them of a student's prolonged absence".

The Government will consider this recommendation in the context of the immigration control system and will consult appropriate bodies on any change in existing practice which may be contemplated.
RECOMMENDATION (18)

"The DES should look again at the grant regulations to students for further education to see whether potential sources of friction can be eliminated."

Awards to students on further education are of two kinds: mandatory awards for students on first degree and comparable courses who satisfy certain conditions laid down in the Awards (First Degree etc.) Courses Regulations 1971, and awards at the discretion of local education authorities ("discretionary awards") for students not satisfying those conditions or on other kinds of course. The Awards Regulations do not cover the administration of discretionary awards which is a matter for local education authorities.

With regard to mandatory awards the Regulations prescribe for which students local education authorities should accept responsibility. In particular they make clear that the authorities have no duty to make awards to students who have not been resident in the United Kingdom for at least three years before the start of their course, unless their absence abroad has been for one of certain specified reasons. Advice on the making of awards under the Regulations was given to local education authorities in the Department of Education and Science Circular 5/71. The Government will consider when next the Regulations are revised whether it would be possible to simplify them, but the principle of fairness to students in widely varying circumstances must be preserved. Within the framework of the Regulations it is for the local education authority to decide how far it will carry its enquiries into a student's circumstances.

RECOMMENDATION (19)

"If the disproportion of West Indian children in ESN schools and classes in Greater London continues the DES should institute a special inquiry into the reasons for it."

One of the suggestions contained in the Department of Education and Science Circular letter to Chief Education Officers, mentioned in the comment on Recommendation (3) above, was that all local education authorities with a sizeable immigrant child population should make plans to provide by an early date special facilities in ordinary schools to overcome the linguistic and adjustment problems of immigrant children with a level of ability higher than the general run of pupils in special schools for the educationally sub-normal. If the Government have reason to think that the disproportion referred to by the Select Committee is continuing, they will consider asking the local education authorities concerned to report on progress with their plans.

RECOMMENDATION (20)

"Dispersal should now be phased out as soon as possible in those areas where it is still pursued, but where there is a sufficient number of parents who prefer their children to be dispersed arrangements should be made, if practicable, to meet their wishes."

The Government drew attention to some of the disadvantages of dispersing immigrant pupils in "The Education of Immigrants" and the same pamphlet stressed the importance of respecting the wishes of parents in the matter of choice of school. However, the decision whether or not to disperse immigrant pupils has to be taken by the local education authority in the light of their
judgment as to what will best serve the interests of the community as a whole. The local education authorities will, no doubt, bear in mind the Select Committee's Recommendation.

RECOMMENDATION (21)

"The collection of statistics under the present DES formula should cease forthwith".

RECOMMENDATION (23)

"Local education authorities should be required, as a condition of using the Department's resources and services, to report to the DES regularly and fully on the situation in their area and what they are doing about it".

RECOMMENDATION (24)

"An immigrant education advisory unit should be set up in the Department of Education and Science".

The Government's response to these Recommendations is set out in the opening paragraphs of this Reply.

RECOMMENDATION (22)

"Consideration should be given to the establishment of a central fund to which local education authorities could apply for resources to meet the special educational needs of immigrant children and adults."

The Government have given consideration to the case for a central fund for the education of immigrants. The case for a central fund seems to rest on two arguments. The first is that the presence of large immigrant populations places a burden on local authority services (among them, education) which falls more heavily on some local authorities than others because of the uneven pattern of immigrant settlement. The second is that local education authorities will not take initiatives to improve the education of immigrants unless there is an earmarked Department of Education and Science fund on which they can draw to meet the cost. The first of these arguments has been accepted by successive Governments. It is for this reason that they have maintained the provisions of Section 11 of the Local Government Act 1966 under which local authorities with large numbers of Commonwealth immigrants can obtain Exchequer grants of 75% on the cost of the extra staff whom they have to employ. In the latest year for which figures are available, the Government expenditure from this source on educational staff specifically amounted to £6m. In addition it has been the practice over the years to devote some Urban Programme monies to schemes, including educational schemes, explicitly of benefit to immigrants or for areas where large numbers of them live. It was announced last December that an extra £6m would be added to the Programme to be used exclusively to assist local authorities whose services were under strain because of the high concentrations of immigrants in their areas.

The Government do not believe that the second argument is borne out by experience. The public provision of education is, for the most part, the responsibility of the local education authorities. It is financed like any other local authority service largely through the rates and Rate Support Grant.
It is the job of the local authority to decide how best to use its resources of staff and money to meet the needs of its area. If specific grants for particular aspects of education in which the local authorities have previously enjoyed discretion were to be introduced, the effect might be to reduce the scope of local responsibility. Since the Government believe that such responsibility is essential to the vigour of local government, they would be reluctant to do this, and their policy is to channel special assistance through Section 11 and the Urban Programme (use of the latter is not confined to immigrants) which apply to a wide range of local services, thus giving the authorities the opportunity to set their own priorities.
THE EDUCATIONAL DISADVANTAGE UNIT

Terms of Reference
To serve as a focal point for consideration of matters, at all stages of education, connected with educational disadvantage and the education of immigrants; to influence the allocation of resources in the interests of immigrants and those identified, on the best currently available criteria, as suffering educational disadvantage; to develop in association with the Assessment of Performance Unit (APU)* other relevant criteria to improve this identification; to establish suitable arrangements for promoting good practice by the educational system in its treatment of the disadvantaged and of immigrants.

Tasks
1. To advise the Secretary of State and to keep in touch with other Departments, local authorities, national statutory and voluntary bodies, educational establishments and teachers.

2. To inform itself of the extent and distribution of educational disadvantage and of the methods used (eg by local education authorities) to define its incidence.

3. To appraise educational measures (whether under special programmes or as a component of existing programmes) which have been, and are being taken to assist the deprived (including immigrants), by central government, LEAs and others.

4. To identify (in conjunction with the APU as appropriate) the incidence of successful practice in meeting the needs of all those suffering educational disadvantage.

5. To promote within existing programmes the allocation of resources weighted in the interests of those identified as suffering educational disadvantage, and to administer any special resources available.

6. To encourage experiments and developments likely to help solve any part of the problem.

7. To establish an information centre (independent of the Department of Education and Science) concerned with giving advice on curriculum, teaching methods, etc., and on good practice generally relevant to the education of the disadvantaged and immigrants.

8. To co-ordinate the Department of Education and Science’s interests in relevant inter-Departmental activities in the field of social deprivation.

9. To promote such further research as may be necessary.

* For convenience, the terms of reference and tasks of the APU (like the Educational Disadvantage Unit, an integrated part of the Department of Education and Science) are set out in Annex B.
THE ASSESSMENT OF PERFORMANCE UNIT

Terms of Reference

To promote the development of methods of assessing and monitoring the achievement of children at school, and to seek to identify the incidence of under-achievement.

Tasks

1. To identify and appraise existing instruments and methods of assessment which may be relevant for these purposes.

2. To sponsor the creation of new instruments and techniques for assessment, having due regard to statistical and sampling methods.

3. To promote the conduct of assessments in co-operation with local education authorities and teachers.

4. To identify significant differences of achievement related to the circumstances in which children learn, including the incidence of under-achievement, and to make the findings available to those concerned with resource allocation within the Department, local education authorities and schools.
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CABINET

REPORT OF THE DEFENCE LANDS COMMITTEE

Note by the Secretary of State for Defence

I attach for the information of my colleagues a copy of the Confidential Final Revise of the White Paper to be published tomorrow, 29 August, containing the Government's decisions on the recommendations of the Defence Lands Committee.

R M

Ministry of Defence
28 August 1974
STATEMENT ON THE REPORT OF THE DEFENCE LANDS COMMITTEE 1971-73

INTRODUCTION

The Defence Lands Committee was set up by the previous Government in January 1971 under the chairmanship of Lord Nugent of Guildford and with the following terms of reference:

"To review the holding of land in the United Kingdom by the Armed Forces for Defence purposes:

(a) for training areas, airfields and ranges wherever situated;

(b) for any purpose in National Parks and Areas of Outstanding Natural Beauty; and

(c) along the coastline for purposes other than dockyards and port installations.

Taking account of the long term needs of the Armed Forces and their operational efficiency, and of cost and other relevant considerations, to make recommendations to the Secretary of State for Defence as to what changes should be made in these holdings and in improved access for the public, having regard to recreation, amenity or other uses which might be made of the land".

2. The Committee's Report was published in July 1973 together with an explanatory memorandum (Cmnd. 5364). In the memorandum it was stated that the Report would be considered and decisions on its recommendations announced in due course. The previous Government did not in the event announce any such decisions. This is the purpose of this White Paper.

3. The countryside is steadily shrinking as the towns creep outwards and land is taken for housing and for industry; at the same time, there is increasing recognition of the need to preserve and improve the environment and increasing demands from the public for access to those beautiful areas of the countryside that form part of our national heritage. There is also a need for greater provision for leisure activities and in particular for large areas for some of the more adventurous sports which are growing in popularity. In this situation it is right that the Armed Forces, who use large areas of our countryside and coastline, should be asked rigorously to account for these holdings. But there are factors at work which make it difficult for the Services to release land and which, indeed, give rise to legitimate demands for more land. The principal ones are the need for greater space to test and train on new weapons with greater range and greater mobility and to replace training areas lost to us as we reduce our world-wide commitments. And the very factors of remoteness and freedom from human interference that make areas ones of great natural beauty, also make them suitable for the Armed Forces, who need space and freedom to carry out their activities. There is no easy way out of this dilemma. Public interest demands both that the Armed Forces should be properly trained and equipped and that they should take up as little land as possible for their purposes.
4. The Report of the Defence Lands Committee is divided into two parts. Part I contains twenty-six general recommendations which are directed primarily to questions of environmental protection, amenities, public access and estate management. Part II contains recommendations on the 465 individual sites covered in the review.

General Recommendations

5. One general recommendation is that the number of major airfields used for Research and Development should be reduced from three to two. With the forthcoming closure of Pershore (of which the Nugent Committee were aware) the three remaining R & D airfields will be at Farnborough, Bedford and Boscombe Down. Unless there is a major change in R & D flying activities, there is little prospect of any further reduction.

6. The remaining twenty-five general recommendations are directed to improving the degree of consultation between the Ministry of Defence and other bodies concerned with planning, environmental improvements, access to defence sites, reduction of noise, etc. In considering these recommendations, a balance has to be struck between the requirements of the Armed Forces and the pressing needs to protect the environment and to provide more opportunities for the general public to enjoy the many beautiful areas of the country. Several of the recommendations have already been put into practice. Ministry of Defence officials are present at some meetings of the planning authorities in the South East (Recommendation 3) and at meetings of the Noise Advisory Council (Recommendation 19). A senior officer represents the Ministry of Defence on the Sports Council so that Council can be aware of what use can be made of Service sports facilities (Recommendation 8). A conservation officer has been appointed (Recommendation 20). The Government is able to accept all these general recommendations in principle. Indeed, in the case of Recommendation 4, which relates to possible extensions of defence activity in special areas, we are prepared to go further by extending the consultation processes which are the subject of that recommendation to cover proposals for intensification of the use of defence sites in those areas which would significantly affect amenity or public access. In the present situation of financial stringency it is not, in general, possible to make special additional funds available as the Nugent Committee hoped. However, the Government will make every effort to ensure, in consultation with the planning authorities, that surplus defence sites do not remain as eyesores to the detriment of local amenity.

Individual Site Recommendations

7. The 465 individual sites have been considered on the basis that every recommendation for the release of land or improved access should be agreed unless serious damage to the needs of the Armed Forces could be clearly shown. The Government has decided to accept almost all the individual recommendations. The exceptions are listed later on. We believe that this decision will have very considerable value to those most closely involved and it brings to an end the long period of uncertainty since the Nugent Report was published. Arrangements for the release of land and improvements of access will now be made subject to the economic constraints mentioned above.
8. The following are a few examples of areas which will as a result become available for public use:

_Wormwood Scrubs—Greater London_
Rights over ten acres will be relinquished so that Hammersmith Council may go ahead with plans for a neighbourhood park. Discussions have already been held with the Greater London Council to see whether a further reduction in the Army's use of the open common land on Wormwood Scrubs can be made so that more recreational amenities for the general public may be provided.

_Barry Buddon—Angus_
125 acres will be released for the development of a golf course.

_Thorney Island—Sussex_
132 acres of agricultural land and 905 acres of mud flats and saltings will be released. The Nugent Committee considered that this release would be of benefit to the local authorities in planning for conservation and development of local recreational facilities.

_The Wrekin—Shropshire_
A Ministry of Defence range over an area of 78 acres will be given up as soon as alternative provision at Nesscliff can be made. Part of The Wrekin range is within the Shropshire Hills Area of Outstanding Natural Beauty and includes a Site of Special Scientific Interest.

9. There are three particular site recommendations in the Nugent Report which have given rise to wide public interest and which were the subject of numerous representations to the Nugent Committee. They are the proposal to move certain facilities from Shoeburyness to Tain, the proposal to remove the RAC Gunnery School from Lulworth to Castlemartin and recommendations relating to Service use of Dartmoor.

**The Proposal to move the Proof and Experimental Facilities from Shoeburyness to Tain (Pages 167-170 of the Report)**

10. This recommendation is dependent on whether there is to be a seaport at Maplin. This is being urgently studied, but until it is finally settled no decision can be taken whether and, if so, where, the P & E and some other facilities at Shoeburyness or part of them will need to be relocated. As the Nugent Committee recognised, the relocation of these facilities presents a difficult problem. If in the event relocation is necessary, particular account will be taken of the special problems which would arise from moving some of the P & E facilities to Tain, an area which is already under considerable pressure as a result of oil related industrial development.

**The Proposal to move the RAC Gunnery Range from Lulworth to Castlemartin (Pages 137-159 of the Report)**

11. The Committee recommended that the Lulworth ranges of about 7,000 acres should (with the exception of the East Holme Rifle Range) be released and the RAC Gunnery School moved to the range at Castlemartin currently
used for RAC continuation firing and by the German Army for tank training. The Government has considered this recommendation with the utmost care. A study has been carried out to see whether acceptable arrangements for sharing facilities at Castlemartin between the RAC Gunnery School and the German Army could be devised. It has concluded that this is not possible. The Government has also had regard to the environmental considerations at both Lulworth and Castlemartin and the heavy cost of moving the Gunnery School. Account has been taken of the great volume of representations made on this aspect of the Report. There has been total and united opposition from all authorities and the public in Wales to the proposed greater use of Castlemartin. In the case of Lulworth there have been arguments both for and against the suggested move though the local authorities and a large number of the local residents are in favour of the Army staying. The Government has come to the conclusion that in all the circumstances the RAC Gunnery School should remain at Lulworth. The Government is very anxious that as many people as possible should have the chance to enjoy the beauty of Lulworth. The Ministry of Defence will therefore take steps to improve access for the public at Lulworth at a cost of about £100,000 in capital expenditure and a similar sum annually in running costs. At the same time the possibility of still further improving the arrangements for allowing public access will be examined and as soon as possible the Ministry of Defence will invite the Department of the Environment, the Countryside Commission, the Nature Conservancy Council and other interests to enter into discussions on these matters; and they will seek to establish the closest continuing co-operation over the future management of the area.

**Dartmoor**

12. The Services use over 30,000 acres of Dartmoor and more written evidence was submitted to the Nugent Committee on this than on any other site. Most of the representations made to the Committee stressed the advantages of Service presence and supported Ministry of Defence use of Dartmoor. A majority of the Committee recommended that most of the Services' training areas and ranges on Dartmoor should be retained but that Rippon Tor Rifle Range should be disposed of and 2,400 acres of land on the Okehampton Range should be released from live firing. This last recommendation is accepted except that the area to be released will be on the east-side of the range and not on the north-side as recommended by the Committee. Rippon Tor will be released when the Wessex Depot leaves Exeter. The Committee's recommendations for improved access to the Okehampton Range and for the disposal of Plasterdown Camp are accepted. Mr John Cripps, a member of the Defence Lands Committee, entered a Note of Dissent on Dartmoor in which he made various recommendations including a proposal for a Public Inquiry to be held in 1975 to recommend how the training requirements of Commando Forces Royal Marines and the Commando Training Centre can best be met outside and, to the extent that is essential, within the Dartmoor National Park. The Government accepts that there should be a public inquiry next year how, in the light of the circumstances then existing, essential defence needs in the south-west can be met. In the case of Mr Cripps' Notes of Dissent on other sites, the majority recommendations of the Nugent Committee have been preferred by the Government.
13. There are a few sites where the Government is unable to give unqualified acceptance to the Committee's recommendations. A number of RAF airfields which the Committee recommended for disposal are now being considered as possible alternative locations for certain Army units for which major Works Services would otherwise be required to provide permanent accommodation. Army sites of similar size will be released wherever possible. The airfields concerned are: Debden (Essex) (Page 166), Hemswell (Lincolnshire) (Page 230) and Watton (Norfolk) (Page 239). RAF Chivenor (Page 99), which the Committee also recommended for disposal, may now be required for a further defence use. It is proposed to use RAF Oakington (Cambridgeshire) (Page 80), to accommodate an Army infantry battalion when it is vacated by the RAF in March 1975. The Army will discuss with the local authority the possibility of increased public access to the site.

14. The Ministry of Defence is not yet able to decide in the context of requirements for ranges in the South East on future requirements at Purfleet (Greater London) (Page 177) and Colchester (Essex) (Page 164) which latter will, as the Nugent Committee recognised, have to be retained until the Northern Ireland emergency is over, when the need for the range will be reviewed.

15. The areas to be given up at Netley (Hampshire) (Page 198), Driffield (Yorkshire) (Page 311) and Manorbier (Pembrokeshire) (Page 349) may at least initially be rather smaller than recommended in the Nugent Report. The Ministry of Defence will need a little more freedom of manoeuvre for hovercraft at Gosport (Hampshire) (Page 191) than recommended in the Report. Full details of the changes will be provided to the local authorities and others who gave evidence on these sites. Finally, Gortin (Tyrone) Army Range (Page 390) will not now be given up, but the Ministry of Defence will not need the replacement range which the Nugent Committee recognised would have been necessary.

16. In addition, there are some sites where we can go further than recommended by the Nugent Committee. At Portsmouth (Eastney) (Hampshire) (Page 200) we are able to release 99 acres instead of the 12 acres proposed in the Report and at Portsmouth (Tipner) (Page 201) we shall be able to release 6.5 acres if certain defence facilities can first be re-provided. At Orfordness, Suffolk (Page 272) the northern area as well as the southern area will be available for release and at Canterbury, Kent (Page 391) about 212 acres of training land can be given up.

CONCLUSIONS

The Government believes that the review carried out by Lord Nugent and his colleagues on the Defence Lands Committee has been valuable both in providing a fresh impetus to the release of land by the Armed Forces and in establishing some general principles which will help in the future management of defence lands and guide future decisions when a choice has to be made between defence needs and the legitimate demands by the public for greater opportunities to enjoy the countryside. The situation is not static. The Government is now engaged in a fundamental review of Defence Expenditure. As a
result, it may be possible for more land to be given up. When deciding on areas for release, the Government will balance not only the operational needs of the Services and regional considerations relating, for example, to employment prospects, but also the desirability of giving up as much land as possible in areas of great natural beauty or particular scientific interest.
2 September 1974

CABINET

EEC RENEGOTIATION - REGIONAL AIDS

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. On 31 July the Ministerial Committee on European Questions (EQ) considered the way in which we should now approach our renegotiation objectives on regional policy aids. The Committee was unable to reach agreement on which of two alternative courses to adopt. I am therefore submitting the issue to the Cabinet for decision.

2. The Ministerial Committee on European Community Strategy (ECS) discussed on 15 May the strategy we should follow in implementing our Manifesto commitment to "the retention by Parliament of those powers over the British economy needed to pursue effective regional .... policies". In summing up the Prime Minister said that "our objective on regional aids should be to secure agreements in the Commission Working Party on rules which would permit our present and prospective regional measures and would give adequate flexibility for the future. The Foreign and Commonwealth Secretary should make clear at the next meeting of the Council of Ministers that a satisfactory outcome of the Working Party's work was an important element in the renegotiation exercise".

3. Accordingly, in my statement to the Council of Ministers in Luxembourg on 4 June I included the following passage, after consultation with the Secretary of State for Industry -

"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 1 April, we accept that co-ordination of the rules under which each of us gives aid 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 United Kingdom and of the policies we devise to meet those needs".

The issue which EQ has been unable to resolve is how we should set about securing our objectives in the Working Party.
4. In the view of the Secretary of State for Industry, our aim in the Working Party must be to implement the Labour Party's Manifesto by ensuring that, despite Articles 92-94 of the European Economic Community (EEC) Treaty, there is no effective limitation of our freedom to determine regional policy in the United Kingdom. He recommends that as a first step officials should put in a paper to the Working Party (attached as Annex A). The paper proposes that the problem of national regional aid policies leading to unfair competition within the Community should be dealt with in future by establishing a procedure for reporting national systems of regional aid. Member Governments would accept an obligation to explain and discuss the purposes of their policies and the methods by which they were to be achieved. Action should also be taken -

a. to limit the powers at present vested in the Commission to hold up or override new aids;

b. to retain for the United Kingdom and other Member Governments the freedom to give aid which reduces the cost of labour;

c. to provide that Governments must be free to take quick or exceptional action without obstruction from the Commission, and in particular to extend the boundaries of their assisted areas when the situation requires it.

It should be made clear that the final responsibility for regional policy in the United Kingdom must rest with the United Kingdom Parliament. In this way the Commission and Member Governments would be made aware of the kind of flexibility we required; further papers following up the proposals in detail could be put in as necessary.

5. The Minister of State for Foreign and Commonwealth Affairs has recommended an alternative course. He has argued that the course recommended by the Secretary of State for Industry is not in accordance with the strategy which ECS agreed on 15 May nor likely to secure the objectives we seek. ECS have agreed (and we have so informed the Community) that we accept that common rules are required, and that our aim must be to ensure that these rules take account of the needs of the United Kingdom and give us the requisite freedom to implement policies to meet those needs. We should therefore seek changes in the EEC rules to meet our practical requirements - arguing our case on the basis of the speaking note at Annex B. We would not, however, provoke a doctrinal clash with the Community by challenging the whole principle of co-ordination. Such an approach would be hard to reconcile with the EEC Treaty and would not be negotiable with the other Member States or with the Commission. In the Minister of State's view some measure of control is indispensable within a free trade area; and it is in our interest to ensure that our industries are not open to damage by subsidised competition from richer countries in the Community. However, if we cannot secure the changes we need in this way, we shall have to review the situation in the light of the reservation which I made in my statement to the Council of Ministers on 1 April (Cmnd 5593) of our right to propose changes in the Treaties if it turned out that essential interests could not otherwise be met.
6. The majority of EQ agree with the view of the Minister of State. It is also my view. I am in full agreement with the Secretary of State for Industry on the need to fulfil our Manifesto commitment to retain the powers required to secure effective United Kingdom regional policies. But I judge that this aim can best be achieved by the approach recommended by the Minister of State. If the Cabinet agree with this line, we shall also need to circulate to the Commission Working Party a paper prepared by officials which sets out the case for regarding labour subsidies as compatible with the EEC Treaty and explains how the incidence of such aids can be measured and compared with other forms of aid such as aids to capital investment. To put our case in this way offers the best prospect for obtaining agreement to new rules which will both provide the flexibility we need and safeguard the powers of the Government and of Parliament.

7. I invite the Cabinet to decide whether we should -

a. proceed as recommended by the Secretary of State for Industry, circulating to the Commission Working Party the paper at Annex A; or

b. instruct our representatives to explain our policy approach and requirements to the Working Party in the terms of Annex B, and to circulate to it a paper on the lines indicated in paragraph 6.

Foreign and Commonwealth Office

2 September 1974
The Community faces a dilemma over the administration of regional aid systems. This is recognised by the provisions of Articles 92-94 of the Treaty of Rome and by the *acquis communautaire* which flows from those articles. On the one hand there is a plain obligation of elected governments to tackle effectively the problems of their under-developed regions. Unless Member Governments accept these responsibilities and bring forward effective measures it is likely that there will be an avoidable loss of economic resources and unnecessary unhappiness to people who will be deprived of jobs or be forced to subsist on low incomes. On the other hand the Treaty contains provisions against the distortion of competition while at the same time recognising that certain forms of distortion are acceptable.

2 It is important, however, to keep in perspective these two factors. All Member Governments exercise regional policies within their territories and distort competition between regions. Unless they do so, governments cannot carry out their obligations to their parliaments and electorates to provide employment and to raise the standard of living. The validity of such policies is now almost universally accepted; certainly it is far more widely accepted than was the case when the Treaty was signed in 1957. The obligation to discharge these responsibilities is now clearly of a far more compelling character than avoiding distortion of competition within the common market. Nevertheless there is a theoretical risk of harm through excessively generous regional aid systems and a more real risk of an unprofitable bidding up process...
process for the attraction of mobile industrial projects. The need is to find a procedure which enables governments effectively to discharge their major responsibilities while avoiding as far as possible the minor risks that regional policies can entail for areas not enjoying all their benefits.

3 For 14 out of the 17 years of the Community's existence means were found of avoiding the dilemma posed above, by a series of ad hoc solutions. If these lacked something in logical neatness, at least they gave the Community the advantages of flexibility and pragmatism. It is important that the Community should not throw away these advantages which enable governments to discharge their responsibilities for the sake of achieving logical or administrative tidiness.

4 Nor is there any evidence that inflexible rules are necessary to control Government intervention in the common market for regional purposes. As has been indicated above, the application of regional policy within Member States has led not to criticism of the distortion of competition but to more general acceptance that such policies are right and indeed inevitable. It is almost certain that the regional policies of Member Governments will have the greatest effect in distorting competition within their own national territories, and Governments are thus certain to take such effects into account when formulating schemes of assistance.

5 Within a common market it is reasonable that there should be a procedure for reporting national systems of regional aid. Member Governments should accept an obligation to explain and discuss the purposes of their policies and the methods by which they will be achieved. They should be prepared to explain the policies and persuade those concerned that what is being done is justified and effective. But
governments must be mindful of their obligations to see that national economies are managed in such a way as to avoid the loss of economic resources.

6 Action will be needed by the Council and the Commission under Articles 92.3(d) and Article 94 of the Treaty of Rome to institute procedures which recognise the prime responsibility of Member Governments to the people who elected them. Such action could appropriately recognise the theoretical risks that regional policy could entail for other members, by instituting a process of reporting and discussion.

7 Obviously it is important that systems of regional aid should be appropriate to the situation in which they apply. Otherwise resources will be wasted and ends will not be achieved. It follows that the Community should not rule out a priori any forms of aid which can be effective. In the United Kingdom the core of the regional problem is high rates of unemployment in industrial areas. Among the effective ways to tackle this are subsidies to labour, and it is important that the provisions of the Treaty, which draw no distinction between forms of aid, should not be extended or interpreted to limit the powers of Member Governments to discharge their primary responsibilities to the electors.

8 For the same reason it is essential that when the regional situation requires quick or exceptional action, Member Governments should be free to take it. The limits upon government action must be those of the situation itself and not rules laid down in advance.
9 It is of particular importance that Member Governments should be free to vary the boundaries of their assisted regions in the light of their assessment of the needs of the places in question and at the time when they judge such assistance to be necessary.

10 The experience of the Community has shown the extreme practical difficulty of formulating adequate rules to distinguish between legitimate and unreasonable forms of regional aid. The right conclusion from this experience is that the problem will be more effectively tackled by an agreement between governments to act reasonably than by the exercise of administrative ingenuity designed to provide in advance for every conceivable situation.

11 The final responsibility must rest with the UK Parliament.
1. Officials should explain United Kingdom policy on the following lines.

2. The United Kingdom approach to the question of the Co-ordination of Regional Aids was explained by the Foreign and Commonwealth Secretary in his statement to the Council of Ministers on 4 June. After referring to the study being conducted by the Commission Working Party, he said:

"We accept that co-ordination of the rules under which each of us gives aid 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 United Kingdom 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".

3. The United Kingdom recognises that the Community has to reconcile conflicting pressures in determining its policies on regional aid. These pressures are reflected in Articles 92-94 of the Treaty of Rome which contain provisions against the distortion of competition while at the same time recognising that various forms of aid are compatible with the Common Market. In the UK view the two principal considerations which must be borne in mind are:

(a) that all Member Governments have obligations to deal with problems of regional imbalance by seeking to provide employment and to raise the standard of living in less prosperous regions of their countries. All Member Governments conduct regional policies within their territories and distort competition between regions for these purposes. The validity of such policies is now almost universally accepted; certainly it is far more widely accepted than was the case when the Treaty was concluded in 1957. The obligation to discharge these responsibilities must be given due weight when consideration is given to the need to impose restrictions on regional policies because of the theoretical distortions of competition which
might ensue and might affect other member countries. There is normally little likelihood of a substantial threat to competition being posed by industries operating in regions which are in need of special support measures;

(b) at the same time all Member Governments have a legitimate interest in ensuring that the regional aids given in other countries within the EEC are not of a type or on a scale which will distort competition to the extent of inflicting damage on industry or employment in their own countries. Equally they will wish to guard against the possibility that the prosperous areas of one country within the Common Market might outbid less prosperous areas in other countries to attract mobile investment.

4. The need is to agree on rules and procedures which will enable governments effectively to discharge their responsibilities in relation to the conduct of regional policy within their own territories while avoiding actions or policies which could have unacceptable consequences for other member countries. The danger that regional aid policies may distort competition should not be exaggerated. The application of regional policies within Member States has not led to criticism from interests which might in theory have been adversely affected within those States; there has been general acceptance that such policies are right and indeed inevitable. There are in-built restraints on the levels of aid which Member States give, not only because of the cost, which has to be borne by other regions, but because it is almost certain that the regional policies of Member Governments will have the greatest effect in distorting competition within their national territories; and governments are thus certain to take such effects into account when formulating schemes of assistance.

5. The United Kingdom considers that the following principles should be taken into account in determining which forms of aid should be regarded as acceptable:

(a) it is important that systems of regional aid should be appropriate to the situation in which they apply. Otherwise resources will be wasted and ends will not be achieved. It follows that the Community should not rule out a priori any forms of aid which are likely to prove effective;

(b) in the UK the core of the regional problem is high rates of unemployment in industrial areas. Among the ways to tackle this are subsidies to labour, which have proved effective irrespective of whether they are linked to new investment projects. Subsidies not so linked have been criticised in the Community on the grounds that they are "opaque". It is important that the provisions of the Treaty, which draw no distinction between forms of aid, should not be interpreted in a doctrinaire manner. In the UK view it is possible to measure and compare operational or continuing aids as well as those that are linked to expenditure on capital investment projects. This would permit account to be taken of capital subsidies and labour subsidies, or indeed any form of aid, on an equal footing. A note on measurability, illustrating how this question can be tackled, is being submitted to the Commission Working Party.
(c) it is essential that when the regional situation requires quick or exceptional action Member Governments should be in a position to take it. Arrangements for reporting or consultation must be such as not to hinder urgent and necessary action;

(d) it is of particular importance that Member Governments should be in a position to vary the boundaries of their assisted regions in the light of changes in objective circumstances and of their assessment of the needs of the places in question and at the time when they judge such assistance to be necessary. This means that the principles which are applied to determine the boundaries of assisted areas for Community purposes should be subject to reasonable flexibility;

(e) any classification of the Community into areas for the purpose of co-ordination should take account of the complexity of regional problems occasioned by the differing circumstances and special economic difficulties which prevail in different areas of the Community.
CABINET

NATIONAL CONSUMERS' AGENCY: WHITE PAPER

Note by the Secretary of State for Prices and Consumer Protection

I attach, for the information of the Cabinet, the text of the White Paper on the National Consumers' Agency which is to be published on 9 September.

S W

Department of Prices and Consumer Protection

2 September 1974
NATIONAL CONSUMERS' AGENCY

[To be presented by the Secretary of State for Prices and Consumer Protection to Parliament by Command of Her Majesty September 1974]

INTRODUCTION

Every one of us is a consumer, so measures to ensure that the rights of consumers are respected and their interests taken into proper account are of concern to us all. The Department of Prices and Consumer Protection, since it was established by the present Government in March 1974, has been studying what needs to be done to redress the balance between the consumers and the providers of goods and services and ensure that the voice of the consumer is properly heard at national level.

2 The law is not today the main problem. Compared with fifteen years ago, the fundamental consumer protection law on quantity, description and similar matters has been notably improved. In particular the Trade Descriptions Act 1968 swept away a great deal of outdated law, and has for the greater part proved sound, although some problems which practical experience of its working have raised are now being reviewed by a Departmental Committee under the Chairmanship of the Director General of Fair Trading. It is also now widely recognised that nineteenth century contract law was based on an unreal assumption that buyers and sellers had equal bargaining power. Recent legislation, particularly the Supply of Goods (Implied Terms) Act 1973 and the new Consumer Credit Act, recognises that in unregulated bargaining the individual consumer is at a very substantial disadvantage compared with suppliers of goods and services, and these measures prevent the imposition of unreasonably onerous terms on him. The Law Commissions will
shortly be reporting on the main remaining area, exclusion clauses in contracts for the supply of services. For dealing with the individual unfair trader or the unfair trade practice detrimental to consumers, the Fair Trading Act 1973 provides the Director General of Fair Trading with flexible weapons for taking action either in the courts or by initiating secondary legislation. It is too early to assess the effectiveness of these in operation; if deficiencies appear here or in other consumer protection legislation the Government will not hesitate to propose new legislation to rectify them.

3 Just as it is important that there should be a fair system of consumer law, so it is necessary that consumers should benefit to the full from its provisions. Many consumers are still unaware of the new laws that protect them. There is, therefore, a need for a service of advice and help to be available locally so that experienced and impartial people can assist those who have consumer problems or seek guidance. Local weights and measures authorities have this statutory function, and with the encouragement of local authorities have generally responded with enthusiasm to public feeling that consumer advice is now a service that ought to be widely available. In towns many advice centres in shopping areas are now open or planned, and various methods for making consumer advice available in less densely populated areas (such as mobile consumer shops and pre-paid complaint cards) are being tried and established. The Government welcomes all these developments. It is also assisting the expansion and improvement of the Citizens' Advice Bureaux which perform a most valuable role in extending the geographical coverage of consumer advice.

4 It is at the national level that many experienced in consumer...
affairs have long considered that there is a gap in the spectrum of bodies which represent the consumer. This gap was widened by the disappearance of the Consumer Council, which operated in two main ways. One of those was by making information available to consumers. This is now one of the functions of the Director General of Fair Trading. The second main role of the Consumer Council was as a partisan body to promote action for furthering and safeguarding consumers' interests. This gap cannot suitably be filled by the Director General whose role in respect of monopolies, mergers, restrictive practices and consumer credit precludes him from acting exclusively in the interest of consumers. Existing consumer bodies have played a most valuable role on behalf of the consumer, doing much to make the consumer voice heard, and consumer interests have greatly benefited by their efforts. But there remains a lack of any independent national consumer body sufficiently representative and influential to ensure that those who take decisions which will affect the consumer can have a balanced and authoritative view before them.

ESTABLISHMENT OF THE AGENCY

5 The Government proposes to fill this gap by the establishment of a National Consumers' Agency financed by the Government. Those concerned in the production of goods and services are extensively involved with Government in the national counsels through the TUC and the CBI. The role of the consumer in economic activity is as important as that of the producer, and the Government considers that the consumer ought through the new Agency to have a similar opportunity to be heard.

6 Workpeople and management have each formed their own self-financed unions and associations because there is a direct and obvious need for them to bargain collectively, and they gain direct benefits from doing so. The benefits which will be gained from the consumer
voice being heard properly will be shared by all. Indeed it is the inarticulate and disadvantaged who most need a body to speak for them and ensure that they are protected, and it is they whose needs have least been met by the consumer activities of the last decade. The Government believes that the new body proposed will be in a position to insist that the interests of all consumers, including the least articulate, should be taken into account.

FUNCTIONS AND APPOINTMENT of THE AGENCY

7 The functions the Government envisages for the Agency are:

a) to make representations of the consumer view to central and local Government, to the Director General of Fair Trading, to industry, and to any other quarter where the consumer voice ought to be heeded. This will include making representations on the law and on proposed legislation; on advertising standards and methods; on the adequacy and availability of consumer advice services; on consumer interests during the remaining stages of metrication; and on the availability of facilities for testing product safety and suitability;

b) to be available to be consulted by those who seek a consumer view on policies and proposals. In particular, the Agency will consider and report on the consumer interest in matters referred to it by the Government;

c) to represent the consumer on appropriate Government and other bodies, and within the framework of international organisations such as the European Community;

d) to review the present arrangements for consumer representation in the nationalised industries as part of the Government's policy of enabling the nationalised industries to be more responsive to the consumer's needs.

Existing consumer bodies will of course be able to make
representations direct to the Government as at present, if they wish, and the Government will continue to consult them directly where appropriate.

8 The Agency will be a non-statutory body, with a Chairman and members appointed by the Secretary of State for Prices and Consumer Protection. This will in no way prejudice its independence and freedom to criticise the Government. To operate effectively the Agency's membership will need to be limited. Part of the membership will be appointed in a representative capacity. The main consumer and women's bodies will be invited to submit short lists of nominees from which the Secretary of State will make appointments. The remainder of the members will be appointed by the Secretary of State in an individual capacity. There will be special arrangements for Scotland and Wales; the membership of the Agency from each country, together with additional members, will form national committees with separate offices. There will be corresponding arrangements for Northern Ireland recognising the responsibilities of the Northern Ireland authorities in this field under the Northern Ireland Constitution Act 1973.

NATIONALISED INDUSTRY CONSUMER COUNCILS

9 When the nationalised industry consumer councils were set up by the nationalisation statutes for the coal, gas, electricity, and surface transport industries, and for the Post Office, they were an important innovation in the consumer's interest. Now that a separate Department of Prices and Consumer Protection has been created, the Government has decided that certain statutory functions in respect of these councils should be transferred to that Department. Accordingly, once the National Consumers' Agency has been established, appointments to the councils will be made by the Secretary of State for Prices and Consumer Protection, with the advice of the Agency or its appropriate national
Committee, and after consultation with the Minister responsible for the industry. Members of the Scottish electricity consultative councils will continue to be appointed by the Secretary of State for Scotland, with the advice of the Agency's Scottish Committee. References to the councils will be made jointly by the Minister responsible for the industry and the Secretary of State for Prices and Consumer Protection, who will both receive the representations and reports. Any consequent directions to the industry would be given by the Minister responsible for the industry, after consulting the Secretary of State for Prices and Consumer Protection about the decision. The Government will be able to seek the advice of the Agency in exercising its functions in relation to these councils. The Government will also in due course introduce legislation so that all the councils are financed directly by the Government.

OPERATION OF THE AGENCY

10 The establishment of the National Consumers' Agency will not affect in any way the position and responsibilities of the Director General of Fair Trading under the Fair Trading Act 1973. Likewise unaffected will be the operation of the Consumer Protection Advisory Committee, whose function is to advise on consumer trade practices referred to it which may adversely affect the economic interests of consumers and on remedies the Director General may propose under Part II of the Fair Trading Act.

11 The National Consumers' Agency will concern itself closely with the adequacy and availability of assistance for consumers with individual problems. It will not itself handle individual consumer complaints and cases; these will continue to be dealt with by the existing range of agencies - consumer advice centres, trading standards departments of local authorities, Citizens' Advice...
Bureaux, nationalised industry consumer and consultative councils and others.

12 Central and local Government are expanding their services to consumers, and the new Agency will be available to advise them on these, and on the many problems individuals face in the provision of public sector services. It has been an important role of consumer organisations in the past to promote adequate arrangements for consumer representation in these areas. Where there are bodies already established for this purpose, the Agency will naturally wish to work in consultation and co-operation with them, and not in competition. It is not intended that the setting up of the Agency will in any way affect the responsibilities of local authorities, or derogate from the customary consultations with local Government through the local authority associations. Nor is it the intention that the Agency will supersede or duplicate the work of bodies with an existing responsibility for looking after consumer interests in specific areas such as the health service, the nationalised industries or broadcasting. The Agency's role in all these fields will primarily be one of ensuring that adequate mechanisms exist for expressing the consumer voice, and of drawing attention to matters of concern to consumers.

13 The problem of the control of advertising in the public interest will impinge widely on the work of the Agency. It will have a particular responsibility to advise the Director General of Fair Trading in respect of his important functions in connection with advertising as well as making its views on the subject known to the Government and the advertising industry. The present system of control combines voluntary self-regulation by the industry and a wide variety of specific statutory provisions. The Government is reviewing this system and in deciding whether further legislation...
is required will wish to take account of the views of the Agency when it is established, of the outcome of the review of the Trade Descriptions Act 1968 now being carried out, and of any improvements there may be in the voluntary system.

CONCLUSION

14 The Government considers that the setting up of a National Consumers' Agency will go far to strengthen the position and influence of the ordinary consumer. Coupled with the strengthening of the system of price control and the new powers in connection with price marking and unit pricing in the Prices Act, and with the greatly improved protection for the consumer in borrowing given by the Consumer Credit Act, it demonstrates the continuing determination of the Government to ensure a fair deal for the consumer in all aspects of our national life.
CABINET

COMMUNITY OWNERSHIP OF DEVELOPMENT LAND

Memorandum by the Secretary of State for the Environment

1. At their meeting on 1 August the Cabinet approved in principle my proposals for community ownership of development land, but noted that taxation and the public purchase price in the transitional period were being further considered by an expert Working Party.

PURCHASE PRICE AND TAXATION IN THE TRANSITIONAL PERIOD

2. The report of the Working Party is being circulated separately (C(74) 96). The Working Party considered the two approaches to taxation referred to in the discussion on 1 August - acquisition at "frozen market value", and buying net of a tax incorporating the last transaction cost principle - and also other possible approaches.

3. The Working Party concluded that no frozen market value scheme could be recommended, but that an approach under which local authorities would buy net of tax, with the existing tax arrangements adapted broadly on the lines of the 1967 betterment levy, would satisfy most of the land policy objectives, and more than any other feasible scheme.

4. I agree that enabling local authorities to buy "net of tax" is the right approach. I also accept the proposals that the Working Party considered for introducing flexibility, and thereby keeping down manpower requirements (paragraph 29 of the report), subject to the following points:

a. In the context of a scheme which is designed to achieve special treatment of development value, it would be wrong to exempt owner-occupied plots of as much as half an acre (paragraph 29a); I propose therefore that the exemption should be restricted to quarter-acre plots.

b. To allow an addition of 20 per cent to last transaction cost (paragraph 29c) is too generous. I propose that the addition should be restricted to 10 per cent.

Both these modifications in the scheme are acceptable to the Chancellor of the Exchequer.
5. It may be suggested that this tax approach is too like the betterment levy under the Land Commission Act 1967. But there is really no alternative to the basic structure proposed (which is used also in the development gains charge); and taxing development value separately, rather than through the normal company/personal taxation system, is entirely justifiable on the basis of the special nature of development value as something created by the community. The incorporation of the amendments made to the betterment levy scheme in the Finance Act 1969, and of the further modifications in paragraph 29 of the report, will mean that the scheme will avoid the problems which brought the betterment levy into disrepute.

RATE OF TAXATION OF DEVELOPMENT GAINS

6. Paragraphs 32 and 33 of the report set out the difficulties that arise on fixing the rate of the new tax. Because of the importance of this for market confidence I have discussed this issue with the Chancellor, and I will report the outcome of further consideration of this question at the Cabinet meeting.

THE DRAFT WHITE PAPER

7. I attach a revised draft of the White Paper. Paragraphs 37-44 of this deal with the transitional problems discussed by the expert Working Party. Other amendments to the text since the Cabinet discussion on 1 August are either consequential on the proposed approach to taxation in the transitional period or are of a detailed nature.

CONCLUSION

8. I seek my colleagues' agreement;

a. to the arrangements for the transitional period referred to in paragraphs 2-4 above; and

b. to the publication of the White Paper as soon as possible.

A C

Department of the Environment

3 September 1974
DEPARTMENT OF THE ENVIRONMENT
SCOTTISH OFFICE
WELSH OFFICE

Land

Presented to Parliament by the
Secretaries of State for the
Environment, of Scotland, and
or Wales—September 1974

LONDON
HER MAJESTY'S STATIONERY OFFICE: 1975

Cmnd.
Community Ownership of Development Land

I. LAND—OUR SCARCEST RESOURCE

1. Of all the resources available in these islands, land is the one resource that cannot be increased. By trading with other nations we can obtain more food, more oil, or more iron ore in exchange for those commodities or goods that we have in abundance. But with land the supply is fixed. We live in a small densely populated country, so the supply of land is not only fixed, it is also scarce. This makes it doubly important that we should plan to use our land well. For the purpose of planning has rightly been stated to be “to secure a proper balance between the competing demands for land, so that all the land of the country is used in the best interests of the whole people.” Rt Hon Lewis Silkin—Official Report 29th January 1947, Vol 432 Col 947)

2. Our population is growing, and demands for land are growing faster still. We need more schools, more factories, more shops, more houses, more buildings of all sorts, and we need open spaces, farms and forests, too. It is right that these competing demands for the limited amount of land available should be met according to the priority of social needs in the community.

3. It is not generally disputed that the community itself must control the development of land, and the planning system that has evolved has often been a potent force in preventing development that is harmful to the community. But our system of planning control is largely a negative one. The community, via its elected local authority and in the final analysis, central Government, can veto proposals for development, but the initiative is left largely in private hands. It does not at present have sufficient power always to plan positively, to decide where and when particular developments should take place. Public ownership of development land is designed to give this power to its rightful owner, the community.

4. Side by side with the need to secure positive planning, the nation has for deal with another problem, that of land values. “The growth in value, more especially of urban sites, is due to no expenditure of capital or thought on the part of the ground owner, but entirely owing to the energy and enterprise of the community. . . . It is undoubtedly one of the worst evils of our present system of land tenure that instead of reaping the benefit of the common endeavour of its citizens a community has always to pay a heavy penalty to its ground landlords for putting up the value of their land.” (Rt Hon David Lloyd George—Official Report 29th April 1909, Vol IV Col 532).

The public ownership of development land will secure these increments for the community that has created them.

II. EARLIER ATTEMPTS TO SOLVE THE PROBLEMS

5. The early attempts to introduce a system of town and country planning, from 1909 to 1932, were frustrated by the problems of compensation and betterment. Local authorities, were required to pay compensation if they prevented the development of land; but provisions designed to enable these authorities to receive a share of “betterment”—the increases in value which accrued to land owners from public expenditure and planning control—were largely ineffective. The result was that effective planning control was financially impossible.
6. The need for an effective national planning system was accepted by two major and complementary inquiries which took place in the late '30s and early '40s—the Barlow, Commission and the Scott and Uthwatt Committees.

The first attempt, 1947-54

7. The Town and Country Planning Act 1947 drew substantially on the work of the Uthwatt Committee, which dealt specifically with compensation and betterment, without precisely following its recommendations. The Act represented the first comprehensive approach to the related problems of planning, compensation and betterment. The key—as under the Uthwatt proposals—was the effective transfer to the State for all development rights in land.

8. State ownership of development rights had three inter-connected effects:
   a. planning permission was required for all development throughout the country
   b. no compensation was payable where planning permission was refused (except for development defined as being within “existing use” for compensation purposes)
   c. betterment accrued to the State through the imposition of a development charge which was payable to a Central Land Board before development commenced.

9. One consequence of the nationalisation of development value was that all land was supposed to change hands at existing use value. This meant that local authorities could acquire land cheaply for their own purposes. But the system was criticised as removing any incentive for owners to bring forward land for development, because developers who were going to have to pay development charges should, in theory, not have paid more than existing use value when they bought the land. (In practice, land changed hands at more than existing use value, though at less than full market value). It is as likely that withholding of land from the market may have arisen from the expectation that the system would be abandoned if there was a change of Government. A second difficulty about the development charge system was that the basic principle on which it was based was inadequately understood. It is probable that, given time to settle down, the 1947 Act system could have been made to work. But it was abolished before this could be tested.

10. Two of the 3 basic principles of the 1947 Act have, however, survived. The planning system introduced by the Act, remains virtually untouched. Planning control still operates as under the 1947 Act; and the development plan system remains, (though changed by the introduction of structure and local plans in the Town and Country Planning Act 1968). And one of the most important aspects of the 1947 nationalisation of development value—the principle that in general compensation is not payable where planning permission is refused—remains, with the result that the ability to prevent the realisation of development value still rests with public authorities.

11. Although the provisions of the 1947 Act dealing with betterment were repealed following the change of government in 1951, the Town and Country Planning Acts of 1953 and 1954 left untouched the provisions under which public authorities acquired land at a price excluding development value.
Pressure against this two-price system led to its abolition in 1959. Under the Town and Country Planning Act 1959 full open-market value, including development value, was re-instated as the basis on which public authorities paid for land.

**The second attempt 1967-70**

13. Concern about rising land prices, and large unearned gains, led the 1964 Labour Government to set up the Land Commission.

Under the Land Commission Act 1967 development gains on land were subject for a special flat rate tax—the betterment levy—set at 40%. The Act, however did not bring about any changes in the planning system. Broadly speaking, the Commission operated within the framework laid down by local planning authorities—in general, the Commission could buy land compulsorily only where it had been allocated or in some other way accepted as ready for development. Nor did the system allow public authorities, other than the Commission, to acquire land more cheaply.

14. The 1967 Act did not have as significant an effect on the land market as the 1947 Act system. There were transitional provisions in the Act which helped to avoid major disruptions while the system was being introduced. But the betterment levy scheme did not make adequate provision for exemption of small cases or for flexibility in operation. As with the 1947 Act system, it is probable that, given time and some extra flexibility (such as that introduced by the Finance Act 1969), the system would have been workable. But, like the 1947 Act, the 1967 Act was repealed, this time following the change of Government in 1970. This repeal came before the Land Commission had been given the wider powers of land acquisition which the legislation provided should be available to them after a “second appointed day,” so that the Commission were able to buy local on the scale originally envisaged.

15. Despite their repeal neither Act was in vain. As paragraph 10 has indicated, two of the three principles of the 1947 Act form the basis of our present planning system. Moreover, the operation of both schemes provides valuable experience from which the following lessons may be drawn:

a. the key to positive planning, and to a successful attack on the problem of betterment, is acquisition of land by the community;

b. a central agency is too far removed from people and from those responsible for planning decisions; and

**III. THE OBJECTIVES**

16. Some of the problems standing in the way of an effective planning system are still with us. Accordingly, the Government reiterate that their objectives are to establish a permanent means:

a. To secure for the community by positive planning the ability to control the development of land accordingly to the right priority of the community’s needs, at the time when those needs arise, and at a fair price to the community.

b. To enable the community to acquire for itself the increased value of the land which arises as a result of the efforts of the community.
IV. POSITIVE PLANNING

17. Every physical development comprises two actions; at the same time that something new is created what previously existed is destroyed. One of the principal aims of planning, therefore, must be simply to see that what is created is better attuned to the requirements of society than extinguished. The existence of any planning system constitutes an acceptance of the principal that the market will not, itself, inevitably arrive at a satisfactory conclusion as to how our land should be used.

18. Our existing negative planning control provides a valuable check on the market, and would at first sight seem capable of safeguarding our heritage and resolving the conflict between private interests and the public good. But the difficulties inherent in a patchwork quilt of land ownership, and the overwhelming financial problems associated with acquiring land mean that the best use of land in not always achieved.

19. This is not to deny that plan making is a very valuable function of our local authorities; it is rather to point out that the existing powers to implement their plans are restricted by the price that the market pits on some land, and by the fact that the planners' resource is in the hands of private owners rather than at the disposal of the community.

20. Public ownership of development land puts control of our scarcest resource in the hands of the community and enables it thereby to take an overall perspective. In addition, by having this land available at the value of the present use, rather than at a value based on speculation as to its possible development, the community will be able to provide the public facilities it needs, in the places that it needs them but cannot presently afford because of the inflated price it has to pay to the private owner.

21. Market forces encourage concentration of commercial development in areas that seem to offer special advantages to particular firms; but what the market does not consider are the side effects—the breakdown of old-established communities and the increasing desertion of city centres, and their implications, not the least being possibly the effect on the transport system of requiring people to live so far from their work places. These are cars involved,—the cost of providing more roads, more trains and buses for example; there and are stresses, too, on the individual who has to spend more time and money, probably in more crowded conditions, travelling to and from work. These costs and stresses are not taken into account by the market, but they should be by the planning authorities. It is important that they are, and this is why planning must be strengthened, and why the community should buy the land and benefit from the development values created.

V. ACQUISITION OF LAND BY THE COMMUNITY

22. It is necessary first to define what is meant by the word “community” in relation to the Government's plans. The Government have considered whether to set up a central Government agency to acquire development and. Such an agency was created in 1947 as the Central Land Board and in 1967 as the Land Commission.
23. Undoubtedly a central agency has advantages; it can respond with ease to national decisions and it can cross local boundaries to assemble land which ought to form one parcel. On the other hand, the citizen has never felt personally involved, in the work of each agency and local authorities have generally felt with some justice that they were more aware of their own problems than any central organisation.

24. The Government believe that in England and Scotland the acquisition and disposal of development land is best left in the main to local authorities which term throughout this White Paper includes New Town Development Corporations. will be supported by a back-up organisation to help and advise them and to act on the Secretary's of State's behalf in default. In Wales, however, the acquisition and disposal of land for private development will be the responsibility of an all-Wales body, which will also be able to provide local authorities with an advisory service. The precise kind of support arrangements (possibly in based in England and nationally based in Scotland) and the arrange- regionally Wales will be the subject of discussion with the local authority associations.

25. These proposals relate to land which is to be developed or redeveloped for houses, shops, factories, roads for example. They are not concerned with land which is to remain in use for agriculture or forestry; and no charge is proposed in the existing arrangements relating to each land. The land to be acquired will be land which the community accepts as requiring development or redevelopment not more than ten years ahead. The acquisitions will be monitored as part of a rolling programme as local authorities build up their land banks. Ten years is the maximum period needed to ensure orderly development and create the requisite degree of certainty in the development industry and in agriculture and forestry. Care will continue to be taken to avoid the acquisition of good quality agricultural land wherever possible.

26. Much development land is already bought by the community for its own purposes. Local authorities also buy some land for private development under powers in the Housing and Planning Acts. Local authorities, however, should be enabled to do much more positive and comprehensive planning through ownership; and for this purpose they will be given new and very much wider powers to acquire land for development. Owners will also be given rights, in certain circumstances, to require local authorities to acquire their land. These new powers will be exercisable as soon a legislation is enacted.

27. Subject to the permanent exemptions from acquisition in paragraphs 34 and 35, and to the important transitional arrangements set out in paragraph 36 it is the Government's intention to lay a duty on local authorities to acquire all land required for private development, other than that to be acquired by new town development corporations. From the date that the duty is brought in, no development will be allowed to begin save on land owned by a public authority, or made available by them for this purpose. Local authorities will therefore buy land which in their opinion is suitable for development and will also be required to buy where the need for development (eg as indicated in a planning application) is accepted even though it may be a departure from the plan. The General Vesting Declaration procedure set out in the Town and Country Planning Act 1968 can apply to such acquisitions to secure speedy disposal for development.
28. The new local authority acquisition powers and duties in respect of private development in England will, so far as possible, follow the split of planning functions between County and District. Both Councils will as a result of land ownership have new and positive roles in ensuring the proper development of their areas. The tiers of local government already agree their respective fields of operation (within the broad context of legislation) through Development Plan Schemes and Development Control Schemes. It may be that Community Land Acquisition Schemes would be an appropriate technique for defining their respective spheres of interest in relation to acquisition. This will be discussed with the Local authority associations so that the best form of local authority co-operation can be achieved.

29. In Scotland district councils are likely to be the main agents for acquiring land needed for private development, but regional councils will have similar powers of acquisition, which may be exercised in pursuit of regional objectives. There will be consultations with local authorities in Scotland before the arrangements are finalised.

30. The principle that all development land should be acquired by the community will have important implications. Given the acceptance of this approach by Parliament, objection to the principle of public acquisition will no longer be an appropriate ground of objection to an individual compulsory purchase order, and the Secretary of State will be enabled to disregard objections put forward on this basis (as he can already do in relation to compulsory purchase orders made by new town development corporations). Special consideration will need to be given the implications of a situation in which the grant of planning permission makes land subject to compulsory acquisition, and the legislation will contain appropriate provisions to safeguard the position of owners and others with an interest in land.

VI. THE BASIS OF COMPENSATION

31. Since 1958 the price paid by an acquiring authority for land which it purchases has not been limited to the value of the land based on its current use, but may reflect any value due to the prospect of carrying out development. This may include the value for the development which the acquiring authority intend to carry out. Moreover, as a result of the certificate of appropriate alternative development procedure an acquiring authority may have to pay a price including substantial development value even where they are acquiring the land for an unremunerative use, e.g. public open space.

32. The intended arrangements for the immediate future are set out in paragraphs 37-44 below. The Government propose that the ultimate basis on which the community will buy all land will be current use value—that is to say the market value of land for its current use without adding any additional value representing the hope that it might be developed for any other purpose, except those covered by the permanent exemptions referred to in paragraphs 34-35. The Government also propose to amend at the earliest possible moment the provision whereby an owner of land can require a certificate of appropriate
alternative development even though the owner (for example of a sports field which the authority wish to acquire for public open space) has no possibility of getting planning permission for the development set out in the certificate.

33. Some land may be derelict and have little or no market value in its current use. This may give rise to difficulties when land is to be acquired at current use value. A special basis of compensation will therefore be established to deal with such cases. This basis will be specified for particular areas or types of land by the Secretary of State by Order.

VII. PERMANENT EXEMPTIONS FROM ACQUISITION

34. The Government propose to exclude from the scheme the building of a house for owner-occupation on a single plot which was owned by the prospective owner-occupier on the date of this White Paper (September 1974).

35. Other permanent exemptions from acquisition under the scheme will be set out in due course but they will include alterations and expansions to dwelling houses; the building of a single house within the curtilage of a dwelling occupied by the owner at the date of this White Paper for occupation by the owner or a member of his family; buildings used in agriculture and forestry; and development related to the extraction of minerals. Consideration will be given to the extent to which extensions to buildings and changes between use classes can be exempted and the exemptions will also take account of the need not to constrain important industrial development and expansion.

VIII. TRANSITIONAL ARRANGEMENTS

36. The Government accept that with the shortage of skilled manpower it will not be possible to move immediately to the new system in full. They therefore propose to defer the making of an order or orders laying the duty on local authorities to acquire land for material development until they are in a position to carry out this duty. In the meantime, local authorities will be encouraged to acquire as much development land as the staff position permits up to the maximum of ten years' needs, and the Government will use their best endeavours to make possible an early move to full implementation of the Scheme. In the transitional period both land with planning permission on White Paper day and land owned by builders on that date will normally be excluded from acquisition under the Scheme. Developers will also be able to continue to make planning applications and carry out developments as they do now (though there will be an opportunity for local authorities to consider whether to acquire land themselves before they grant planning permission). The Government will take powers to make this order laying a duty on local authorities either generally and in respect of all development or in relation to specific areas or types of development, and will have special regard to the existence of Structures and Local Plans.

37. The Government also accept that sensible development requires that the price which public authorities pay for land should be reasonable not only to the
community but also to landowners. At the time all local authorities have been given a duty to acquire land for development it will be right for the price to be current use value as set out in paragraph 31. But to move over immediately to this basis of compensation would discourage landowners from bringing forward land for development in the transitional period before local authorities and ready and have been given the duty to acquire land for development. Besides, many present owners will have bought their land at a price reflecting a hope of development that is legitimate in the market today, and the Government do not wish to penalise them.

During the transitional period, the Government have the three-fold priorities of reducing the cost of land to local authorities; maintaining the flow of land for development; and avoiding distortion and unfairness to landowners. They have decided to do this by enabling local authorities to buy land net of the tax on development value (i.e. the increase in value attributable to the prospect of development) that would have been payable by the vendor had he sold his land privately. The community will benefit from increases in development value, the private owner will realise the same amount whether he sells to the local authority or to a private purchaser.

To enable local authorities to buy "net of tax" it will be necessary to amend the arrangements for the taxation of development gains introduced in the Finance Act 1974. The Chancellor of the Exchequer made it clear, when he announced the intention to include in the 1974 Finance Bill provisions based on those proposed by the previous government, that this was an interim measure in advance of the Government's own proposals for dealing with development land.

The development gains charge provisions will therefore be amended so that development value is subject to a "development land tax" at a flat rate outside the general arrangements for the taxation of companies and individuals, and applying equally to those who trade in land and those who do not. The new tax will generally be payable when development value is realised on a disposal of land (including the granting of a lease), but any development value realised by the carrying out of development will also be liable for tax.

The development value on which tax will be charged will be the difference between disposal price (or market value where tax is chargeable on the carrying out of development) and a "base value" which will be whichever is the highest of:

a. the price paid for the land plus any increase in current use value since the date of acquisition;
b. current use value at the date of disposal plus 10%; and
c. the price paid for the land plus 10%.

There will be allowance for expenditure (e.g. costs of sale), and for the cost of improvements, where appropriate.

Minor development, and development already regarded as being within existing use for compensation purposes (schedule 8 of the Town and Country Planning Act 1971) will be defined as falling within the current use of land for the
purpose of assessing liability to tax. No tax will be payable where development
value is realised by a residential owner-occupier on the sale or development of
his sole or main residence or of land of up to one-tenth of a hectare (approxima-
tely \( \frac{1}{4} \) acre) occupied with his house as its garden or grounds; the types of
development by owner-occupiers exempted from acquisition under the scheme
(paragraphs 34-35) will also be exempt from the new tax without regard to size
of plot. In addition, there will be exemption where disposals of land by an
individual or a company in any year have a total value of £5,000 or less.

43. The rate of development land tax will be fixed by Order. The Government's
intention is to fix an initial rate of 00 per cent and to increase the rate progressi-
vely in step with the build-up of local authority programmes of acquisition and
disposal of land for development.

44. The development land tax will not apply to realisations of development
value occurring before the date of Royal Assent to the legislation which the
Government intend to introduce. There will be provisions in the legislation to
guard against transactions in the period before the introduction of the new
tax aimed at avoidance.

IX. FINANCIAL HARDSHIP TRIBUNALS

45. When all the acquisitions by local authorities come to be made at current
value there may arise individual cases of financial hardship of the sort that can
occur in any large scheme. The Government therefore propose to set up at the
appropriate time tribunals throughout the country which will have authority to
consider such cases and to award an additional payment.

46. It is important that the Tribunals for dealing with cases of this kind should
be informal and readily accessible to individuals affected. The Government,
will be considering the most effective form they should take for this purpose and
particularly whether they could be based on an existing body of group of bodies.

X. SPECIAL CASES

47. The Government seek to protect the residential owner-occupier, whether
of a freehold property or of one held on a long lease. Local authorities will be
encouraged to make land available for the building of houses for owner-
occupation on the basis set out in paragraph 53 below.

48. Where an owner-occupied house needs to be acquired by a public authority
the owner will continue to receive its market value and will not be liable for
development land tax if he realises development value on the sale or develop-
ment of his house or of part of his garden up to a tenth of a hectare (see para.
41 above). He will also continue to be entitled to the full range of statutory
payments including compensation for disturbance, and where appropriate, home

49. As indicated in paragraph 34 above, single house plots which were owned
by the prospective owner-occupier on White Paper day will not become subject to public acquisition when that development comes to be carried out.

Agriculture

50. As explained in paragraph 25 above, the Government will ensure that care will continue to be taken to avoid the acquisition of good quality agricultural land wherever possible. Before introducing legislation, they will also consider whether the new compensation terms set out in paragraph 31 means that any special provisions are needed to protect working farmers.

Statutory Undertakers

51. Statutory undertakers will be able to acquire and develop land needed for their statutory functions without the intervention of local authorities. While the transitional arrangements described in paragraphs 36 to 44 continue, these bodies will be able to carry out development for their own operational use but they will be liable for the tax when they dispose of any of their land whether before or after development. Local authorities will buy land from them net of this tax.

XI. DISPOSAL OF LAND

52. The terms on which local authorities dispose of land acquired under these arrangements will need in general to ensure that the local community retain a share of future increases in value. The disposal of land for commercial or industrial development therefore will be on a leasehold basis with provision for rent revisions. In general, disposals, whether on a freehold or a leasehold basis, will be at the market value at the time.

53. The Government have made it clear that their public ownership proposals do not seek to affect the provision of land on which houses can be built for owner-occupation. Land for housing can be disposed of in a variety of ways. Local authorities will be encouraged to offer it to builders on licence, with the plots being conveyed direct to the house purchasers. Plots for owner-occupation will also be made available freehold.

54. The operation of the scheme will require close co-operation between local authorities and developers, and the Government wish to see the skills and initiative of private developers contribute to the needs of the community in a positive way. Local authorities will be encouraged to involve developers in their plans, and the method of disposal should encourage developers to make a contribution towards the overall design of each scheme.

55. In some instances developers will have special needs, e.g. an industrialist with land acquired for long-term expansion, a wholesaler with a special siting requirement, a property developer who has assembled a developable site (or part of it). When the scheme is fully operative the land to be developed will pass through local authority hands, but there may be very good reasons why the particular landowner/developer should be the one to whom the land is made available for development. In these circumstances, the owner or developer
would usually be given an opportunity to undertake the development, subject to agreement on financial terms.

XII. FINANCIAL IMPLICATIONS

56. The effect of these proposals will be that the community will enjoy the full value created when land is developed. The community in general, i.e. the taxpayer, will have made a contribution towards the acquisition of land and the Government propose therefore that the benefits from the scheme should be shared between Central and local government. The major part of the benefit will accrue to the taxpayer in general through the Exchequer; but a part will remain with the local community and a part will be distributed amongst local authorities to help equalise the benefits of the scheme between ratepayers at large. The Government will consult with the Local Authority Associations in order to arrive at a rational distribution of benefits. It is the Government's intention that those buying their first homes should share in the benefits of the scheme. It must be recognised that because of the timelag between acquisition and disposal, it will be some time before benefits accrue generally.

57. Transfers of land between local authorities or the valuation of appropriations within a local authority will be treated differently. The local community will benefit directly from the new proposals. Land to be used by them for council housing or other purposes will therefore be transferred or appropriated at the cost of acquisition. Adjustments will be made as appropriate in Exchequer financial arrangements.

XIII. EMPTY OFFICE BLOCKS

58. So far, the proposals outlined have been concerned with development land, but there is a related problem of land which has already been developed but with unsatisfactory results for the community. The problem is that of office premises which have been standing empty for many years. The owners of these premises were given 6 months' notice on 29th April 1974 of the Government's intention to deal with these premises in the legislation on development land.

59. The Government intend that the Secretary of State shall have general powers to acquire such premises by compulsory purchase. His powers will relate to those offices with a floor space of over 50,000 sq ft which have never been substantially occupied for a period of at least 2 years from the date of construction. These will be an opportunity for those affected to make representations as to why the acquisition should not take place.

60. The price to be paid will be the value that would have been payable had the premises been acquired at the date of completion, taking account of any subsequent alterations to the building.
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DRAFT CABINET PAPER "LAND"

MAJOR CORRIGENDA

PARA 6, line 1
For "two" read "three".

PARA 11, bottom of page 2
Insert "But as the development charge had been abolished
sales between private persons reflected the full market
value including development value."

PARA 14, last line
Amend to read "......were unable to buy land on the scale
originally envisaged."

PARA 15, at end
Add "c. an inflexible scheme can only be self-defeating."

PARA 17, line 4
Amend to read "..... than what is extinguished."

PARA 21, line 6
Amend to read "There are costs in volvcd - the cost of providing
more roads, more trains and buses for example; and there are
stresses......"

PARA 24, last sentence
Amend to read "The precise kind of support arrangements (possibly
regionally based in England and nationally based in Scotland) and
the arrangements in Wales will be the subject of discussion with
the local authority associations."

PARA 39, first sentence
Amend to read "To enable local authorities to buy net of tax it
is proposed to replace the arrangements for the taxation of
development gains introduced in the Finance Act 1974 by the
scheme outlined in the following paragraphs."

PARA 40, first sentence
Amend to read "Under the new scheme development value will be
subject to a 'development land tax'......"
3 September 1974

CABINET

COMMUNITY OWNERSHIP OF DEVELOPMENT LAND

Note by the Secretary of State for the Environment

The report of the Working Party on Purchase Price and Taxation in the Transitional Period (referred to in C(74) 95) is attached.

AC

Department of the Environment

3 September 1974
COMMUNITY OWNERSHIP OF DEVELOPMENT LAND
PURCHASE PRICE AND TAXATION IN THE TRANSITIONAL PERIOD
REPORT OF THE EXPERT WORKING PARTY

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**ANNEXES**

Description of each scheme with worked examples and evaluation against key criteria.

- **Annex 1** Scheme 1 Frozen Market Value
- **Annex 2** Scheme 2 Existing Taxation plus New Specific Grants
- **Annex 3** Scheme 3 Sales Tax
- **Annex 4** Scheme 4 Development Levy
COMMUNITY OWNERSHIP OF DEVELOPMENT LAND

PURCHASE PRICE AND TAXATION IN THE TRANSITIONAL PERIOD

REPORT OF THE EXPERT WORKING PARTY

I INTRODUCTION

1. At their meeting on 1 August (CG(74)31, Item 2) the Cabinet approved in principle the proposals for community ownership of development land, but noted that taxation and the public purchase price in the transitional period were being further discussed by an expert Working Party set up following the discussion in the MISC 30 Committee on 30 July (MISC 30(74):2nd Meeting, Conclusion 2(ii)).

2. It is a fundamental objective of the scheme that the cost of land to public authorities should be reduced, and should, after a transitional period, be based on current use value (CUV) - ie, the amount that land is worth in its current use without any additional value arising from the prospect of carrying out development (draft White Paper, para 32).

3. The new basis cannot be introduced immediately. Paragraph 37 of the draft White Paper recognises that there will be cases in which development value has already effectively accrued to landowners. Moreover, it has been accepted that, because of manpower constraints and the importance of maintaining essential development programmes, immediate acquisition of all development land will not be possible, and that, for a transitional period, the private market will continue as a means of bringing land forward for development.

4. The draft White Paper contained alternative versions of the paragraph (para 38) dealing with the arrangements necessary to deal with cases where development value has already accrued and with the continuance of the private market in the transitional period. The choice between these approaches was not resolved at MISC 30; and it was to study this question further that the Working Party was established.

#References to paragraphs in the White Paper relate to the draft circulated to the MISC 30 Committee (MISC 30(74)4).
II THE PRESENT SITUATION

5. The present basis of compensation (ie the price which public authorities pay for land) is market value. Market value includes the full value attributable to the prospect of carrying out development; but the development gains charge provisions in the Finance Act 1974 provide for the taxation of development gains, and it may be useful to describe this present taxation system briefly as background to consideration of possible alternative approaches.

6. The basis of the present system is that, when an individual or a company disposes of land, and realises a development gain (ie any value attributable to the prospect of carrying out material development), a liability to development gains charge arises. Development gains realised by individuals are taxed as income (ie at rates up to 63%), whilst such gains realised by companies are subject to normal company taxation - this means a rate of 52% for open companies in general, and approximately 75% for close companies. (In considering the rate of 52% for companies, it must be borne in mind that there is further taxation on gains realised by individuals who sell shares which have appreciated in value as a result of the company's development gains.)

7. It is an essential feature of the development gains charge that gains are taxed within the context of normal company/personal taxation. Under this approach the maximum possible rate for taxing development gains is the current top rate for the taxation of a company or an individual, as the case may be.

8. An alternative approach, and the one adopted in the last Labour Government's betterment levy, is to treat realisation of development value as distinct from other capital gains and to subject them to a special levy or charge outside the personal/company taxation system. This means looking only at the circumstances of the individual transaction, and not at personal circumstances or other aspects of the financial status of those who realise development gains. In principle, an approach of this kind allows a higher rate of taxation of development gains (though the betterment levy, which was fixed at 40%, would generally have produced a lower rate of charge than the current development gains charge).
III CRITERIA FOR SELECTING A NEW SCHEME

9. There are a number of important criteria against which any scheme for purchase price/taxation in the transitional period must be tested. Some of these arise from the nature of the long-term scheme; others relate to constraints, some of which have already been identified in earlier discussions of the main scheme. The criteria which the Working Party have considered are:

a. contribution towards achievement of the ultimate aim of 100% public acquisition. It is clearly important that any transitional arrangements should fit in with the long-term aim of the scheme. Apart from the question of avoiding excessive manpower demands which would make it harder for local authorities to staff themselves for increased acquisition, the main point here is that the transitional scheme should include a substantial incentive for local authorities to build up their acquisition programmes, by reducing the net cost to them of buying land.

b. transition to purchase at current use value. The ultimate objective is that local authorities should pay only the current use value of land. So far as possible, a transitional scheme should provide for a smooth transition to the new basis of compensation.

c. continuance of development programmes. The need to avoid disruption of development programmes was one factor which led to the decision in favour of phased introduction of the total acquisition scheme. The transitional arrangements must be consistent with the aim of ensuring a continuing supply of land for development.

d. market confidence. In addition to firms which have a direct interest in development programmes, a wide range of financial institutions have a stake in the property market, and may have assets the value of which resides in the prospect of realising development value. In the current depressed state of the market it is clearly important to frame the transitional scheme in such a way that any further blow to confidence is avoided as far as possible, and that financial institutions are not driven to look for property investments abroad.
avoidance of a 2-price system. If a private market in land is to continue in the transitional period, land will need to continue to change hands at prices which reflect development value. Although the transitional scheme needs to achieve an effective reduction in the cost of land to public authorities, it is important that the net amount that a landowner receives for his land should be the same whether he sells privately or to a public authority. If an owner thinks he can realise more (after tax) by selling privately, there will be increased resistance to all public acquisition (including purchases for existing statutory purposes - eg schools, roads), and this will make it more difficult to achieve a rapid build-up of local authority acquisition programmes. Moreover, a 2-price system will lead to cases of hardship and inequity, and this would almost certainly lead to an Opposition commitment to repeal the legislation.

manpower. Shortage of skilled manpower has been accepted as a constraint on the speed with which full public acquisition can be introduced. Any scheme involving a change in the basis of compensation or new tax arrangements is bound to lead to increased calls on manpower and, in particular, on one of the most important categories - valuers. A scheme involving a large extra requirement for valuers will be impossible to implement in practice; and any large extra call on valuers is likely to reduce the rate at which programmes of public acquisition can be built up. Measures to increase the supply of skilled manpower are bound to take some time to have full effect, and any scheme which does not recognise the immediate constraint would be unwelcome.

fiscal equity. Any new taxation arrangements must conform to accepted standards of fiscal equity.
IV ALTERNATIVE APPROACHES

10. The Working Party have considered a wide range of schemes. These fall into 2 broad categories, corresponding with the alternative versions of para 38 of the draft White Paper:

a. approaches involving a change in the basis of compensation - the proposal in the first version of para 38 was that compensation on compulsory purchase should be limited to the value of the land on the basis of the planning situation and land prices ruling at White Paper day - ie frozen market value (FMV);

b. approaches under which the basis of compensation remains or levy market value, but the tax/levy on the realisation of a development gain is computed and deducted from the price which the public authority actually pay - ie they buy "net of tax/levy" so that the cost to them is reduced whilst the amount that the owner receives is the same as if he had sold privately. This is the second version of para 38.

In addition, the Working Party have considered a third approach which achieves broadly the same effect as (b) above, but in a simpler and more open way:

c. the basis of compensation remains market value, with realisations of development value, whether on public or private sales, being taxed in the normal way. But the effective cost of land to public authorities is reduced by the payment of specific grants.

FROZEN MARKET VALUE SCHEME

11. The basis of the frozen market value approach is that the amount that public authorities pay for land should be restricted to a value based on the planning circumstances and level of values ruling at the date of the White Paper. The attraction of this approach is that it would operate directly on the public acquisition price and that, as land which had established development value at White Paper day was used up, the price paid by public authorities would in time decline to cvw. On this approach, the development gains charge would need to remain in operation to tax any development value included in prices based on FMV.
12. If the FMV principle were applied only to purchases by public authorities a 2-price market would be created. In theory, the price at which land would change hands on the open market should be depressed by the imposition of the FMV ceiling on public purchase prices, because purchasers would fear a loss if they paid more than FMV. But previous experience suggests that the market would not in fact react in this way. The private market would pay a price in excess of FMV (especially where there had been a change in planning circumstances - eg, the grant of planning permission - leading to a large increase in value), and the amounts realised on public and private sales would therefore diverge.

13. The 2-price problem could be mitigated by changes in the tax system. Thus, if there was a special levy of 100% on realisations of development value in excess of FMV the amount realised on a private sale would be brought down to FMV (subject to normal taxation of FMV whether this was realised on a private or a public sale). Annex 1 sets out a scheme on these lines.

14. An over-riding objection to this approach is the manpower requirement involved in assessing FMV in all cases. It is estimated that a scheme would require 800 additional valuers - there would be no off-setting savings because the existing tax arrangements would need to continue to deal with development gains which had accrued before the date of the White Paper, ie those included in FMV.

15. Moreover, even with modification of the tax system problems of equity would remain. If land was purchased for whatever reason at a price over FMV and then re-sold, the vendor would not be able to realise (after tax) more than FMV - ie he would always receive less than he paid for the land. This would have serious implications for the operation of the land market in the transitional period. There would be a serious risk that the land market would dry up completely; alternatively there might be large scale avoidance by means of illicit payments from purchasers to landowners in order to escape the 100% levy above FMV.

16. The Working Party have therefore concluded that a system based on purchase at frozen market value is impracticable because the need to avoid a 2-price system requires the FMV concept to be brought into the tax system, as well as being used as the basis for public purchase, and this makes impossible demands on manpower; and because, even with modification of the tax system, problems of equity and disruption of the land market would remain.
EXISTING TAXATION SYSTEM WITH NEW SPECIFIC GRANTS

17. The aims of reducing the net cost of land to local authorities and avoiding a 2-price system could be achieved by retaining the existing system of taxation and introducing a new specific grant towards the cost of land purchase at market value. This would be an alternative - and arguably a simpler and better - way of achieving the transfer to local authorities of some proportion of development value, which might otherwise be collected by taxation. A possible scheme is set out in Annex 2.

18. It is an attraction of a grants approach that it would make it possible for benefits to be more rationally distributed. Thus, grants could be given towards the cost of land purchase in urban areas where land costs to public authorities are bound to remain high because already-developed land has a higher current use value than farmland. The fact that, under a grants scheme, taxation of development gains would remain on the present basis also has advantages in terms of market confidence. And the scheme would also put less of a burden on manpower (though some extra staff would be required to run it, and there might be some effect on valuers because the introduction of specific grants towards the cost of land purchase might require closer scrutiny of local authority land purchases by District Valuers).

19. The fixing of a rate of grant would raise difficult issues and the decision would be bound to be somewhat arbitrary. Moreover, if it was assumed that the net benefit to local authorities generally based on should be the amount that would accrue to them under the final scheme, allowing for the redistribution between central and local government referred to in paragraph 52 of the draft White Paper, the rate of grant on specific purchases of development land might not be high enough to encourage local authorities to operate the scheme. Certainly an approach under which the net cost of land purchase was reduced (even if the benefit accruing on disposal of land for development was shared with central government) would seem more attractive to local authorities than a grant approach.

20. A grants approach is, therefore, feasible, and has advantages in terms of market confidence and manpower. It seems doubtful generally, and in relation to other grant systems (e.g., housing subsidies, transport block grants),
however whether it would be presentationally acceptable, given the lack of public awareness of the extent to which development value is subject to tax under existing arrangements; and it is also unlikely to be very attractive to local authorities.

BUYING NET OF TAX/LEVY

21. The second possibility in the draft White Paper (alternative 2 of paragraph 38) is to retain market value as the basis of compensation, but to reduce the cost of land to public authorities by providing that they should buy "net of tax/levy". An approach of this kind requires new tax arrangements because the tax payable on development gains under the existing system is inextricably embedded in the total tax liability of the individual/company concerned, and is not in any case calculated until well after the transaction on which the gain was realised. Buying "net of tax/levy" therefore involves putting the taxation of development gains on to a "levy" basis - see paragraph 8 above.

Sales Tax Scheme

22. Because any system which depends on the separate identification and assessment of development value in all cases involves heavy calls on valuers, the Working Party have considered whether it would be feasible to devise a tax the amount of which would be based solely on the amount realised on a disposal of land.

23. A possible approach would be to impose a simple "sales tax" on the amount realised on any sale of land where development value was realised. (The identification of cases where development value was present would not involve unacceptable demands on valuer manpower, provided that there was no requirement actually to assess the amount of the development gain.) After payment of the sales tax the gain left with a vendor would be subject to taxation under the existing arrangements. There would need to be provision for purchasers who had bought land on which sales tax had been paid to set this off/against their own liability to tax. Public authorities would pay for land net of the new tax, but not net of any other taxation. A scheme on these lines is set out in Annex 3.

24. This approach, though feasible, is not recommended. It fails to isolate and tax development gain /and is therefore crude and
arbitrary, by biting indiscriminately on the disposal price regardless of its development gain content. Moreover, by its nature, a tax of this kind would have to be set at a relatively low rate. It would be impracticable to introduce it at a rate in excess of 10% as there would otherwise be hardship to those who sold land for the first time after the imposition of the new tax, and would not be able to benefit from any arrangements for giving a credit for levy already paid. This approach would not therefore provide any substantial reduction in the cost of land to public authorities, and would not achieve a transition to purchase at cvv.

Development Levy Scheme

25. A scheme which would achieve the objective of special treatment of development value is described in Annex J1. This follows broadly the lines of the 1967 Act betterment levy with some modifications. It would involve repeal of the 1974 development gains charge provisions.

26. The principle of the "development levy" approach is that levy is charged on each realisation of development value (either on a disposal of land or the carrying out of material development). Thus if A sells to B for £10,000 and realises a development gain of £9,000, A pays levy on this sum. If B then sells to C (or carries out development), he can then use the amount that he paid for the land - the last transaction price - as a "base value" in the assessment of any further tax liability. That is to say, any development gain in the £10,000 having already been taxed on the sale from A to B, this figure now provides the basis for the calculation of any further realisation of development value. The use of this "last transaction base" is essential to any system of this kind in order to avoid double taxation.

27. Public authorities would buy land at a price net of development levy. Thus, if the first sale described in the previous paragraph was to a public authority, the amount that they would pay to A would be reduced by the amount of the levy chargeable on the development gain of £9,000. Thus, with a rate of 50% the cost to the public authority would be reduced from £10,000 to £5,500; a rate of 80% would bring the net cost down to £2,800.
28. Because it is an essential feature of this scheme that all development value should be separately identified and assessed, it is bound to make substantial calls on valuer manpower. Even allowing for the saving arising from the ending of development gains charge, it is estimated that some 500 extra valuers would be required to work a scheme following closely the lines of the betterment levy of the Land Commission Act 1967 (as amended by the Finance Act 1969).

29. The Working Party have examined the possibility of reducing calls on valuers by modifications to the original betterment levy scheme which would reduce the number of cases to be handled. They have concluded that the extra valuer requirement could be brought down to about 125 by a combination of the following modifications:

a. exemption of certain owner-occupied plots. Most owner-occupiers would not come within the new scheme because most houses change hands at current use value. Where there is a prospect of redevelopment however, the selling price of an owner-occupied house and garden can involve a realisation of development value; and owner-occupiers can also realise such value by selling off part of their gardens for development. Owner-occupied plots of up to one acre (or more, if genuinely required for the enjoyment of the dwelling) are exempt from capital gains tax and development gains charge. To exempt plots as large as this would be too generous in the context of the new scheme. It would however seem reasonable to exempt from the new levy owner-occupied plots of up to $\frac{1}{2}$ or $\frac{3}{4}$ an acre.

b. exemption of small cases. The original betterment levy had no significant de minimis exemption, and the pursuit of a large number of small cases was one of the factors which brought the levy into disrepute. In 1969 exemption for cases where the total disposal price was less than £1,500 was introduced (the £1,500 limit applied to all transactions by an individual/company, or related individuals/companies, within a year, in order to prevent evasion by fragmented transactions). Rises in land prices since 1969 would justify
an annual exemption limit of £5,000. This compares with
development gains charge exemptions of £10,000 for indi-
viduals and £1,000 for companies.

c. a flexibility margin in the calculation of base values.
Betterment levy provided for a 10% tolerance over current
use value where this was used as base value in an assess-
ment to levy. Where a last transaction price was used as
base value there was no tolerance. In the development
gains charge there is a tolerance of 20% over last trans-
action price, and bringing this modification into the new
levy arrangements would produce an estimated saving of some
15-20% in the number of cases. The effect would be that
if an owner bought for £10,000 and sold for £12,000, there
would be no liability to levy (though the gain would still
be liable to normal taxation); if he sold for £15,000,
levy would be payable only on £3,000 and not on £5,000.

30. With these modifications the manpower requirements of a levy
scheme could be reduced to something which should just be acceptable,
though means would have to be found of reversing the drift of valuers
away from the Valuation Office. But the scheme would still put a
heavy burden on manpower resources, especially as local authorities
with their own valuers and also the Valuation Office (who act for
more than half the local authorities in land transactions) would
need to be building up their staffs as progress was made towards
full implementation of the acquisition scheme.

31. The development levy approach is, however, the only practicable
scheme which satisfies the basic principles of the White Paper scheme,
including a reduced price to local authorities without risk of a
2-price system. The scheme derives broadly from the betterment levy
approach of the 1967 Act but it should be more acceptable publicly
than that scheme, given the incorporation of the modifications made
to it in the Finance Act 1969, the exemptions from the scheme generally
already referred to in the draft White Paper, and the further
modifications set out in paragraph 29 above.

RATE OF LEVY AND MARKET CONFIDENCE

32. The fixing of the rate for the new development levy would have important implications for market confidence. With a levy of this kind, a single rate for all transactions would be required, and it would not be possible to distinguish between companies and individuals as the development gains charge does. Any rate above 52% would therefore involve an increase in the tax liability of companies, and this effect would be the more pronounced because the development levy would have regard only to the circumstances of each transaction, and not to other aspects of the company's financial situation - eg losses on other activities.

33. From the point of view of confidence it would be undesirable to set a rate higher than the current effective tax - ie 52% - for companies (or indeed to indicate any early intention of an increase over this rate). On the other hand, this could be more favourable to individuals and close companies than development gains charge. To avoid any significant reduction in tax liabilities for them the rate of a development levy would need to be set at 80%.

DATE FOR INTRODUCTION OF THE NEW SCHEME

34. The development gains charge operated from the date of first announcement on 17 December 1973. This was possible because the charge was introduced as a modification of an existing tax which was to be put into effect in the next Finance Bill, and because assessment of liability to the new charge would not arise until some time after the announcement - ie after the end of the 1973/74 financial year. A development levy would, however, be a new and distinct impost, involving assessment of liability at the point of each transaction, and, where liability arose on the carrying out of development, a separate system of notification.

35. In these circumstances it would not seem practicable to make the new levy operate from the date of a White Paper. The new arrangements would therefore need to apply to transactions (and the carrying out of projects of development) after Royal Assent to the relevant legislation, and during the interim period between White Paper and the effective date, the present arrangements for taxation of development gains would need to continue. (Whether
anti-avoidance provisions would be needed for interim period transactions would depend on the rate of levy.) This constraint does not however mean that the new levy would have to wait for legislation on the whole scheme; it would be possible for the levy provisions to be introduced in a separate measure if necessary.

II CONCLUSIONS

36. The Working Party's conclusions are as follows:

a. We have not found a PMV scheme which can be recommended as meeting the key criteria set out in paragraph 9. All the variants that we have studied either are impossible in manpower terms, or vitally threaten the land market, or lead to a 2-price market, or produce a combination of these effects (paragraphs 11-16).

b. A 2-price system could be avoided by public purchase at market value with grants from central government towards the cost of land purchase; but there are political and other disadvantages to set against this approach's basic advantages of simplicity and openness and maintenance of confidence (paragraphs 17-20).

c. A sales tax on all transactions including development value would have substantial disadvantages and would not contribute towards the achievement of the White Paper objectives (paragraphs 22-24).

d. A development levy scheme, based on the 1967 Act with the modifications considered in paragraph 29, is feasible, avoids a 2-price market, and satisfies most of the land policy objectives and more than any other scheme we have been able to formulate (paragraphs 25-31).

e. The fixing of the initial rate of development levy and statements of intention about future increases would have important implications for market confidence (paragraphs 32-33).

f. The effective date for the introduction of a new levy should be after Royal Assent to the relevant legislation paragraphs 34-35).
ANNEX I

SCHEME I - DESCRIPTION

SCHEME I: FROZEN MARKET VALUE

DESCRIPTION OF SCHEME

1. In this scheme local authorities would buy at current use value or at Frozen Market value - i.e. value on the basis of the planning situation and level of values ruling at White Paper day - if this was higher. A private market would be permitted, but a landowner selling privately would not be allowed to retain any part of the sale price which was in excess of FMV, i.e. there would be a 100% levy on any excess above FMV. The FMV amount would then be subject to normal taxation (i.e. development gains charge, capital gains tax, corporation tax or income tax).

2. A vendor who had paid more than FMV, either before or after the effective date, would have no means of getting his money back except by developing the land himself. If he sold to a public authority the compensation would be restricted to FMV; if he sold privately anything that he received in excess of FMV would be taxed away by the 100% levy.
**SCHEME I : FROZEN MARKET VALUE**

**EXAMPLES**

Company liable to corporation tax at 52%  
Individual liable to top income tax rate of 83%

<table>
<thead>
<tr>
<th></th>
<th>Current market value</th>
<th>Frozen Market Value</th>
<th>Current use value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Whole gain is a development gain

### Company

<table>
<thead>
<tr>
<th>Sale Proceeds</th>
<th>Levy</th>
<th>Tax (80–15) 65 @ 52%</th>
<th>Net Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale to local authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
<tr>
<td>80</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
<tr>
<td>80</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
</tbody>
</table>

| Sale to private buyer | | | |
|-----------------------| | | |
| 100 | 20 | 80 | 46 |
| 80 | 20 | 80 | 46 |
| 80 | 20 | 80 | 46 |

### Individual

<table>
<thead>
<tr>
<th>Sale Proceeds</th>
<th>Levy</th>
<th>Tax (80–15) 65 @ 83%</th>
<th>Net Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale to local authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
<tr>
<td>80</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
<tr>
<td>80</td>
<td>20</td>
<td>80</td>
<td>46</td>
</tr>
</tbody>
</table>

| Sale to private buyer | | | |
|-----------------------| | | |
| 100 | 20 | 80 | 46 |
| 80 | 20 | 80 | 46 |
| 80 | 20 | 80 | 46 |

* Possibility of a measure of tax relief on a loss of 20

**NOTE:** Second vendor cannot get his money back.
SCHEME I: FROZEN MARKET VALUE

EVALUATION AGAINST KEY CRITERIA

a. Contribution towards achievement of the ultimate aim of 100% acquisition.

b. Transition to purchase at current use value.

c. Continuation of development programmes.

d. Market Confidence

e. Avoidance of a 2-price system.

f. Manpower

g. Fiscal equity

Authorities would be able to get land more cheaply than at present. But the acquisition process would probably be very slow, because of landowner opposition and manoeuvring to get planning permission or development into current use, and thus to escape the threat of acquisition at FMV.

Yes, to the extent that local authorities could buy against opposition from owners.

Programmes distorted because of danger of present owners finding advantage in developing before sale to escape FMV.

To be considered separately.

No scope in theory because there would be no legitimate private market at values above FMV. But scope in practice because of illicit incentive payments.

Not feasible - valuer need (800) and support staff (1600).

Achieved
SCHEME 2 : EXISTING TAXATION PLUS NEW SPECIFIC GRANTS

DESCRIPTION OF SCHEME

1. In this scheme local authorities would acquire at current market value, but there would be Exchequer grants to reduce the cost of the authorities by some appropriate amount. Gains made on sales in the private sector or to public authorities would be subject to the normal taxes (i.e. DGT, CGT, corporation tax, and income tax), perhaps tightened up to whatever extent was possible and desirable.
### Scheme 2: Existing Taxation with Grants

#### Example

Current market value 100

<table>
<thead>
<tr>
<th></th>
<th>Company</th>
<th>Sale to local authority</th>
<th>Sale to private buyer</th>
<th>Second sale to local authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale proceeds</td>
<td>100*</td>
<td>100</td>
<td>100</td>
<td>100*</td>
</tr>
<tr>
<td>Tax (100 - 15) = 85 @ 52%</td>
<td>43</td>
<td>43</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Net proceeds</td>
<td>57</td>
<td>57</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Individual</th>
<th>Sale proceeds</th>
<th>Tax 85 @ 83%</th>
<th>Net proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale proceeds</td>
<td>100*</td>
<td>100</td>
<td>100</td>
<td>100*</td>
</tr>
<tr>
<td>Tax 85 @ 83%</td>
<td>71</td>
<td>71</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>29</td>
<td>29</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

* The effective cost to the local authority would be 100 less the Exchequer grant.
SCHEME 2: EXISTING TAXATION PLUS NEW SPECIFIC GRANTS

EVALUATION AGAINST KEY CRITERIA

- Contribution towards achievement of ultimate aim of 100% public acquisition.

- Transition to purchase at current use value.

- Continuation of development programmes?

- Market confidence.

- Avoidance of a 2-price system.

- Manpower

- Fiscal equity

Local authorities would be able to go out and buy without opposition. The effective cost to the authority of buying land would depend on the level of the Exchequer grant.

Only possible when local authorities eventually dominated the market. In the meantime no direct price transition to CUV.

Achieved.

To be considered separately.

Achieved

Feasible

Achieved
1. A flat rate "sales tax" on disposal proceeds of transactions where development value present. DG-T to continue to run on total gain, and sales tax allowed as credit (as far as possible) against DG-T. Local authorities buy net of sales tax.

2. A flat rate tax would not necessarily have to be at a low rate, but special provisions (or a specially low rate) would be required for the first transaction after the effective date for land held at that date. The special provision illustrated below does not work where there is insufficient DG-T (see (b)) nor for traders in land, gross funds and charities because they do not pay DG-T.

3. The flat rate tax would apply whenever development value was present. In the extreme case, and in the absence of any marginal provisions (which would involve assessment of current use value) a sale at £100 of land including only £1 of development value would attract £10 liability which could not be credited because there would be insufficient DG-T.

4. To the extent that there is insufficient credit, land with development value at the effective date is immediately devalued by up to 10% of its total value, regardless of the amount of the development value, ie even if the latter were 0.1% the 10% sales tax would automatically apply to the total value.

5. The scheme does not work after a private sale after the effective date. The question marks appear in the third column because the figuring depends on whichever of the following courses is adopted. If on the one hand credit is allowed on a subsequent transaction it is allowing the same "payment" to be used as a credit twice. If on the other hand any credit is not allowed there will either be holding off or a sale at an inflated price to recover the acquisition cost at the very least. Further, if a credit is allowed it is of little or no advantage to local authorities because there is little or no sales tax for them to buy net of.
SCHEME 3: SALES TAX

EXAMPLES

Assume "sales tax" rate of 10%

(a) Facts

GMV 100
Cost 15

<table>
<thead>
<tr>
<th>Company</th>
<th>Sale to local authority</th>
<th>Sale to private buyer</th>
<th>Second sale to local authority or private buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sales tax deducted</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Purchase Price</td>
<td>90</td>
<td>100</td>
<td>?</td>
</tr>
<tr>
<td>Sales tax charged</td>
<td>-</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Tax ((100 - 15) = 85 \times 52% = 43) credit of 10</td>
<td>90</td>
<td>90</td>
<td>?</td>
</tr>
<tr>
<td>Net Proceeds</td>
<td>57</td>
<td>57</td>
<td>?</td>
</tr>
</tbody>
</table>

Individual

| Current market value | 100                      | 100                   | 100                                           |
| Sales tax deducted   | -                        | Sales tax 10          | -                                             |
| Purchase Price       | 90                       | 100                   | ?                                             |
| Sales tax charged    | -                        | 10                    | -                                             |
| Tax \((100 - 15) = 85 \times 83\% = 71\) credit of 10 | 90                         | 90                   | ?                                             |
| Net Proceeds        | 29                       | 29                    | ?                                             |
(b) Facts as in (a) but cost 90

<table>
<thead>
<tr>
<th>Company</th>
<th>Sale to local authority</th>
<th>Sale to private buyer</th>
<th>Second sale to local authority or to private buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sales tax deducted</td>
<td>10</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Purchase Price</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sales tax charged</td>
<td>-</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Tax (100 - 90) = 10 @ 52% = 52</td>
<td>?</td>
<td>?</td>
<td></td>
</tr>
<tr>
<td>credit = 10</td>
<td>?</td>
<td>?</td>
<td></td>
</tr>
<tr>
<td>Net Proceeds</td>
<td>?</td>
<td>?</td>
<td></td>
</tr>
</tbody>
</table>

| Individual          |                          |                       |                                                   |
| Current market value | 100                     | 100                   | 100                                               |
| Sales tax deducted     | 10                      | -                     |                                                   |
| Purchase Price         | 90                      | 100                   |                                                   |
| Sales tax charged      | -                       | 10                    |                                                   |
| Tax 10 @ 83% = 8.3   | ?                       | ?                     |                                                   |
| credit = 10        | ?                       | ?                     |                                                   |
| Net Proceeds          | ?                       | ?                     |                                                   |
SCHEME 3 (SALES TAX)

EVALUATION AGAINST KEY CRITERIA

a. Contribution towards achievement of ultimate aim of 100% public acquisition.

Little, because of opposition to sales until market value rises enough for vendors to recoup purchase price paid by then. The higher the rate of sales tax the greater the opposition.

b. Transition to purchase at current use value.

Not achieved

c. Continuation of development programmes.

Distorts programmes because it discourages transactions and is inflationary at commencement and whenever rate of sales tax is raised. See comment on (a).

d. Market confidence

To be considered separately

e. Avoidance of a 2-price system.

Achieved

f. Manpower

Valuer need for ascertaining presence of development value would be minimal. But there might be substantial requirement for special provisions for first transactions after appointed date. Computation, assessment and collection of tax would require substantial executive staff.

g. Fiscal equity

Any flat rate tax on sales proceeds would not, in IR's view, be an acceptable basis for a tax on betterment. Such a tax, which takes the same amount from sales proceeds regardless of whether 90% or only 10% of those proceeds represents development value does not make fiscal equity or sense.
### Scheme 4 Development Levy

**Description of Scheme**

1. In this scheme there would be a flat rate percentage levy on all realisations of development value (along the lines of the 1967 system). Public authorities would buy net of the levy. The levy would be charged only on the "development value" element of a gain; the remainder of the gain would then be subject to normal capital gains tax, Corporation Tax or Income Tax as the case might be. The sum on which levy was paid would be allowable as a deduction from gains or profit in computing these taxes. Thus the levy would be imposed on the development gain at a uniform rate and would be wholly separated from the normal tax system with its differential charges.

2. The tax position of those making a gain from a land transaction can thus be set out as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>At present</th>
<th>Under levy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Companies trading in land</strong></td>
<td>Whole of gain subject to 52% corporation tax</td>
<td>Development element subject to levy. Remainder subject to corporation tax at 52%. Effective overall rate on total gain therefore between 52% and chosen rate of levy.</td>
</tr>
<tr>
<td><strong>Individuals trading in land</strong></td>
<td>Whole of gain taxed at income rates (up to 83% maximum)</td>
<td>Development element subject to levy. Remainder taxed as income. So overall tax rate between income tax rate and levy rate.</td>
</tr>
<tr>
<td><strong>Companies not trading in land</strong></td>
<td>Development element charged at corporation tax rate (52%); remainder at capital gain rate (30%). So overall rate between 30% and 52%</td>
<td>Development element subject to levy. Remainder taxed at capital gain rate (30%). So overall rate between 30% and levy rate.</td>
</tr>
<tr>
<td><strong>Individuals not trading in land</strong></td>
<td>Development element charged at income rate (max 83%). Remainder to capital gains tax at 30%. So overall rate between 30% and income rate.</td>
<td>Development element subject to levy. Remainder subject to capital gains tax at 30%. So overall rate between 30% and levy rate.</td>
</tr>
</tbody>
</table>
3. Realisation of development value would include the development of his property by a non-exempted owner occupier (although no transaction was involved).

4. The development element of a gain would be the proceeds of sale (or value when development commences) less the highest of
   
   (i) cost plus any increase in current use value; or
   (ii) current use value + 10% or
   (iii) cost plus 20%.

   These bases are the same as those used for development gains tax and differ from those used for the 1967 Betterment Levy only in that Betterment Levy 1967 did not have "cost plus 20%" - but instead had "cost".

5. There would be exemptions from the levy for:

   (i) the residential owner-occupier with a plot of up to ½ acre or 1.7 acres
   (ii) total annual disposals by a company or individual of less than £5,000.
**Scheme 4 (Development Levy)**

**Examples**

(Devised to show the effect in the case where 50% of the total gain is liable to levy—following sheet shows how overall rate of taxation varies with changes in the composition of the total gain). Companies liable to corporation tax at 52% on income and 30% on capital gain.

<table>
<thead>
<tr>
<th>Company</th>
<th>Individual</th>
<th>Company</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value</td>
<td>350</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Levy (350-300) 50 @ 80%</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Levy (100-50) 50 @ 52%</td>
<td>26.00</td>
<td>310.00</td>
<td>310.00</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>284.00</td>
<td>268.5</td>
<td>295</td>
</tr>
<tr>
<td>Overall tax rate</td>
<td>66%</td>
<td>81.5%</td>
<td>55%</td>
</tr>
</tbody>
</table>

- **Traders**  
  - **Non-Traders**

<table>
<thead>
<tr>
<th>Company</th>
<th>Individual</th>
<th>Company</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current market value</td>
<td>350</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Levy (350-300) 50 @ 60%</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Levy (100-50) 50 @ 60%</td>
<td>26.00</td>
<td>320.00</td>
<td>320.00</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>294.00</td>
<td>278.5</td>
<td>305</td>
</tr>
<tr>
<td>Overall tax rate</td>
<td>56%</td>
<td>71.5%</td>
<td>45%</td>
</tr>
</tbody>
</table>

- **Assumed Levy Rate 50%**
  
<table>
<thead>
<tr>
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A NEW SCHEME OF HELP FOR THE DISABLED

Memorandum by the Secretary of State for Social Services

1. I am required under Section 36 of the Social Security Act 1973 to "review social security provision for chronically sick and disabled persons, and [to] lay a report on [my] review before Parliament by 31 October 1974". When Social Services Committee considered my proposals on 23 July they agreed to the general principles on which I was proceeding and expressed the hope that it would be possible for the Cabinet's public expenditure exercise to be conducted in such a way that I should be able to publish the report in September. To make this possible, I arranged for the report to be laid in dummy just before the Recess.

2. I attach a draft of the report which, subject to the agreement of my colleagues, I should wish to publish on 12 September. This would show that we were honouring our Manifesto commitment to "introduce a new scheme of help for the disabled". I have not yet settled with the Chancellor of the Exchequer the action to be taken on Lady Sharp's report on mobility for the disabled, so that would be left for separate announcement.

3. My immediate proposals for social security changes are set out in paragraphs 54-65 of the draft report. They fall short of the measures we worked out in Opposition but I accept that in view of public expenditure limitations we cannot at present go beyond the following specific commitments:

a. To introduce in 1975-76 a non-contributory invalidity pension, at the rate of £6 a week free of tax, for congenitally handicapped persons (with a pocket-money rate of £2 a week for in-patients in psychiatric hospitals). The net cost would be about £7 million in a full year. This benefit would not apply to disabled housewives.

b. To introduce in 1976-77 a non-contributory invalid care allowance, also at a rate of £6 a week, for those breadwinners who have had to give up work to care for a severely disabled relative. The cost would be perhaps £1 million in the first full year.
c. To introduce subsequently a non-contributory invalidity pension for disabled housewives. I envisage that this benefit would be introduced in 1977-78, at a rate of £3.70 a week free of tax, and that the cost would be about £8 million a year.

All the above amounts are expressed in 1974 terms. My original plan was to introduce c. at the same time as a, but at a meeting with the Chief Secretary on 2 August it was agreed to delay c. till 1977-78 in order to reduce the cost of the scheme over the PESC period and to enable the House of Commons Paper to be published early in September before the general review of public expenditure is complete.

4. The Chancellor of the Exchequer has since made a further reservation and has indicated that he has not yet had an opportunity of considering the text of the House of Commons Paper and may wish to comment on it.

5. I seek the agreement of my colleagues to publish on 12 September a House of Commons Paper in terms of the attached draft, subject to any minor or drafting amendments.

B A C

Department of Health and Social Security

3 September 1974
SOCIAL SECURITY ACT 1973

SOCIAL SECURITY PROVISION

FOR

CHRONICALLY SICK AND DISABLED PEOPLE

Presented pursuant to s. 38 1973 Section 36

Ordered by The House of Commons to be printed

31st July 1974

LONDON
HER MAJESTY'S STATIONERY OFFICE

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INTRODUCTION

1. In accordance with Section 36 of the Social Security Act 1973*, I present this report on my review of social security provision for chronically sick and disabled people.

2. The report indicates the substantial shortcomings in current provision for disabled people. While war pensioners and the industrially disabled receive a fairly high pension—according to the severity of their disablement—to which allowances of various kinds can be added, there are at the other end of the spectrum some 200,000 people of working age who have been totally incapable of work for a long time, but at most receive only means-tested supplementary benefit. The needs of those who have been prevented by their disablement from paying sufficient contributions to establish entitlement to benefit go unrecognised in the national insurance scheme, unless they are among the small minority who qualify for attendance allowance. Similarly, for those who are unable to do a paid job because they have to stay at home to care for someone who is severely disabled there is only means-tested provision. Beyond this, disablement can impose extra costs on the sufferer and on his family: costs which receive limited recognition at present. The severely disabled worker, whose disablement often means low earnings, does not, because he is working, receive cash support.

3. This situation cannot be wholly remedied at once. It takes time to identify those who should qualify for new benefits; and eligibility has to be carefully established by the use of skilled medical manpower, to avoid unfair differences in the benefits payable to people with the same degree of disablement. Other limitations apart, in the present economic situation we cannot move as fast as we would like. But what is important is to develop a comprehensive long-term strategy and coherent philosophy for meeting the needs of disabled people. This paper sets out the Government's thinking on the fundamental issues for public discussion and debate, not least among disabled people themselves. At the same time it contains proposals for establishing new categories of beneficiary and for recognising needs by non-contributory benefits which will run parallel to the present contributory benefits.

*"The Secretary of State shall review social security provision for chronically sick and disabled persons, and shall lay a report on his review before Parliament by 31st October 1974". Section 36, Social Security Act, 1973 c.38.
4. The main theme of this report is cash benefits. While there are gaps in the provision of services, it is broadly known what services are needed. The Chronically Sick and Disabled Persons Act 1970 has led to great local efforts to find all disabled people who need help and provide them with this help. The Government does not underestimate the importance of other services, such as rehabilitation.

5. Provisions in cash and kind need to fit together as part of a comprehensive plan. Lady Sharp's report on 'Mobility of Physically Disabled People' clearly indicates the close inter-relationship between cash and services. Mobility needs can be met either by the provision of vehicles or by the provision of cash to enable those with limited mobility to pay for their own transport. The Government's conclusions on Lady Sharp's report are being announced separately.

6. The Government's proposals represent a substantial step forward. In this report I indicate some of the problems which need further discussion and further research. More thought has to be given to a benefit for disabled housewives. Where disabled children are concerned, we lack adequate information about their numbers and about the precise character of their needs. It is by no means clear how best to channel further help to those who are disabled and at work. I look forward to a continuing dialogue with the organisations representing disabled people, on these and other questions.

Barbara Castle
Secretary of State for Social Services
CHAPTER ONE

WHO ARE THE CHRONICALLY SICK AND DISABLED?

7. Chronically sick and disabled people are not a homogeneous group. The term 'disabled' is used loosely to indicate those with a wide range of different physical and mental impairments. The main information available about the number of people who are disabled comes either from surveys, in which people have been asked questions about their condition and its consequences, or from the operational statistics of the social security scheme, which depend in turn on the particular contingencies for which provision is made. The statistics derived from different sources overlap and are incomplete. Nevertheless, it is likely that as many as 3½ million adults with some physical or mental disablement already receive cash benefits because of disablement or depend wholly or mainly on public funds.

8. This broad conclusion can be inferred from the following figures, bearing in mind that some people may be counted in more than one category:­
   - roughly 2½ million retirement pensioners have some disablement;
   - nearly 420,000 people under pension age incapable of work for more than six months receive a national insurance invalidity pension;
   - about 225,000 people under pension age incapable of work for more than six months receive supplementary benefit, of whom some 135,000 have no contributory benefit;
   - nearly 280,000 people receive a state benefit (other than the short-term injury benefit) because of industrial disablement and some 340,000 people because of war disablement;
   - over 160,000 people of all ages severely enough disabled to need extensive care receive attendance allowance;
   - about 60,000 people who have been unemployed for more than six months are disabled.

There is as yet no consistency in terminology. The terms 'impairment', 'chronic sickness', 'disablement', 'handicap', etc. are used loosely or with special meanings in particular contexts. In this report, 'chronic sickness' means incapacity for work which has lasted more than six months; 'disablement' is used as a general description of physical or mental impairment with measurable repercussions; 'impairment' and 'handicap' are used in the sense given to these terms in the OPCS survey (see reference note at the foot of page 4). Thus 'impairment' means 'lacking part or all of a limb or having a defective organ or mechanism of the body'; the practical implications of impairment may be negligible. 'Handicap' means 'the disadvantage or restriction of activity' caused by impairment serious enough, in a particular context or generally, to limit functional ability.
- about 4,000 people are receiving rehabilitation or training allowances as disabled people. About another 13,500 are receiving earnings from sheltered employment.

9. As the above figures show, the majority of disabled people are over pension age. The Government survey undertaken in Great Britain in 1968/69 of those aged 16 and over living in private households ("the OPCS survey") estimated that 73 per cent of very severely handicapped people were aged 65 or over. The coverage of those with sensory or mental handicap was known to be incomplete. The survey concentrated primarily on physical handicap, measured in terms of capacity for self-care. It did not necessarily identify as disabled people those who were chronically sick and incapable of work, but whose domestic circumstances meant that they had no real difficulty in caring for themselves at home. The difference between self-care and other aspects of disablement is illustrated by the fact that quite a high proportion of "housewives" who were identified as unable to do their housework were classified as impaired but not handicapped (categories 7 and 8), while large numbers of people classified as handicapped were in paid employment. On this basis, the OPCS survey provided an estimate of about 1.1 million handicapped people, spread over six categories: 157,000 (categories 1 to 3) being 'very severely handicapped', 356,000 (categories 4 and 5) 'severely handicapped' and 616,000 (category 6) 'appreciably handicapped'. Projections of such estimates are hazardous, but adjustment for the increasing number of elderly people in the population suggests that by now the number of severely and appreciably handicapped adults (in OPCS survey terms) has probably risen to about 1.2 million. The number of handicapped children living at home can only be guessed at; as a minimum, it may be of the order of 50,000. Further information about disabled people is given in the Annex.

10. The OPCS survey provided a wealth of information about disabled people. Since then, often using similar survey methods, local authorities, in fulfilment of their obligations under Section 1 of the Chronically Sick and Disabled Persons Act 1970, have been estimating the numbers and establishing the identities of disabled people in their areas. The results of these local surveys which are comparable with the national survey have in general been broadly consistent with the earlier findings.

Handicapped and Impaired in Great Britain, Office of Population Censuses and Surveys (OPCS) Social Survey Division. HMSO 1971-72.
Part I Handicapped and Impaired in Great Britain.
Part II Work and Housing of Impaired People in Great Britain.
Part III Income and Entitlement to Supplementary Benefit of Impaired People in Great Britain.
11. The substantial difference between the number of attendance allowance beneficiaries originally expected and the number of awards actually made when the allowance was introduced illustrates the difficulty of using survey data not specifically designed for the purpose to establish how many people might qualify for other new benefits. This difficulty applies even when the survey classification corresponds broadly with the basis of entitlement to the benefit.

12. Identification of handicap is not the same thing as identification of the financial effects of handicap. Just as the relationship between impairment and handicap in physical terms depends on such factors as age, environment, sex and social role, so the financial consequences of being disabled vary according to the individual's education, training, job, etc. Rough projections based on the 1968/9 OPCS survey figures suggest that there are now about 390,000 adults under the age of 65 'in the community' who are handicapped in terms of self-care. Of these about 250,000 receive some form of state cash insurance benefit other than family allowances, but in most cases not because of their handicap as such. Most of the remaining 140,000 do not receive a benefit, because they do not come within a contingency for which benefit is currently provided, or because they have not paid the necessary contributions. Of the elderly handicapped people, now numbering perhaps 830,000, all but a tiny minority receive state benefits. It is, however, important to remember that the OPCS survey did not cover every type of disablement or children or people in residential care.

13. The fact that, after one of the most large-scale and comprehensive surveys ever carried out in this country, our knowledge of the extent of disablement remains incomplete serves to emphasise a crucial point about disabled people. They are not a separate and clearly identifiable section of the population. Most of them are ordinary people leading ordinary lives in the community, and many of them do not think of themselves as disabled. What distinguishes them as a group from the rest of the population is that their opportunities are limited, only slightly for some but very severely for others, and special compensatory measures are needed to enable them to overcome their handicaps to the fullest possible extent, and to restore to them some of the freedom of choice which their disablement has removed.

* Although the classification of people by reference to their capacity for self-care might have been thought to be very broadly in line with the basis of entitlement to the allowance, in fact, the use of OPCS data led to an underestimate of the number of expected beneficiaries of the higher rate allowance and to an overestimate in respect of the lower rate.
CHAPTER TWO

PRESENT PROVISIONS

History and recent developments

14. The present pattern of social security provisions for disabled people can best be understood by examining its historical origins. Two somewhat different philosophies underlay early developments; the first expressed in the legal concepts of tort and common law liability; the second in the concept of insurance to provide maintenance.

15. The Workmen's Compensation Act of 1897 marked an important step forward from the concept of tort by imposing a liability even where the employer had not been negligent. The provision at first covered only dangerous trades, the rights were not readily enforceable and the employee was expected, broadly speaking, to bear half the loss. Nevertheless, the underlying principle was to compensate for loss of earnings. The much older war pensions provisions were influenced in the early part of the 1914-18 war by the workmen's compensation arrangements, and prominence was given to loss of earning capacity. But, from 1917, loss of faculty (see paragraph 17 below) became the dominant concept governing entitlement - with disablement pensions paid on top of earnings. Pensions varied according to service rank, and during the war or shortly afterwards increases for dependants and certain supplementary allowances, including constant attendance allowance, were added.

16. As part of the extension and development of national insurance after the 1939-45 war, in the light of the Beveridge Report of 1942, a new industrial injuries scheme was introduced to replace workmen's compensation. Contributions had to be paid towards the cost of the scheme by those in insurable employment, and by their employers; though entitlement to benefits did not depend on contribution conditions as such. A basic short-term injury benefit was paid at a flat rate for those incapable of work, though at a higher rate than sickness benefit. This preferential rate of benefit provided to those with injury or disease "arising out of and in the course of their employment" recognised the special risks of the working situation.

17. The new long-term benefits for industrial injury were based not on incapacity for work, nor on loss of earnings, but on loss of faculty - thus drawing on the concepts evolved in the war pensions scheme. Loss of faculty involves assessment of the degree of disablement by a comparison between the condition of the claimant and that of a normal healthy person of the same age and sex. Pension assessments range from 20 per cent to 100 per cent in 10 per cent steps. A lump sum payment is normally made for assessments of less than 20 per cent. As a relatively minor loss of faculty can be associated with a disproportionately heavy loss of earnings, a special hardship allowance was introduced as well, on a broadly similar basis to the allowance for lowered standard of occupation in the war pensions scheme as it had by then developed, to provide some compensation for loss of earnings. As in the war pensions scheme, there are now supplementary allowances for unemployability (which take the place of national insurance sickness or invalidity benefits), for constant attendance, and for exceptionally severe disablement. (The war pensions scheme has a number of further special allowances which have no counterpart in the industrial injuries scheme.) Disablement benefits for industrial injury, other than the unemployability supplement, are paid on top of basic national insurance benefits, such as sickness benefit or retirement pension.

18. By contrast to industrial disablement provision, the original national health insurance scheme was based upon the principles of voluntary insurance as they had been developed by the friendly societies. In return for a flat-rate contribution, a flat-rate weekly sickness benefit was provided for those who were incapacitated for work, without any addition for dependants. Additions to the basic benefit, for wives and children, were introduced as part of the 1948 post-Beveridge changes. Eligibility for sickness benefit depended upon the contributions which had been paid.

19. The present sickness, and invalidity, benefits are available under the national insurance scheme for men and women, married or single, who are incapable of work and have paid the necessary contributions as employed or self-employed persons. The definition of incapacity for work is laid down in statute, regulations and case-law. A person is regarded as incapable of work 'if, having regard to his age, education, experience, state of health and other personal factors, there is no work or type of work which he can reasonably be expected to do.' In the short-term, a claimant's incapacity for work is judged by reference to his normal job, but in the longer term, where there is

*See Index and Digest of Decisions given by the Commissioners under the National Insurance Acts etc, Volume II, pp 617-651. HMSO 1964.*
no longer a 'normal' job, any job which the claimant might reasonably be able
to do, or for which he could be trained, is taken into account. This approach
is readily understood and relatively straightforward to administer, yet capable
of considerable flexibility, relating as it does to the condition, background
and experience of the claimant.

20. From 1966, earnings-related supplements were added to the flat-rate
sickness (and industrial injury) benefit, from the end of the second week of
incapacity for a period of 26 weeks, to cushion the drop in income from earnings
to flat-rate benefits. This was seen as the first step in a strategy to relate
long-term, as well as short-term, sickness benefit and retirement pensions, to
previous earnings. The immediate effect, however, was to create a marked
distinction - for many though not all beneficiaries - between short-term and
long-term incapacity.

21. From 1971, all those entitled to long-term sickness benefit were paid
full rate benefit, now called invalidity pension, even if their contribution
record was deficient, and special higher dependency increases were
introduced for wives and children. The standard rate of invalidity pension
was also made payable to married women contributors, to whom sickness benefit
was paid at a lower rate. In addition, a new invalidity allowance was added
to invalidity pension based upon the age of onset of incapacity. The
allowance is at three rates, the highest being paid to those becoming
chronically sick earliest in life.

22. This new invalidity allowance was increased more than proportionately in
subsequent benefit increases; and, in 1973, pensions, including invalidity
pensions, were increased by a greater proportion than the flat-rate short-term
benefits. The 1974 uprating extended this differential. Thus, by the end of
July 1974, a married man with two children, who was aged under 35 when he became
incapable of work and who had consistently been receiving earnings at the level
of the national average, could receive, with family allowances, up to £27.05
sickness benefit, followed by invalidity benefit of £27.85 (about 70 per cent
of his previous average take-home pay including family allowances).

Disability however caused

23. The National Superannuation and Social Insurance Bill, which was before
Parliament at the time of the dissolution in 1970, aimed to provide earnings-
related invalidity pensions, and also an attendance allowance for those who
needed substantial care by day and at night. The attendance allowance was
subsequently introduced by the new Government, the first payments being made
in December 1971. The scope of the allowance was later extended to those
needing substantial care either by day or at night, and a lower rate for such people was 'phased in' between June 1973 and December 1973. There is no contribution test, there is no means test, and the allowance is paid to or for a person of any age from two onwards. Thus it is received by the parents of disabled children, by housewives, by men and single women who have never paid contributions and by elderly people who long since ceased to pay them. It can be paid on top of invalidity pension or retirement pension. The attendance allowance introduces a wholly new philosophy in cash provision for disablement. It is a comprehensive universal benefit based neither on the compensation principle nor on the insurance principle, but on evidence of severe disablement, however caused, which requires attendance.

Those who are left out

24. Some chronically sick and disabled people whose disablement does not arise from work or from service in the armed forces, and who have no contributions or inadequate contributions to national insurance, may have resources of their own or receive compensation from other sources—such as lump sum compensation for accidents not arising from work, or payments under the criminal injuries compensation scheme. Others are maintained by their families. But the majority depend in whole or part on supplementary benefit, which also provides additional support for some of those who do have other resources. Long-term beneficiaries not considered able to work receive the higher scale rates which include a margin for special expenses. The amount of any attendance allowance payable is added to the disabled person's requirements. Up to £2 a week of industrial or war disablement pensions and also up to £2 of part-time earnings (£1 for those registering for work) are 'disregarded' when assessing needs. Disabled people, like others, can receive extra allowances for such needs as special diets, extra heating or essential domestic help, and lump sum 'exceptional needs payments' for necessary expenditure which cannot be met from the weekly benefit.

The Royal Commission on Civil Liability and Compensation for Personal Injury

25. The question of compensation for personal injury is currently being reviewed by the Royal Commission set up in December 1972 under the chairmanship of Lord Pearson. Its terms of reference include compensation for death or injury suffered in the course of employment; through the use of a car or other means of transport; through the manufacture, supply, or use of goods or services; on someone else's premises; or in other circumstances where someone else might be held responsible. Though these terms of reference are wide they do not cover non-industrial diseases, congenital abnormality not attributable to antenatal injury, or some classes of accident where the injured person cannot
at present held another responsible.

The relationship between services and cash benefits

26. Parallel to the increasing provision of cash benefits, has been the growth of services which help disabled people. Some services, such as sheltered employment, industrial rehabilitation and special training services, are specifically designed to meet their needs. Others, such as the personal social services and the national health service, are used by people with many different types of need though those who are disabled may make more use of them than others. It would not be appropriate to discuss the aims, scope and adequacy of all the different services used by disabled people in the context of a review of social security provision. But in so far as their special needs are more appropriately and economically met in kind, it would be wrong to attempt to provide for these needs in cash. Where services have gaps, and where provision is inadequate, the right answer is to fill these gaps and strengthen these services rather than provide cash benefits for all disabled people because a particular service is not available for some disabled people in some places, though there may be a case for providing cash benefits in some circumstances to enable people to pay for the services they need. As mentioned above, the Supplementary Benefits Commission has discretion to provide extra allowances where essential services such as domestic help have to be purchased. But this is not the only principle which should determine the relationship between cash benefits and services. It is of crucial importance that disabled people should have a choice of how their needs are met, wherever choice is a realistic possibility.

27. There are three specific areas in the relationship between cash provision and services which should be mentioned. A major aim of policy is to help disabled people to return to full-time employment wherever this is possible. The importance of rehabilitation cannot be overstressed. But there is a potential conflict between the need to make proper cash provision for those who are disabled while they cannot work, and the need to retain a cash incentive to return to work – particularly when the jobs available are low paid. Invalidity benefits can in this sense be a disincentive to rehabilitation. Thus the relationship between industrial rehabilitation and training allowances, wages in sheltered employment and social security benefits needs to be carefully considered. This is discussed further in the next chapter.

28. The second area is in the provision of attendance for those who need considerable care. This can be provided by the health and personal social services or it can be provided by a member of the household, or by both.
While the staff of health authorities and local authority social services departments are paid to provide care, household members are not normally paid even when they have given up work for the purpose. This problem is also discussed in the next chapter.

Summary

29. This chapter has described some of the current cash benefits provided for disabled people and mentioned those services which are particularly closely related to the provision of cash benefits. In the case of war pensions and industrial injury benefits, the concept of compensation, akin to that embodied in common law rights, has influenced the development of these provisions. The benefits are confined to those whose disablement has stemmed from the risks of employment or of service in the armed forces.

Benefits are paid whether or not the employer or the state was in any way at fault, and in the case of war pensions the conditions for payment are likely to be satisfied if the origin of the disablement can be traced to a period of service in the armed forces. Industrial injury benefits represent an amalgam between principles of compensation and principles of insurance.

30. Sickness and invalidity benefits are based on insurance principles in the sense that the benefits are available only to those who have paid contributions. A scheme which was originally one of flat-rate contributions and benefits, now has earnings-related contributions, and earnings-related supplements are paid on top of flat-rate sickness benefit. Under the Government's recent proposals*, invalidity benefit will also be earnings-related. The attendance allowance is the only social security benefit paid specifically to disabled people which is not restricted either to those who have paid contributions or to those whose disablement can be traced to employment, or to service in the armed forces.

31. It is because the benefits paid to those who are disabled are based either on the principle of compensation for what has occurred while in the services or in employment, or on the insurance principle, that those disabled in other circumstances and who have paid no contributions have so far been 'left out' and have had to rely largely on supplementary benefit.

CHAPTER THREE

MET NEED AND UNMET NEED

32. Those who are disabled do not want to be regarded as a class apart. They want their needs to be met, wherever appropriate, by provisions available to all, and not by separate provisions designed for disabled people. Nor do they want to be denied benefits available to others, simply because they are disabled and cannot qualify as others do by paying contributions. Many of the needs of those who are disabled are shared by others. Not all disablement generates extra costs and thus extra needs for income, though some clearly does. This is why it is right to examine how far the needs of disabled people are adequately met by existing provisions or will be met by the radical reform of national insurance for which the Government has already announced its plans.

The impact of the Government's other plans for improvements in social security

33. Of all the existing national insurance benefits, retirement pension is of the greatest importance to disabled people, simply because the majority of disabled people are over pension age and a high proportion do not become disabled until after this age. Those aged 65 and over constituted 63 per cent of the 'appreciably handicapped' category in the OPCS survey, 64 per cent of those in the 'severely handicapped' categories and 73 per cent of those in the 'very severely handicapped' categories. It was pointed out in chapter two that, of the current total of perhaps 1.2 million people who are appreciably or more severely handicapped (in OPCS survey terms), about 830,000 are elderly. The continued improvement of retirement pensions is therefore crucial for meeting the financial needs of disabled people.

34. Older people who are disabled have already benefitted from the record increase in pensions this year, and will benefit from the guarantee that future annual increases will be in line not just with increases in prices but with increases in earnings. The Government's long-term pensions policy will gradually transform the living standards of many old people through the provision of earnings-related pensions by the new state scheme or a combination of state and occupational schemes, giving them real security, and reducing the present substantial dependence on means-tested benefits.
Below pension age, the severest financial consequence of disablement is inability to earn. Provision for incapacity for work has long been made in the national insurance scheme, but it is only in recent years that long-term invalidity benefit has been separated from short-term sickness benefit and given a preferential lead not only in terms of the basic personal rate of benefit but also in the level of dependants’ benefits. The Government has already announced its plans for further improvements in invalidity pension, based on the same principles as the proposals for retirement pension, thus recognising that long-term invalidity is often tantamount to early retirement.

Where rehabilitation for work has proved impossible, invalidity benefit has the central role in provision for the chronically sick and disabled of working age. At any one time, over 400,000 people draw invalidity pension, and this is topped up in more than four cases out of five by the invalidity allowance - which is carried over into retirement as an addition to the retirement pension, just as the adverse effects of prolonged incapacity during working life are carried over. In common with retirement pensioners, invalidity pensioners have benefitted from this year’s unprecedented increase in long-term benefit rates; and they will also benefit from future increases in line with earnings. When the Government’s new pension scheme is introduced, future invalidity pensioners will obtain the right to earnings-related invalidity benefits. The invalidity allowance will continue, in recognition of the special position of those who have had to give up work at an early age. They are the group for whom earnings-related pensions will bring least help. The Government’s intention to raise the upper age limit for the higher rates of invalidity allowance will provide for many beneficiaries an allowance at a higher rate than they now receive.

Other benefits

The attendance allowance is of immense importance not only because it extends across all age groups from the age of two, but because it is the first benefit specially designed to meet the exclusive needs of some of the most severely disabled. It is not, and was never intended to be, a general benefit for disablement as such. Its purpose was, and remains, to help those among the disabled who require a considerable degree of personal attention. The Government has carefully considered whether, apart from such procedural developments as may be possible, there is a case for changes in the scope of the allowance. The number of higher rate allowances in payment is probably nearing stability at about 110,000 but the number of lower rate allowances - 55,000 in payment at 30 June 1974 - continues to move upwards. Nevertheless, the
response to the introduction of the lower rate has been much less than expected. This in itself suggests that there is no solid basis for a further extension of the allowance designed as it is as an attendance-needs benefit. Further extension would produce a benefit for 'disablement' as such rather than for attendance needs. The rate of the allowance has however been increased this year to become £8 a week at the higher rate and £5.35 at the lower rate (instead of £6.20 and £4.15 respectively). And the Attendance Allowance Board are reviewing their procedures so that, insofar as the resources of medical manpower permit, a more intensive examination can be made of claims, particularly at the review stage. What is needed now in the area of attendance needs is a benefit to meet the needs of those who give up work to care for disabled people.

30. Britain is in accord with the practice of most other countries in making special and preferential provision for those disabled at work or in war. The war pensions and industrial injuries schemes have a proper and honourable place in a wider system - a place which in no sense impedes appropriate development by the state of cash and service provision for other disabled people.

39. Invalidity benefit, attendance allowance, war pensions and industrial injuries benefits by no means exhaust the list of benefits that are of help to large numbers of disabled people. The existing structure of general and specific benefits focussing on the main contingencies, on which the Government is planning to build important improvements, is fundamentally sound. The main criticism that can be levelled against it is that there are some people who are at a serious disadvantage as a result of disablement but who are nevertheless left out, and some serious effects of disablement which are largely ignored.

'Congenitally' disabled people

40. Invalidity benefit is payable during a person's working years only to those who have paid at least a minimum of contributions. The contributory principle has been modified over the years, but many people still attach great importance to its positive aspect, namely the legal entitlement to rights without test of means. The negative aspect is that those who have not paid contributions, even through no fault of their own, have no entitlement to contributory national insurance benefit. This applies with particular force to some 220,000 people under pension age who have been incapable of work for more than six months, and who, were it not for their incapacity, would be breadwinners. The majority of them have been disabled from birth (many by mental impairment), but this is not true of them all. Some became disabled during childhood and others after reaching working age but before they became qualified for invalidity benefit. It is for this group of people, deprived both of their normal role in the community and of the normal rights that go
with that role, that pressure is strongest for a non-means-tested benefit to confer the very important psychological advantage of membership of the national insurance community. Nor is their case weakened by the fact that, if they were granted a new, non-means-tested benefit, some of them (the number would depend on the level of benefit) would still be unable to manage without continued recourse to supplementary benefit.

41. Of the 220,000 people in this group, some 135,000 depend on supplementary benefit. Another 15,000 or so do not even receive supplementary benefit. This is because their families carry the burden themselves or perhaps, in some cases, because of private resources. In addition to these 150,000 people, there are 70,000 or so long-stay patients of working age in psychiatric hospitals who have no national insurance record. Their pocket-money, if any, comes from hospital funds, on which there are many other demands, and they thus tend to receive pocket-money well below that received by other long-term hospital in-patients. The previous Government announced in 1971 that the Supplementary Benefits Commission would take over from the hospitals responsibility for providing psychiatric in-patients with pocket-money as soon as resources permitted.

Full-time attendants

42. In some cases a person's handicap is so severe that a member of the household has to give up work (or is unable to start it) because of the need to provide care at home. There are often considerable savings to the health and personal social services as a result. A long period of caring for a sick relative may mean that the 'attendant' emerges at the end with poor health and poor prospects of getting a job. Successive Governments have taken the view that the contingency of giving up work to meet attendance needs cannot be provided for under a contributory insurance scheme. They have argued that supplementary benefit - without the usual requirement to register for work - is an appropriate and flexible way of providing an income for the attendant. A theoretical alternative solution is the development of services to reduce the burden of attendance so that it is unnecessary for the relative to give up work. In general, however, the health and personal social services still lack the resources and manpower to provide the intensive level of services required. Thus, in these instances of very severe disablement, the only way the disabled person can continue to be cared for at home and avoid institutional care is often for the relative to give up work. With the current strain on both domiciliary and residential services, the value of care in the family by the family when someone is willing to take responsibility is beyond dispute. Even if adequate services were available, care by a relative would still be a better solution in many cases. There is a strong
case for the provision of a non-contributory benefit as of right in these circumstances, even though the person needing attendance qualifies for the attendance allowance, since this is not designed to provide for the maintenance of the attendant.

Disability

43. 'Housewives' in this context are essentially married women who do not have paid work, and whose normal job is in the home. Some housewives are so disabled that not only would they be incapable of doing a paid job, but they are unable to cope with the household work which is their working contribution to the family. The OPCS survey suggests the very tentative estimate of 40,000 such women below pension age with husbands at work. A wife with this degree of incapacity can have a most serious impact on the household budget, indeed on the family's ability to stay together. The economic value to the household of the wife's work is beyond dispute. The cash implications of the housewife's disablement are higher expenses for laundering, extra heating, mechanical aids, domestic help and so on. In extreme cases, the wife's disablement not only cuts into her husband's resources and time but takes him out of the employment field altogether, and there is the risk of the marriage breaking under all the physical, emotional and financial strains.

44. Understandably, this situation has been an important element in the criticism in recent years of the exclusion of the housewife from personal entitlement to contributory and non-contributory benefits (other than attendance allowance). This exclusion is popularly but wrongly attributed to the fact that she is not 'a worker'. The exclusion exists because national insurance and supplementary benefits alike have been planned to provide a substitute for maintenance from earnings. Those wives who have gone out to work and have paid the requisite contributions are covered for invalidity benefit at the same rate as anyone else. A substantial number of disabled housewives, however, have no recent contribution record to enable them to qualify for invalidity benefit. This is partly the result of the pattern of married women's option not to contribute and partly the result of the pattern of married women's employment. The qualifying conditions for invalidity pension as laid down under the Social Security Act 1973 will be easier to satisfy than the present ones, and this means that, from April 1975, more married women who have had paid jobs outside the home will be able to qualify. In any event, the Government intends to remove the married woman's option in respect of pensions, including invalidity pension, when its new pension scheme is introduced. This will ensure that almost all married women in the employment field will be covered for invalidity benefit. But there will still be some severely
disabled housewives who are 'left out', notably those whose disablement is such that they have never been able either to take paid work outside the home and so to build up a contribution record or to do their household work. The Government will be studying further how best they can be helped.

Disabled children

45. Disablement in a child can involve serious handicaps for his family as well as for the child himself. It can prevent a parent from taking paid employment or otherwise restrict career opportunities. It can also limit the time available to do the housework and look after the other children. Similarly the child's disablement can involve payment for services which the parents would normally provide for themselves. Providing a severely disabled child with the stimulus that all children need (and disabled children often more than other children) may be more expensive in cash terms, as well as making additional physical and emotional demands on the parents.

Though cash is far from being the whole answer.

Domiciliary services, playgroups, day nurseries and special education facilities, and many other services are needed as well.

The experience of the Family Fund* shows the wide variety of needs. Attendance allowance is currently provided to the parents of 33,000 children. There are many other children who do not satisfy the medical criteria for the attendance allowance, but are none the less severely disabled. The Government will be sponsoring research to help answer some of the hitherto unanswered questions about disabled children and their needs.

Disabled people in employment

46. A great many disabled people manage to work full-time or part-time, some suffering a partial loss of earning capacity. To work at all, they often display a courage and determination which is seldom required of those who are not disabled. Many of them receive low earnings for their work. A survey of disabled earners which the OPCS conducted in 1973 through the mechanism of the

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*The Family Fund was established in April 1973 with an initial £3 million from the previous Government. Its purpose is to help the families of congenitally handicapped children. By the end of May, 1974, the Fund, which is managed by the Joseph Rowntree Memorial Trust, had given grants totalling nearly £1,300,000 to about 6,000 families.

The "disabled earner" in this context was essentially someone who identified himself as handicapped in respect of employment by his disablement - handicap including extra expense as well as reduction in earnings or earnings potential. Many people who, for example, get an industrial injuries disablement pension would not be "disabled" on these criteria. Not all disabled earners were actually working, and the disabled earner definition does not coincide precisely with that used in the 1968/69 OPCS survey "Handicapped and Impaired in Great Britain". The General Household Survey indicator for use of the special disabled earner schedule was a "long standing illness, disablement or infirmity."
General Household Survey found that they were less well paid, less satisfied with their work and in lower status jobs than the average of the employed population. As well as being older, they also, as a group, had lower educational attainments than employed people as a whole. Those who have acquired neither skills nor qualifications suffer the greatest disadvantages, while those with higher education may get good jobs and good pay and may not even be identified as disabled. Thus the ideal solution to the employment problems of many disabled people is rehabilitation and the provision of special opportunities for training and education to enable them wherever possible to enter jobs where their disablement is not a handicap.

47. Questions involving the employment of disabled people are primarily matters for the Department of Employment, though the close relationship between medical and vocational rehabilitation is being given increasing recognition. The Department of Employment is conducting a comprehensive review of its services and policies in this field. Assisted by the co-ordinating role of the Parliamentary Under Secretary of State (Disablement) (the 'Minister for the Disabled'), the Department of Health and Social Security and the Department of Employment will continue to work closely together on aspects of the review which are or may be affected by policy on cash benefits.

48. There are a number of possible intermediate stages between benefit at one end of the spectrum and full earnings in open employment at the other. They include benefit plus earnings in an occupational centre, industrial rehabilitation allowances, wages in sheltered employment and training allowances. An individual's progress towards satisfactory resettlement should not be impeded by financial disincentives. Indeed financial incentives should be pulling in this direction; although it is not easy to ensure that this happens in practice. In relation to those attending an industrial rehabilitation unit part-time, while still hospital patients, it has already been possible to agree upon more flexible arrangements as to the amount of work they can do without sacrificing benefit entitlement. In this field, the problems of each individual need to be identified and assessed and the various central and local services closely co-ordinated to ensure an efficient, intelligible and accessible programme for the use of cash and non-cash resources.

49. Under present arrangements people are assumed to move from 'total' incapacity for work and the receipt of invalidity benefit to full-time work and earnings. Many do manage to achieve this. But it has been cogently argued that some might be able to resume work more quickly if there were a cash benefit which could be received at the same time as earnings. This has been the substance of recurring criticism of the fact that those who earn £4.50 or more become disqualified for invalidity benefit. What emerges clearly from these
criticisms is that the £4.50 permitted earnings is seen not as an 'easement', which it was intended to be, but as a restriction. Invalidity benefit is payable only if the claimant is incapable of work. In general, anyone who is at work or could be working is disqualified; but the earnings limit allows a hospital in-patient, for example, to do some work under medical supervision as part of his treatment and yet to continue to be regarded as incapable of work. Critics of the earnings disqualification, however, claim that it hinders or stops disabled people from returning to part-time work, in other words, that it acts as a brake on rehabilitation.

50. The simple expedient of raising the £4.50 figure would not, of itself, make invalidity benefit into a benefit suitable for instances of partial as well as total incapacity. The key point is that limiting income support to those totally incapable of work is increasingly seen as too narrow an approach. But if a benefit were to be paid for partial incapacity as such, it would be necessary to define it in practical operational terms. Firm evidence is lacking on precisely what partial incapacity means in practice, and indeed on this whole area.

51. The problems for the disabled worker of extra expense, of low income and of incentives are closely related. Such evidence as there is, here and abroad, points to the possible value of a separate standard benefit to be paid to severely disabled people who are working despite their disablement. This sort of benefit must not be confused with invalidity benefit, which provides for the maintenance of disabled people who are unable to work. A benefit of this kind would give some recognition of what has been lost, and of the wider implications of disablement, without being tied to assessments of the effects of disablement. Such assessments are bound to be complex, costly to administer and at considerable risk of being inequitable or seeming to be inequitable to those who are not given what they expect to be given. This is an area in which more informed discussion and more information are needed before the right answers can be found. The Government is anxious to draw on the practical experience of those who are professionally and personally involved, and will be making the necessary arrangements for consultation.

General

52. Despite the wealth of new evidence, no clear picture emerges of the 'problem of disablement'. There are, in fact, a number of different interlocking problems rather than one single problem. No simple analysis can be
made and no single simple solution is appropriate. Nor can new benefits be worked out in isolation from the provision of services. A balance has to be struck between the provision of services and the provision of cash, to secure the best use of available resources. The constraints on further improvements are more than financial. It is not only services which involve the use of skilled manpower. The process of assessing 'disablement', for the determination of eligibility for benefits however it is done, can also make considerable demands on scarce skills.

53. A new overall structure would not provide every 'disabled' person with the same benefit. Nor would everyone who could be called disabled necessarily receive some benefit. There must be priorities. The greatest needs must be identified and met first. A start must be made with a sound programme of cash benefits and services which takes account both of the practical limitations of detailed assessments of need and of the choices expressed by disabled people themselves.
THE GOVERNMENT'S PROPOSALS

Social Security Developments

54. The Government's immediate proposals for social security changes are based on four principles:

First, better provision for the severely disabled must come before further provision for the less severely disabled.

Second, benefits for those who cannot work should take priority over further provision for those who can, as the loss of the ability to earn is stark, overwhelming and readily identifiable.

Third, those of working age who would be at work but for long-standing incapacity should have the right to a benefit without test of means.

Fourth, those who relieve the social services and sacrifice work opportunities to look after people at home should be provided with a benefit as of right. Neither the stated purpose of attendance allowance nor the evidence on how it is spent make it right to regard it as a maintenance benefit to be paid over to a full-time attendant who has no benefit or pension.

Non-contributory Invalidity Pension

55. As explained earlier, rational insurance contributors who have been incapable of work for more than six months receive invalidity pension. This is at the same rate as the standard rate of retirement pension - £10 for all contributors, including married women. There are some 220,000 chronically sick people under pension age who do not qualify even though they would ordinarily have been breadwinners but for their disablement. This group consists of people, other than married women, who have never been able to establish an adequate contribution record, usually because they have been disabled from an early age. Of the 220,000, about 135,000 are on supplementary benefit, perhaps 15,000 are without any benefit*, and roughly 70,000 are long-stay in-patients of psychiatric hospitals.

*Where 'congenitally' disabled people not receiving supplementary benefit are concerned, estimates have had to be derived from the OPCS survey; and experience with the attendance allowance counsels caution in translating the survey data into precise estimates of the numbers who might establish entitlement to a new benefit.
56. It is palpably wrong to deny altogether basic benefit as of right to people who because of severe disablement have not been able to establish themselves as contributors in the insurance scheme. At the same time, it would be inconsistent with the maintenance of the contributory basis of that scheme and inequitable in comparison with the treatment of those already over pension age — particularly those who have no or reduced pensions and are just as disabled as those under pension age — to pay non-contributory invalidity pension at the full contributory rates to people under pension age. Following the precedent of the non-contributory pension provided for people aged 80 and over, the Government therefore proposes to provide a non-contributory invalidity pension at the rate of 60 per cent of the standard benefit, that is, at the rate of £6 a week, without any test of means. The benefit would be available to people of working age who would have been entitled to contributory invalidity pension had they satisfied the contribution conditions and who would ordinarily have been breadwinners but for their disablement. The benefit will not be designed to cover married women living with or maintained by their husbands.

As explained in paragraphs 43 and 44 above, there are sound reasons for providing a non-contributory benefit for married women who, by reason of disablement, are unable to perform their household tasks (as well as being unable to perform paid work) and the Government is studying the possibilities. It will, however, be necessary to consider this group as a whole since it would not be practicable or justifiable to seek to distinguish those who would have been working outside the home but for their disablement. The qualifying conditions to be satisfied by married women dependent on their husbands would be rather different from those relating to the benefit now proposed for other women and for men (insofar as incapacitv to do housework would be the prime issue on which the entitlement of dependent married women would turn) and, on the precedent of the old persons' pensions, the rate of benefit would be rather lower.

57. Psychiatric hospital in-patients of working age who qualified for the normal pocket-money rate for long-stay in-patients of £2 a week, instead of the supplementary benefit previously envisaged for them (paragraph 43) — always provided, as under the present rules, that the full amount can be used for the patient's personal comfort or enjoyment.
Subject to Parliamentary approval, the Government aims to get the new invalidity pension into payment during 1975/76. This would meet a long-standing and understandable grievance, and reduce dependence on supplementary benefit, potential or actual, for over 200,000 people under pension age. Once awarded, and subject to incapacity continuing right up to pension age, the new benefit would remain in payment beyond pension age unless the person concerned qualified for retirement benefit at an equal or higher rate.

At 1974 rates of benefit, the net cost of the proposed non-contributory invalidity pension in the first full year would be £7 million, after taking account of savings on supplementary benefit (or, in the case of the psychiatric hospital in-patients, pocket-money from hospital funds).

Invalid Care Allowance

The Government also proposes a new benefit for those of working age who would be breadwinners in paid employment but for the need to stay at home and act as unpaid attendants to people who are severely disabled and need care. The attendants would in the main be relatives, but long-term members of the household might also be included. Caring situations are not, of course, limited to households with a severely disabled member — problems of a similar sort arise where there is a small child, a temporarily sick person, or an elderly person; but it is important to set limits to the scope of a new benefit, and to concentrate on the most severe contingency. Thus the receipt of attendance allowance would be used to determine the disabled person's need for care and married women (other than those not living with or maintained by their husbands) would not in general be eligible for the benefit (as they might be at home in any event.). The invalid care allowance would like the other new non-contributory benefit be at the rate of £6 a week (in 1974 terms) for men or women. Also like the non-contributory invalidity pension, the allowance would be paid without test of means or of contributions - to include the few who had never been at work as well as the many more who had had to give up a paid job. The Government's White Paper "Better Pensions" (Cmd 5713) proposes that the pension entitlement of, among others, those who have to stay at home to care for an adult receiving attendance allowance should be protected. From the start of the new pension scheme, recipients of invalid care allowance would be covered by this proposal, which would ensure that, in the majority of cases, pension rights are not lost because of the interruption, or delayed start, of earnings.
61. No firm information is available from which to estimate how many people might be eligible to claim the new allowance, though it is known that some 7,500 women and 4,000 men have been receiving supplementary benefits for more than six months because they are looking after elderly or disabled relatives. Based on this total of 11,500, the net cost would be nearly £1 million in a full year. But the cost could well be greater once the availability of the new allowance became known. By basing the entitlement on the receipt of attendance allowance, it should be possible to start paying the new allowance in 1976/77.

**Tax Status of the New Benefits**

62. As the non-contributory invalidity pension would, in effect, be a counterpart to the contributory invalidity pension - which is tax-exempt - the non-contributory invalidity pension would also be exempted from tax whilst the beneficiary was under pension age. There is no such precedent, however, to apply to the invalid care allowance, which would be taxable. In practice, tax liability is not likely to arise for many of those concerned.

**Further Progress**

63. These new benefits will run alongside the improved invalidity benefit fore-shadowed in the White Paper on long-term pensions, and the improvements in provision for the family which will take place when the Government's new child cash allowances come to be paid. Other improvements in existing benefits, such as changes in the supplementary benefit disregards, will be considered in the normal way.

64. The improvements described in this chapter will benefit nearly a quarter of a million people. For the congenitally disabled - those people whose disablement has prevented them enjoying normal contributory rights in the national insurance scheme - and for single women (and others) who have sacrificed a career as well as other prospects to care for a severely disabled person, what is proposed gives help where it is badly needed, establishes radically new principles, and corrects some serious deficiencies in the existing scheme of things.

65. The Government also recognises that the disablement of the housewife can bring disaster to many homes. It is in the interests of society that the family should be kept together and that the breadwinner should not be forced to give up his job to do the domestic tasks that have become beyond
his wife's capacity. In addition to what is already provided for those eligible for the attendance allowance, help for the disabled housewife has long been one of the priority demands of the organisations which speak for the disabled and the Government recognises its validity. There are special problems associated with the provision of a benefit for women who are not only unable to do paid work but who may never have wished to seek employment outside the home. Nonetheless the Government is satisfied that a solution can be found and will be working out detailed plans to be implemented on a phased programme once the other improvements described in this chapter are under way. This further development will not meet all the problems of the disabled, but resources must be kept in hand for the expansion of the services which are equally vital to them. The three new categories of cash benefits we shall be introducing will lay the foundations on which the Government will wish to build as resources permit.
FURTHER INFORMATION

The basis of the review

1. It has been made clear in a number of statements about the review under Section 36 of the Social Security Act 1973 that decisions would be taken on the basis of a thorough examination of the information available as time allowed: of what had been written about disabled people and, certainly no less important, what had been written by them. The literature is extensive, and the rate at which additions have been made has accelerated in recent years. It reflects divergent interests, and indeed divergent points of view; it could hardly do other, given the range and emotive nature of the subject. In addition to published material, unpublished research and personal or collective contributions, based on personal experience, have been taken into account. The responsibilities of the Department of Health and Social Security, direct and indirect, touch for good or ill on many aspects of the lives of people who are disabled. Use has also been made of the experience acquired in this way.

2. It would not be appropriate to seek to reflect all this material explicitly in this report. Its main influence is implicit in the conclusions reached, and in the further work already in progress to prepare the way for possible later developments. However, this annex sets out some of the information available, as further background to the discussion in the main body of the report.

3. A number of references have been made to the 1968/9 survey, by the Office of Population Censuses and Surveys (OPCS), and to its estimates of the number of people, living at home, physically 'impaired' or 'handicapped', by reference to capacity for self-care. It may be helpful to repeat here illustrations used in the OPCS survey report itself to explain the significance of the gradations of handicap:

'Very severely handicapped' (categories 1-3): A man, in full-time employment, with polio, who lived alone but employed a man to get him out of bed each morning, bathe and dress him, and carry him to his wheelchair; who was able to eat and drink without help, but not to leave his chair or get to a W.C.

'Severely handicapped' (categories 4-5): A man, in full-time employment, affected by a stroke, who needed help from his family with putting on shoes and socks, and with having a bath; and who found dressing and shaving difficult, but could use the W.C. without difficulty.
'Appreciably handicapped' (category 6): A retired man, suffering from rheumatoid arthritis, who could manage with difficulty to get out of bed, use the W.C., and bath; but who needed help putting on his socks and shoes.

'Impaired but not handicapped' (categories 7 and 8): A housewife with angina, who had difficulty bending and stretching to put on shoes, and in dressing, and in lifting and pushing; but who managed to look after herself, and to do most of her own cooking, shopping and housework.

4. The limitations of the terms of reference of the OFCS survey have already been explained. Subject to these limitations, the broad age-distribution by severity of handicap in terms of capacity for self-care (categories 1 to 6 only) was as follows:

Estimated numbers of men and women in Great Britain living in private households and categorised by degree of handicap and age group.

(1968/69 OFCS Survey)

<table>
<thead>
<tr>
<th></th>
<th>OFCS survey category of handicap</th>
<th>Unclassified persons who might be in categories 4 to 6 on a proportional basis</th>
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<tr>
<td></td>
<td>1 to 3</td>
<td>4 to 5</td>
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<tr>
<td><strong>Men aged</strong></td>
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<td></td>
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<td>16 to 64</td>
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<td>42,000</td>
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<td>65 to 74</td>
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<td>75 and over</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
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<td>95,000</td>
</tr>
<tr>
<td><strong>Women aged</strong></td>
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<td></td>
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<td>16 to 64</td>
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<td>65 to 74</td>
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<tr>
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<tr>
<td><strong>Men and women aged</strong></td>
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<tr>
<td><strong>Total</strong></td>
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<td>342,000</td>
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</table>

Note: Totals differ from the sum of individual numbers as a result of rounding.
5. A diagnosis on its own does not necessarily provide evidence as to the severity of disablement; the effects of a particular condition vary from person to person and over a period. The character of the OPCS survey in itself influenced the extent to which various conditions were or were not recorded. The broad-brush picture is, however, of interest. For all the adults covered by the OPCS survey, the commonest condition causing impairment was arthritis, whereas severe handicap was most commonly associated with diseases of the central nervous system.

**DSS statistics**

6. The industrial injuries and war pensions schemes provide rather specialised data. More general interest attaches to the data obtained from invalidity pension and attendance allowance. The number of (long-term sick) invalidity pensioners has tended to rise; although the fact that invalidity pension is replaced by retirement pension to some extent masks the size of the older chronically sick population. It was estimated that at 3 June 1972, there were 425,000 invalidity pensioners, including some over minimum pension age, and at 3 June 1973, 436,000. The commonest diagnostic categories, in order of importance, are bronchitis, psychosis and neurosis, and ischaemic heart disease. Attendance allowance statistics are available for a more recent date. At 30 June 1974, of the 165,000 allowances in payment, 33,000 were paid for children, 52,000 to adults of working age and 80,000 to people over pension age. Among children for whom attendance allowance was in payment, congenital abnormalities constituted the most frequently recorded main diagnosis, whereas among adults of working age it was diseases of the nervous system, and among elderly attendance allowance beneficiaries diseases of the circulatory system.

7. People being maintained in hospital or other residential care at public expense do not in general qualify for attendance allowance; and the OPCS survey was concerned only with adults living at home. Invalidity pension (and retirement pension for those over pension age) are payable to those in the various forms of residential care, though the beneficiary may receive only a reduced rate of pension. It is estimated that some 200,000 adults are in a long-stay category, most of whom are geriatric or psychiatric in-patients. Over 7,000 children have been in hospital for more than six months, often reflecting less the absolute need for the sort of medical care only available in hospital than the inability of the parents to provide the very high level of support needed at home. Residential care statistics do not distinguish between need based on physical or mental dependence, and need based mainly on the unsuitability of alternative domestic arrangements. Such as they are, they show that there are of the order of 45,000 adults in residential homes and another 5,500
in psychiatric homes and hostels; some 130,000 children are in special schools for the educationally subnormal, the physically handicapped, etc; and 28,000 children with mental handicap are in the care of local authorities.

8. Other statistics at present available relating to disabled children indicate broadly that 5,500 are registered with local authorities as blind or partially sighted; 3,500 blind or partially sighted children are receiving special education; 5,500 children are registered with local authorities as deaf or partially deaf; some 6,500 deaf or partially deaf children are receiving special education; and there are some 15,000 children on the general classes registers of local authorities.

Recent surveys

9. In addition to further work on the data from the 1968/9 OPCS survey, two further studies, on which reports will be published, have been carried out by the OPCS on behalf of the Department of Health and Social Security. These are the Disabled Earners Survey and the Medium and Long-Term Sickness Survey.

10. The Disabled Earners Survey, which was conducted in 1973 by using the General Household Survey, attempted to assess the extent to which disabled people at work suffer a loss in earning potential and incur expenses arising from disablement. The results of this survey, based on interviews, suggested, inter alia, that the number of impaired earners might be expected to lie between 1,440,000 and 1,780,000 and that the number of disabled earners (ie those whose impairment involved some work handicap measurable in financial terms) could be estimated at about 650,000.*

11. The Medium and Long-Term Sickness Survey (carried out by the OPCS on the basis of a sample of people receiving incapacity benefits) investigated the circumstances and needs of sick persons themselves and factors causing delay in return to work. The survey was limited to people of working age and to those who had been incapable of work for a certain length of time (groups of people were compared who had been off sick for 1 month, 3 months, 6 months, and 1 year). Results so far to hand are concerned with extra expense, and illustrate the wide range of experience in this respect.

*This compares with a figure of 575,000 people currently registered with the Department of Employment as disabled. A disabled person in this context is defined as someone who "...on account of injury, disease or congenital deformity is substantially handicapped in obtaining or keeping employment or in undertaking work on his own account of a kind which, apart from that injury, disease or deformity would be suited to his age, experience and qualifications" (Disabled Persons (Employment) Act 1944). The Department of Employment estimates that the number of people eligible for registration is considerably higher than this figure. The primary emphasis here is not on the financial implications of disablement.
12. The report of the 1968/69 OPCS survey estimated that some 225,000 married women— in round terms nearly a quarter of a million— could not do their household work; two-fifths of them (ie 89,000 or so) being under age 65. Further, more selective, analysis of the survey data by OPCS produced a figure of 58,000 married women housewives who were prevented by their disablement from doing their housework: this figure excluded women over 60. Of the 58,000, 4,000 were working full-time and 4,000 part-time; 2,000 were temporarily sick or unemployed; and a further 13,000 were receiving personal benefits or had husbands receiving benefits. This produces a net figure of 35,000, which might be rounded—in view of the uncertainties—to 40,000 as an estimate of the number of married women housewives of working age, not normally in paid employment, incapable of doing their housework, and without any basic benefit cover.

Characteristics of disabled living

13. Statistics alone do not provide sufficient basis for even a very preliminary picture of 'disablement'. Three quotations* from disabled people enlarge that picture: "We didn't buy our disablement, so why should we pay for it?" "Non-disabled people did not buy our disablement either, so why should they have to pay for it?" "The wider the view, the more places are visible that one realizes are unreadable." From the point of view of one professionally concerned with helping disabled people, an American writer has quoted the proverb: "A fool can put on his own clothes better than a wise man can do it for him."

14. The 'problem' of disablement can be considered at the national economic and social level—in terms of lost production, the demand on scarce resources of manpower and technology; or it can be seen in terms of the fact that one man's loss is a loss to the whole community. At the level of the individual enterprise, social group, or family, the disablement of one member of the group can involve a wide range of handicaps for the other members. For the disabled person disablement can mean a narrowing of choice, a closing of options, reduced income, extra effort and cost in order to achieve even quite modest goals. Much depends both on innate abilities and characteristics, and on the physical and human environment. There are some very severely disabled people whose achievement is now as well known as their disablement.

15. While case histories abound, statistical data capable of generalising or balancing individual experience are less readily available. Both the 1968/9 OPCS survey, at one extreme, and the later small Merseyside study by the Disablement Income Group, at the other extreme, encountered the same problem. It has been noted that the correlation between income level and degree of disablement is influenced by many other factors, and that the evidence suggests that it is often in low income jobs that disablement appears as a specific work handicap. In terms of extra expense, of the cost of disabled living, generalisation is also difficult. Not only does severe disablement, particularly when combined with old age (as it often is), sometimes mean restriction of travel costs and food costs; but to spend more you need to have more to spend; while the more you have to spend, the less a shift in expenditure because of disablement will be necessary. Expense on medicines has loomed large in the survey data available, but the exemption of the elderly, and the extension of free or special arrangements for other groups substantially affects the position; and the Government is of course committed to the eventual abolition of prescription charges when economic circumstances and the resources available to the health service allow, and, in the shorter term, to seeking ways of providing further relief to the chronic sick.

16. Among other expenses related to chronic sickness or disablement, extra heating, special diet, domestic help and travel loom large. Travel costs fall to be dealt with in the Government's conclusions on the Sharp report. The costs of domestic help are of course influenced by the availability of home helps and the charging practices of local authorities. Estimates of the overall incidence of extra expenses due to disablement among the various survey populations range between one third and two thirds of those surveyed. In Norway where extra expenses benefits are paid to disabled people under certain conditions, it has been necessary to relate entitlement to the (assumed) need for extra expense rather than to the established existence of extra expense. (Some account is taken of financial ability to meet the extra expense in the Norwegian system.) Perhaps particularly in the case of children, the extra cost is an aspect as much of belief as to the benefits which might be gained were extra financial resources available, as it is something based on evidence that more money is actually being spent on disabled individuals than would be spent on the same individuals if they were not disabled. The belief, in the case of a child, is that growth, which comes about only through interaction with the human and physical environment, and what the child makes of that environment, may be more expensive in the case of the handicapped child because less can be taken for granted and less left to the child's own devices.

"Disabled Housewives on Merseyside (Fourteen Case-studies)". Ian Earnshaw. Disablement Income Group, September 1973.
17. The financial implications of disablement are thus an aspect of rehabilitation and integration. The more these are seen as objectives, the wider the range of activities in which it is recognised as right and natural for the disabled person to be involved. The wider the involvement, the more obvious the remaining barriers and the more unnatural the appearance of restrictions on choice which are imposed rather than inevitable. From the wealth of evidence produced here and abroad, the financial problem often associated with disablement emerges as one of engaging in normal activities, of meeting additional needs, of supplying alternatives because the normal course is ruled out. The solution is clearly not a simply financial one; nor, even in financial terms, is it a problem to be tackled by a single approach. Belonging means more than payment of the membership fee.

Social security provisions for disabled people in other countries

18. Publications issued by, and meetings arranged by the United Nations, the International Labour Office, the International Social Security Association, the Council of Europe, the European Economic Community, and other international bodies provide a continuing flow of information. In addition, study visits to and from individual countries, and the regular process of negotiating reciprocal agreements with other countries, mean that working knowledge of social security provisions elsewhere in the world is acquired in the day-to-day course of the Department's work. During 1971 a Department of Health and Social Security study team, including a doctor, visited Jersey, Denmark, Finland, France, the Federal Republic of Germany and The Netherlands, to look in greater detail at the operation of cash benefit schemes for handicapped people.

19. The relative successes or failures of provisions in one country do not provide a ready-made lesson for another country. Even between countries which have much in common, there are sufficient differences both in the general background of social policy and in particular areas to make caution in interpreting the results necessary. Variations in the age structure of the population, the employment situation, the climate of industrial relations, the general economic situation and industrial structure, the character of the system of medical care, and the availability of medical manpower, all have a very real and direct bearing on social security provision. The desired end of co-operation across national frontiers is generally seen neither as standardisation nor as precise copying but as the opportunity to relate experience elsewhere to what is known of the needs and circumstances at home. It is, of course, a two-way process.

20. Commentators usually accept that 'league tables' are not very valuable, even when the more grossly misleading data have been eliminated and all the appropriate reservations made. It is more helpful to think in terms of particular points of contrast. Four such points are: the level of benefits, provision for housewives and others not 'employed' in the traditional sense, provision for disabled people who are working, and the link between cash benefits and rehabilitation.

21. Earnings-related provision for long-term incapacity is common, though by no means universal. For this particular contingency, it is generally modified earnings-relation, so that a system based in principle on level of earnings and length of service can be tempered to some extent to the needs of those whose earnings record or time in the employment field has been adversely affected by disablement. The effect of earnings-relation may be further modified by building into the pension an increase in respect of attendance needs; and this same combination of long-term incapacity pension and attendance allowance is found in countries where the pension is flat-rate. The long-term benefit tends to be lower than short-term incapacity benefit (sickness benefit), though this is not invariably so. Even with a comparatively low rate of benefit, problems arise in areas where employment prospects, particularly for disabled people, are poor, and earnings low, with the result that the pension compares favourably with possible earnings. Comparison with the provision made during rehabilitation (if this is separately provided for) also presents difficulties. Permanency, which is a common condition for entitlement to the long-term benefit seems to be impossible to establish with any degree of certainty, and, on balance, an undesirable and an unnecessary complication.

22. Some schemes are much more selective than the national insurance scheme in this country in the extent of their coverage. They may be open to membership only for employed people - excluding the self-employed - or for certain groups of employed people. Other schemes are more broadly based than the national insurance scheme, so that, for example, married women who have not worked outside the home and those too disabled ever to have worked at all are included. Admission based on a residence test extends to the other long-term benefits, and it implies a flat-rate or basic pension. In the case of the housewife, there are obvious implications for dependency benefits: she will not be provided for both as a dependant and as a member in her own right. Incapacity for housework tends in practice to be a severe test. This is natural insofar as housework is more flexible than most forms of paid employment, and the woman unable to cope with more
than a negligible part of her household duties, even given that flexibility, is likely to be severely handicapped.

23. Provision in cash terms for disabled people at work takes many forms, and there tends to be not one solution but a complex of solutions which relate to each other a little uneasily. Arrangements include cumulation for a transitional period of benefit and earnings; adjustment of benefit by reference to earnings; tolerance of modest earnings for an indefinite period without any loss of benefit; graded partial incapacity pensions; special rehabilitation benefits in place of incapacity benefits; a severely disabled worker's allowance paid to those debarred from incapacity pension because they are working; and the continuation of certain elements in the pension, such as the attendance allowance, when the main pension ceases on return to employment. The effectiveness of policies for the rehabilitation and employment of disabled people is obviously strongly influenced by other factors within those policies as well as by external factors such as the state of the labour market, and it would be extremely difficult to single out the effects of cash benefits as such. In fact there seems to have been little or no attempt to evaluate the effectiveness of cash benefit policies in this respect. Comments (inevitably subjective) suggest that some of the other cash benefit provisions are more effective in terms of rehabilitation than partial incapacity pensions as such.

24. Incapacity pensions in other countries in general require - as compared with the requirements in this country - a very substantial medical report, to be completed either by the doctor with clinical responsibility for the patient, or by one of a large corps of 'control doctors'. That non-medical factors may also be considered, particularly where assessment of 'partial' incapacity is concerned, means not less medical involvement, but additional involvement by other professional people.

25. Assessment of incapacity for work often relates very closely in other countries to assessment of capacity for particular types of work and assessment of need for rehabilitation and training. The emphasis on rehabilitation is impressive; though it sometimes reflects the fact, less desirable in British eyes, that responsibility for rehabilitation services is shared between different authorities, each catering for a particular sector of the community rather than for rehabilitation needs irrespective of insurance status.
CABINET

DEVOLUTION

Memorandum by the Prime Minister

1. I invite my colleagues' views on the draft White Paper at Annex A setting out the Government’s proposals for devolution to Scotland and Wales.

2. At our earlier Cabinet discussion of Devolution on 2 August we concluded that a short White Paper should be produced setting out the Government’s general statement of intent, in the light of the Reports of the Royal Commission on the Constitution, to establish elected assemblies in Scotland and Wales. The Secretaries of State for Scotland and Wales were invited to revise the existing drafts on this basis. This revision is at Annex B. Concurrently, however, the Labour Party's Home Policy Committee had been studying these issues and has produced its own document on devolution which is at Annex C. This is expected to be published within the next few days, meanwhile its confidentiality should be respected.

3. Both the documents at Annexes B and C limit the Government’s commitment to setting up directly elected assemblies in Scotland and Wales, the former having some legislative powers, and to retaining the existing Secretaries of State and the Scottish and Welsh seats at Westminster. Each emphasises that much detailed work will need to be done before legislation can be introduced. But the style and approach of the two documents is quite different and we shall need to ensure that the Government's White Paper is not made to seem less forthcoming, appearing so soon after publication of the Party document. The merit of Annex C is its positive approach to the merits of devolution and its extension of the argument to the English regions. The merit of Annex B is its convincing exposition of all that has been achieved so far by way of moving decision-making into Scotland and Wales. I am doubtful, however, whether Annex B is an adequate statement of future policy, and I am inclined to think that the Government cannot say less - although we should be ill-advised to say more - than is in the Party document. Nor must we...
allow room for apparent differences as between Government and Party to be created on this issue, when all concerned know that only the broadest conclusions can be reached at this stage. For these reasons I asked officials to prepare a composite draft embodying the substance of the Annex B statement of the record to date and of the Annex C statement of our proposals. This is the draft at Annex A, on which I should like to have the Cabinet's views.

H W

10 Downing Street

3 September 1974
1. The 20th century has seen the responsibilities of central government expand faster than provision for their democratic supervision. As the range of government responsibility has spread ever wider there has been a concentration of power in the hands of executive organisations... In the past 30 years assorted nominated ad hoc authorities have proliferated which have assumed not only some of these new tasks of central government, but also many of the responsibilities for public services earlier entrusted to local government such as hospitals, gas, electricity and trunk roads. Only this year local authorities lost responsibility for water and sewerage. Central government departments have evolved their own regional structures which, in the interests of efficiency, now make decisions within their regions without reference to headquarters, but without reference to the people's elected representatives either. A regional level of governmental decision-making already exists but is not subject to direct democratic oversight.

2. In 1968 the Government announced its decision to set up the Royal Commission on the Constitution. The Prime Minister said at the time that an important reason for appointing the Commission was the "strong feeling, not only in Scotland and Wales, but in many parts of England, of a greater desire for participation in the process of decision-making moving it nearer - wherever this is possible - to the places where people live". The Commission, under the chairmanship of Lord Kilbrandon, reported in October 1973. It was unanimous in rejecting separatism and federalism and in recommending directly elected Scottish and Welsh assemblies, but the Commissioners were divided in the rest of their recommendations. The Queen's Speech on 12 March 1974 said the Government "will initiate discussions in Scotland and Wales on the Report of the Commission on the Constitution, and will bring forward proposals for consideration". Accordingly, to provide the basis for these discussions the Government published on 3 June 1974 "Devolution within the United Kingdom - Some Alternatives for Discussion". This Consultative Document summarised the various schemes of devolution recommended in the Kilbrandon Commission's main Report and in the Memorandum of Dissent which accompanied it and posed a number of questions and identified problems relating to each of the possible schemes.
3. The Government agree with the Commission on the Constitution in rejecting separatism and federalism as a solution. The Government, like the Royal Commission, attach the greatest possible importance to the maintenance of the economic and political unity of the United Kingdom. Particularly important is the unified management of the economy, from which in the long run all parts of the Union can only stand to gain, especially those like Scotland and Wales and some of the declining English regions whose needs can only be adequately met by allocating to them a disproportionate share of resources.

4. It does not follow, however, that Scotland and Wales must be treated exactly like any other part of the United Kingdom. While the people of Scotland and Wales, as the Royal Commission noted, consider themselves to be British, they are also deeply conscious of the fact that they are Scottish or Welsh. Nor does it follow that Scotland and Wales must be treated exactly like each other. They have differing histories, backgrounds and cultural traditions. Because the circumstances of the two countries are so different, the present arrangements for their government are not the same and it will not be surprising if their future systems of government are different. Each of them has already seen substantial movement of government and decision-making away from London to their own cities which will provide a sound base for future devolution.

EXISTING DEVOLUTION

Scotland

5. Since 1885 when a Secretary for Scotland was appointed, and particularly from 1939 when the Scottish Office in broadly its present form was established in Edinburgh, a very wide measure of what the Kilbrandon Commission described as administrative devolution has been developed in Scotland. Since the war additional functions have been progressively transferred to the Scottish Office. The Secretary of State, as a member of the United Kingdom Cabinet, now has major responsibility in Scotland (with some exceptions) for the formulation of policy and its execution in such major fields as agriculture and fisheries; education; local government and environmental services; social work, health and housing; roads and certain aspects of shipping and road transport services. He is also responsible for a range of other functions from police and fire services to sport and tourism. The administrative functions at central government level arising from these responsibilities are carried out by the Five Scottish Departments based on St Andrew's House in Edinburgh. For most of these subjects there is separate Scottish legislation or Scottish application clauses in United Kingdom
Acts of Parliament. Separate Scottish legislation has special Parliamentary machinery to handle it consisting of the Scottish Grand Committee, on which all Scottish Members of Parliament sit, and two Scottish Standing Committees which consider the details of Scottish legislation.

6. One basic reason for these differences in legislation and administrative practice arises from the existence of a separate system of Scottish law, the preservation of which was provided for in the Union settlement of 1707. The Secretary of State has accordingly responsibility for legal services in Scotland, and other important responsibilities are exercised by the two Scottish Law Officers the Lord Advocate and the Solicitor General for Scotland. But it is not just a case of Scottish legislation in parallel with that for England and Wales; there are usually distinctive Scottish features and in some cases the approach is markedly different, reflecting the differing needs and conditions of Scotland and the people living there. Devolution to Scotland – in the sense of running things differently in Scotland because Scotland is different – is therefore nothing new.

7. The Secretary of State also has a major role in the planning and development of the Scottish economy and plays a full part in the Government's determination of Energy policy. He exercises a co-ordinating function over activities in Scotland, such as the location of industry, the level of employment and the development of North Sea oil, which are not his direct responsibility but have an important, indeed vital, effect on the economy of Scotland. The United Kingdom Departments with significant Scottish responsibilities have offices in Scotland with delegated powers and work closely with the Scottish Office. Appropriate central government functions are also carried out in Scotland and the Government has decided to further this by transferring 6,000 Ministry of Defence and 1,000 Ministry of Overseas Development posts to Glasgow over the next ten years.

8. The existence of these separate administrative arrangements in Scotland has greatly benefited the people of Scotland in that they have enabled special Scottish needs to be recognised and met. A practical illustration of this is that identifiable public expenditure per head in Scotland has been at a significantly higher level than elsewhere in the United Kingdom (except in very recent years in Northern Ireland).
Wales

9. As in the case of Scotland, substantial administrative devolution to Wales has already taken place, though at a later historical stage. The first Minister for Welsh Affairs was appointed in 1951, but the most important measures of devolution have been concentrated into the last ten years. The first Secretary of State was appointed in 1964, and since then the Welsh Office's functions have grown rapidly. The Department now has responsibility in Wales for housing, health, the social services, primary and secondary education, child care, town and country planning, water, highways, tourism, forestry and agriculture (jointly with the Ministry of Agriculture, Fisheries and Food), and many other functions. The strengthening of the Office still continues. The post of its Civil Service head was recently upgraded to that of full Permanent Secretary and the senior staffing has been further strengthened.

10. In other ways too administration has been reshaped and strengthened and decision-making has been devolved to take account of Welsh interests in economic and other fields. The Secretary of State has overall responsibility for the economic development of Wales and exercises a co-ordinating responsibility in Government action to promote the welfare of Wales. Considerable powers have been delegated to the Department of Trade and Industry Office for Wales, and Wales has its own Industrial Director and Industrial Development Board. The Government have also announced their decision, as a further step to assist the economy, to transfer over 7,000 Civil Service posts to Wales in the next ten years. As in Scotland, identifiable public expenditure per head in Wales has for many years been running at a substantially higher level than in England.

11. In consequence of these and other measures Government action is increasingly adapted to fit Welsh needs and to further Welsh interests. The role of the Secretary of State with a seat in the Cabinet is fundamental. He not only has full responsibility for the matters referred to in paragraph 9 above; in other matters affecting Wales he has powers of oversight and can safeguard and further Welsh interests both in Cabinet and in discussion with departmental Ministers. No Welsh problem escapes his attention and he exercises a powerful influence on policies affecting Wales.
12. Welsh interests are further represented centrally through the 36 Welsh Members of Parliament at Westminster who, in addition to their other Parliamentary or Ministerial functions, all sit on the Welsh Grand Committee which provides a further forum for debate and discussion of matters concerning Wales.

England

13. For historical reasons there has not been the same pressure for substantial devolution in England. The fact of differing circumstances and needs of different parts of England was however recognised by the creation in 1965 of the Economic Planning Boards and Councils; the Councils have been a valuable source of advice to successive Governments on the special requirements of their regions, and the Planning Boards have strengthened and extended the delegation of decision making from Whitehall Departments to regional centres. For instance, Regional Controllers of the Department of Industry now make important decisions affecting the location of industry by authorising loans of up to £1 million under the 1972 Industry Act; Regional Directors of the Department of the Environment approve road improvement schemes and take the majority of the Department's planning decisions.

CONSULTATIONS ON THE CONSULTATIVE DOCUMENT

14. While recognising the benefits to Scotland and Wales of the existing system, the Kilbrandon Commission unanimously concluded that directly-elected assemblies ought to be established for Scotland and for Wales to meet the legitimate desire of their people for greater control over their own affairs. The Commissioners were not agreed, however, on how this objective should be achieved, and in the main Report and the Memorandum of Dissent four schemes were set out for implementing this decision in relation to Scotland and Wales (Schemes A, B, C and E in the Consultative Document). All interested organisations and members of the public were invited to comment on these schemes.

Scotland

15. The response of individual members of the public was disappointing; only about 170 letters or papers, some quite brief, were received. Of these there was no clear majority for any one solution, and indeed a significant number expressed no specific view.
16. On the other hand over 50 organisations, including the political parties, submitted written views. Among these there was considerable support for Scheme A or variations of it. While very few indeed favoured Schemes B or C, there was some support for Scheme E. A number wanted more decision-making in Scotland, without associating that demand with any specific scheme. Some wanted no change in the present system and others wanted any decision deferred until the new local authorities had had time to settle down. Most of these representing local government were particularly concerned about the possible effects of the Schemes considered on the new local authorities and their powers. Strathclyde Regional Authority, for example, urged the Government "to ensure that the new authorities are given sufficient time and independent power to establish and develop themselves and that in the meantime the discussion should continue".

17. During July 1974 a series of discussions was held in Scotland by Scottish Ministers accompanied by the Government's constitutional adviser, Lord Crothor-Hunt, with some of the organisations which had submitted written observations. Bodies consulted in this way included the Scottish Council of the Labour Party, the Scottish National Party, the Scottish Council (Development and Industry), the Scottish Trades Union Congress, the Council of the Cofederation of British Industry in Scotland, the Church and Nation Committee of the Church of Scotland and various local authority representatives. These discussions reinforced points made in the written submissions and some points emerged of particular significance. One was a strong desire for more Government decision-making to take place in Scotland - and in that context the announcements referred to in paragraph 31 below were welcomed. There was also widespread, though by no means unanimous, support for the view that there would be merit in the establishment of a directly elected Scottish Assembly, but there was no agreement on what powers or functions the Assembly should have. Of the schemes in the Consultative Document, Scheme A, which proposed a legislative assembly and government for Scotland, commanded the greatest support, but there was clearly a good deal of uncertainty about the precise implications of the scheme and the full significance of the fact that it involved a separate Scottish government responsible to the Assembly. There was also very considerable opposition both to the abolition of the office of Secretary of State for Scotland and to a reduction in the number of Scottish Members of Parliament at Westminster, for which Scheme A provided. Of the other schemes, hardly anyone thought them appropriate to Scottish conditions, except that Scheme E, which involved an advisory assembly with limited legislative powers and no Scottish Executive, attracted some support.
18. The process of consultation has made it apparent that opinion in Scotland is still very much divided. Many are convinced of the need for a substantial measure of devolution, involving a directly-elected Scottish Assembly with real powers. Others are equally convinced that any radical change in the present system would be to Scotland's detriment, though administrative devolution might be further developed.

Wales

19. In accordance with the Government's undertaking to carry out discussions on the Commission's Report in Wales, the Secretary of State, with the assistance of the Government's constitutional adviser, has completed a programme of consultations.

20. The bodies consulted represented political parties in Wales, local authorities, both sides of industry and the farming community. The majority were in favour of the establishment of a directly elected Assembly for Wales, but there was no general agreement on the functions it should exercise: opinion was divided between those who favoured legislative devolution and those who were for executive devolution. The minority either favoured a directly elected Welsh Advisory Council or wanted no fundamental change in existing arrangements. The points on which there was substantial agreement among those consulted was that the Office of Secretary of State should continue and that there should be no reduction in the number of Welsh Members of Parliament.

21. The Secretary of State received written views from 30 organisations in Wales. In most cases these were briefly stated and did not attempt to deal with the detailed questions set out in the discussion document. The views of these organisations, mostly made up of individual local authorities and political, trade union and religious bodies, were divided: about one-third were in favour of legislative devolution; nearly half preferred executive devolution; and the remainder favoured other solutions or the status quo. In addition the Secretary of State received written views from a relatively small number of individuals, most of which were in favour of schemes of at least legislative devolution.

22. Thus no consensus of opinion has emerged. The case for an elected Assembly is widely supported, but there is no general agreement about the powers it should exercise. However, there is an evident desire to see Government decision-making
made more responsive and accountable to the people, provided this can be done without disrupting the essential political and economic unity of the United Kingdom. In particular, it has been urged that the nominated bodies which at present carry out many functions in Wales should be replaced by a body representative of the Welsh people, which should also discharge some of the executive functions of Government Departments in Wales.

OUTSTANDING ISSUES

23. There are a number of very important matters that remain to be resolved before it is possible to put forward considered proposals for further measures of devolution that would command general support and would carry with them the prospect of stability. The principal issues are —

a. Finance

In any scheme of devolution the financial arrangements would clearly be of fundamental importance. Any major change in the present broad arrangement would be difficult to reconcile with the maintenance of a general uniformity of approach in the Kingdom as a whole to the allocation of resources and to taxation arrangements. Consideration of alternative approaches, including the proposal in Scheme A for a nominated Exchequer Board, has confirmed the very great difficulty of finding acceptable solutions to these problems.

b. Trade, Industry and Employment

There is still a great deal of doubt about how far (if at all) powers in these fields could be devolved without prejudice to the essential economic unity of the United Kingdom. There is a strong desire for more decision-making in Scotland and Wales, but this would not necessarily require the creation of an elected Assembly.

c. Local government

There is understandable concern both about the timing of any constitutional changes in relation to the local government reorganisations which has just taken effect in Wales and which is taking place in Scotland next year and about the possible attitude of a directly elected Assembly and Executive to local authorities.
d. The Secretary of State
There is a strong desire both in Scotland and in Wales to retain an effective Secretary of State. A significant diminution in his present powers would be an inevitable consequence of a substantial measure of devolution, but it may be that he could still exercise considerable powers in the financial, economic and industrial spheres as well as acting as spokesman for Scotland and for Wales in the United Kingdom Cabinet. Indeed an extension of his present responsibilities in these areas might point the way to a solution to the problems outlined in paragraphs a. and b. above.

e. Representation in the United Kingdom Parliament
There is a great reluctance to see any reduction in the number of Scottish or Welsh Members of the United Kingdom Parliament at Westminster, with a consequent weakening of Scottish or Welsh influence in United Kingdom affairs. This must be reconciled with whatever devolutionary arrangements are made.

THE GOVERNMENT'S DECISIONS

24. All these outstanding problems as well as a great many matters of detail will require further very careful and thorough study before the Government is in a position to put forward fully worked out proposals for consideration. But they accept the broad conclusion of the Kilbrandon Commission that there is room and a real need for a substantial measure of devolution of power away from Westminster and Whitehall. The object of the following proposals of principle is to adapt the British Constitution to the needs of the remainder of the 20th Century; to avoid fragmenting the United Kingdom; but to bring the spotlight of democracy to bear on the level of government which already exists in Scotland and Wales.

25. The Government have, of course, an equal commitment to democratic accountability of government and equality of political rights in England. In Scotland and Wales there has already been a full debate which has enabled the Government to make firm proposals. In England, however, the consultation process is not yet complete. The Government has already put forwards for discussion certain proposals to aid democratisation in specific fields, for instance to add more local government members to the area and regional health authorities and to legislate for the establishment of statutory neighbourhood
councils. These would be steps towards helping existing institutions, including both local and central Government, to be more responsive to the needs and wishes of the man in the street. But it would be wrong to go further until all the bodies consulted have had the opportunity to express themselves.

26. For Scotland and Wales the Government now proposes the creation of directly-elected Assemblies. While the new institutions for Scotland and Wales will share common characteristics, they will differ from one another in their respective powers and responsibilities; the diverse traditions of the nations and regions of the United Kingdom cannot be confined within an arbitrary straight-jacket of rigid uniformity, nor can institutions of regional government be duplicated for planting in unnatural settings. Different traditions already exist between Scotland, Wales and England. These must be recognised in the future structure of government.

However,

27. Despite their differences, and their individual senses of nationhood the Scots, and the Welsh and the English have much in common. This the Government recognises by seeking to develop proposals from existing constitutional and political arrangements which have become accepted features of the present system. The Government regard it as essential that both Scotland and Wales should retain their existing number of Members of Parliament in the United Kingdom Parliament and that both the posts of Secretary of State for Scotland and for Wales in the Cabinet should be maintained. The distribution of resources between Scotland, Wales and the regions of England and the determination of "fair shares" is the most fundamental of political decisions and cannot be delegated by elected representatives. The Government rejects, therefore, the Commission's concept of a nominated Exchequer Board to be responsible for this task. It must be argued out in Cabinet, with the two Secretaries of State present as of right to speak for Scotland and Wales, and approved in the House of Commons with Scotland and Wales fully represented in it. The United Kingdom Parliament, and many central Government Departments will of course retain substantial areas of responsibility eg for foreign policy and defence spending. There is all the more reason, therefore, for maintaining full Scottish and Welsh representation at Westminster and for having Secretaries of State for Scotland and Wales who act as full members of the United Kingdom Cabinet in forming United Kingdom policies, since it is essential that the determination of needs and United Kingdom policies should fully reflect the contributions of all its constituent parts.
28. The present method of election to the United Kingdom Parliament will apply to elections to the Scottish and Welsh Assemblies. It is simple to operate and well understood by the public. Above all it provides for the clear and direct accountability of the elected representative to his constituents. The single transferable vote system with multi-member constituencies is cumbersome and would cut this essential link, weakening rather than strengthening the principle of direct accountability. Moreover, such a system of proportional representation could not operate in by-elections to the Assemblies. Finally, the use of a different system for elections to the Assemblies from that employed for local council or Parliamentary elections would constitute a sure recipe for confusion on the part of the electorate.

29. The Scottish and Welsh Assemblies will each assume many of the present functions of the Scottish and Welsh Offices, and the responsibilities of many of the nominated authorities now operating within their boundaries. This will give them substantial responsibilities within, for example, areas such as housing, education, health, regional planning and, in Wales, water.

30. The finances for each of the Scottish and Welsh Assemblies will come from a block grant voted by the United Kingdom Parliament. It will be the Assembly's job to budget for the distribution of that grant between competing priorities within Scotland and Wales in the light of its own assessment of the most urgent needs. It will be for the Assembly to choose between ploughing resources into building more hospitals or roads, schools, or houses. The Assembly will have to shoulder this responsibility and face up to the stark problem of choice.

Off-shore oil and economic development

31. The discovery of oil and gas deposits in the North Sea and Celtic Sea revolutionises the opportunity for transforming the future economic and industrial prospects of all the depressed regions of the United Kingdom at a time when radical changes are being introduced into how the regions manage their own affairs. The Government itself has already noted: the Offshore Supplies Office of the Department of Energy is to be transferred to Glasgow and the new British National Oil Corporation is to have its headquarters in Scotland. Still more important in the Scottish context is the Government's intention to establish a Scottish Development Agency, which is to be responsible
to the Secretary of State for Scotland. Its task will be to strengthen the instruments available for promoting the development and restructuring of the Scottish economy. It will also carry out in Scotland appropriate functions of the National Enterprise Board. And a Scottish Airports Authority is to be set up. Similar arrangements will be made in Wales, as part of the United Kingdom Government's policy for United Kingdom offshore oil and gas, to strengthen the instruments for promoting the development of Wales' economy. The organisation which will be set up for this purpose will exercise in Wales appropriate functions of the National Enterprise Board.

32. But the opportunities which off-shore oil has presented will only be grasped if those of our people living in areas off whose shores the major discoveries have been made are able to put aside avarice and selfishness and recall that not only Scotland and Wales, but other regions also - for example, the North West and North East of England - have all suffered as a result of a concentration of contracting industries. The Government is determined that the community and each deserving region receives its full and fair share of the profits resulting from the exploitation of these new energy resources in accordance with its needs. This must mean that maximum benefit goes to redress all the regional imbalances which the years of industrial decline have caused.

33. The task of breathing new life into our depressed areas is one for both central and regional Government. Only if the United Kingdom Government adopts a completely new approach to that which has failed in the past can we envisage any solution to our seemingly intractable regional unemployment problems. Creating Assemblies in Scotland and Wales will not of itself be a solution. Central Government will have to take direct action at the level of Britain's biggest firms in the form of planning agreements and a National Enterprise Board. But there must be scope too for real initiative to be taken at regional level. The Scottish and Welsh Assemblies will therefore participate in the decisions on how best to promote their development, for instance by drawing up regional economic plans. Executive powers in the trade and industry fields could be transferred from central Government to enable the Assemblies to tailor policies to their own needs in the promotion of employment and industrial regeneration. It might also be appropriate for the proposed Scottish Development Agency to become responsible to the Scottish Assembly. Similar arrangements could apply in Wales.
34. The Government does not propose either for Scotland or for Wales to take powers away from local government to the Assemblies. To do otherwise would undermine the objective of bringing power nearer to the people. Moreover, since the Government are unable at this stage, for the overwhelmingly practical reasons of lack of time, to go much further than declare where they stand on the principle of devolving power from the United Kingdom Parliament and outline the basic form their proposed scheme of devolution will take, the new authorities created by recent local government reorganisation will have time to settle down in their new functions before the Assemblies take office.

35. The Government's proposals for Scotland and Wales are directed to the needs of the present and future. But in matters of fundamental constitutional practice reasonable men do not lightly break with the traditions of the past. They are after all part of our heritage. Scotland for example has always had a distinct legal structure and legislative process firmly bedded in hundreds of years of history. Many Scottish laws today are significantly different from those in England and are indeed separately enacted for Scotland. The Government therefore proposes that the Scottish Assembly will have legislative powers within those fields in which separate Scottish legislation already exists such as housing, health, education and home affairs. The Government intend that the Welsh Assembly should parallel the Scottish counterpart in assuming responsibility for many executive functions at present carried out by the undemocratic nominated bodies within Wales, together with some of the Secretary of State's executive functions. The Welsh Assembly would also assume certain powers of the Secretary of State in respect of delegated legislation.

CONCLUSION

36. Above all, the proposed Assemblies must be equipped to respond to the real needs of Scotland and Wales. In part this may mean adapting to their special needs policies determined in the United Kingdom Parliament. But in the main it will mean vital decisions affecting Scotland and Wales being made within Scotland and Wales by the Scots and Welsh.

37. In promoting this policy of devolution of power the Government have been concerned to strengthen the principle of direct accountability. They make no pretence at having established more than the principle, and in Scotland and Wales the basic form in which this should be accomplished. The increasing
sophistication and range of government activity and machinery make the task highly complex and inevitably lengthy. The Government intend legislating for establishment of Scottish and Welsh Assemblies as early as possible. But no points of substance remain to be determined before legislation can be drafted. Some of these decisions are of critical importance and cannot be taken lightly. The new system of government proposed must stand the test of time. The Government's proposals will strengthen British democracy. They will restore democratic control over important levels of government, bring power nearer to the people, and enhance the ability of government to respond positively to the special needs of the various nations and regions of Britain.
INTRODUCTION

1. In 1968 the Labour Government announced its decision to set up the Royal Commission on the Constitution. The Prime Minister said at the time that an important reason for appointing the Commission was the "strong feeling, not only in Scotland and Wales, but in many parts of England, of a greater desire for participation in the process of decision-making moving it nearer - wherever this is possible - to the places where people live". The Commission, under the chairmanship of Lord Kilbrandon, reported in October 1973. It was unanimous in rejecting separatism and federalism and in recommending directly elected Scottish and Welsh assemblies, but the Commissioners were divided in the rest of their recommendations. The Queen's Speech on 12 March 1974 said the Government "will initiate discussions in Scotland and Wales on the Report of the Commission on the Constitution, and will bring forward proposals for consideration". Accordingly, to provide the basis for these discussions the Government published on 3 June 1974 "Devolution within the United Kingdom - Some Alternatives for Discussion". This Consultative Document summarised the various schemes of devolution recommended in the Kilbrandon Commission's main Report and in the Memorandum of Dissent which accompanied it and posed a number of questions and identified problems relating to each of the possible schemes. (For ease of reference Part I of the Consultative Document, setting out the schemes, is reproduced as an Annex to this White Paper.)

2. The Government agree with the Commission on the Constitution in rejecting separatism and federalism. Scotland and Wales are and must remain integral parts of the United Kingdom. The Government, like the Royal Commission, attach the greatest possible importance to the maintenance of the economic and political unity of the United Kingdom. Particularly important is the unified management of the economy, from which in the long run all parts of the Union can only stand to gain. These are considerations which Ministers have had in the forefront of their minds in considering possible schemes of devolution.

3. It does not follow, however, that Scotland and Wales must be treated exactly like any other part of the United Kingdom. While the people of Scotland and Wales,
as the Royal Commission noted, consider themselves to be British, they are also deeply conscious of the fact that they are Scottish or Welsh. Nor does it follow that Scotland and Wales must be treated exactly like each other. They have differing histories, backgrounds and cultural traditions. Because the circumstances of the two countries are so different, the present arrangements for their government are not the same and it will not be surprising if their future systems of government are different.

SCOTLAND

Existing Devolution

4 That circumstances are different in Scotland has long been recognised in the arrangements made for the machinery of government of Scotland. The extent to which there is already a very substantial measure of devolution to Scotland is all too often over-looked; it ought to be emphasised and the benefits which it has brought to Scotland recognised.

5 Since 1885 when a Secretary for Scotland was appointed, and particularly from 1939 when the Scottish Office in broadly its present form was established in Edinburgh, a very wide measure of what the Kilbrandon Commission described as administrative devolution has been developed in Scotland. Since the war additional functions have been progressively transferred to the Scottish Office. The Secretary of State, as a member of the UK Cabinet, now has major responsibility in Scotland (with some exceptions) both for the formulation of policy and its execution in such fields as agriculture and fisheries, criminal law, crofting, education, electricity, environmental services, health, Highlands and Islands development, housing, legal services, local government, police, prison and fire services, roads, certain aspects of shipping and road transport services, social work, sport, recreation and the arts, tourism, town and country planning and youth and community services. The administrative functions at central government level arising from these responsibilities are carried out by the five Scottish Departments based on St Andrew's House in Edinburgh. For most of these subjects there is separate Scottish legislation or Scottish application clauses in UK Act of Parliament. Separate Scottish legislation has special Parliamentary machinery to handle it consisting of the Scottish Grand Committee, on which all Scottish Members of Parliament sit, and two Scottish Standing Committees which consider the details of Scottish legislation.
6 One basic reason for these differences in legislation and administrative practice arises from the existence of a separate system of Scottish law, the preservation of which was provided for in the Union settlement of 1707. The Secretary of State has accordingly responsibility for legal services in Scotland, and other important responsibilities are exercised by the two Scottish Law Officers - the Lord Advocate and the Solicitor General for Scotland. But it is not just a case of Scottish legislation in parallel with that for England and Wales; there are usually distinctive Scottish features and in some cases the approach is markedly different, reflecting the differing needs and conditions of Scotland and the people living there. Devolution to Scotland - in the sense of running things differently in Scotland because Scotland is different - is therefore nothing new.

7 The Secretary of State also has a major role in the planning and development of the Scottish economy and plays a full part in the Government's determination of Energy policy. He exercises a co-ordinating function over activities in Scotland, such as the location of industry, the level of employment and the development of North Sea oil, which are not his direct responsibility but have an important, indeed vital, effect on the economy of Scotland. The United Kingdom Departments with significant Scottish responsibilities have offices in Scotland with delegated powers and work closely with the Scottish Office.

8 It is the Government's view that the existence of these separate administrative arrangements in Scotland have greatly benefited the people of Scotland. They have enabled special Scottish needs to be recognised and met. It is also significant to note, as did the Kilbrandon Commission, that identifiable public expenditure per head in Scotland has been at a significantly higher level than elsewhere in the United Kingdom (except in very recent years in Northern Ireland).

9 In recent months a number of important further measures have been announced by the Government. The Offshore Supplies Office of the Department of Energy is to be transferred to Glasgow. Also to have its headquarters in Scotland is the new British National Oil Corporation. Still more important in the Scottish context was the announcement of the Government's intention to establish a Scottish Development Agency, which is to be responsible to the Secretary of State for Scotland. Its task will be to strengthen the instruments available for promoting
the development and re-structuring of the Scottish economy. It will also carry out in Scotland appropriate functions of the National Enterprise Board. A Scottish Airports authority is to be set up. Also indicative of the Government's intention to carry out appropriate central government functions in Scotland was the decision to transfer 6,000 Ministry of Defence and 1,000 Ministry of Overseas Development posts to Glasgow over the next ten years.

10 There is thus already very full recognition of the importance attached by people in Scotland to ensuring that more decision taking occurs in Scotland, particularly where the decisions are ones affecting Scotland itself.

Consultations on the Consultative Document

11 While recognising the benefits to Scotland of the existing system, the Kilbrandon Commission unanimously concluded that a directly elected Scottish assembly ought to be established to meet the legitimate desire of the people of Scotland for greater control over their own affairs. The Commissioners were not agreed, however, on how this objective should be achieved, and in the main Report and the Memorandum of Dissent four schemes were set out for implementing this decision in relation to Scotland (Schemes A, B, C and E in the Consultative Document). All interested organisations and members of the public in Scotland were invited to comment on these schemes.

12 The response of individual members of the public was disappointing; only about 170 letters or papers, some quite brief, were received. Of these there was no clear majority for any one solution, and indeed a significant number expressed no specific view.

13 On the other hand over 50 organisations in Scotland, including the political parties, submitted written views. Among these there was considerable support for Scheme A or variations of it. While very few indeed favoured Schemes B or C, there was some support for Scheme E. A number wanted more decision making in Scotland, without associating that demand with any specific scheme. Some wanted no change in the present system and others wanted any decision deferred until the new local authorities had had time to settle down. Most of these representatives of local government were particularly concerned about the possible effects of the Schemes considered on the new local authorities and their powers. Strathclyde Regional Authority, for example, urged the Government "to ensure that the new
authorities are given sufficient time and independent power to establish and
develop themselves and that in the meantime the discussions should continue".

14 During July 1974 a series of discussions was held in Scotland by Scottish
Ministers accompanied by the Government's constitutional adviser, Lord Crosthwaite-Hunt,
with some of the organisations which had submitted written observations. Bodies
consulted in this way included the Scottish Council of the Labour Party, the
Scottish National Party, the Scottish Council (Development and Industry), the
Scottish Trades Union Congress, the Council of the Confederation of British
Industry in Scotland, the Church and Nation Committee of the Church of Scotland
and various local authority representatives. These discussions reinforced points
made in the written submissions and some points emerged of particular significance.
One was a strong desire for more Government decision making to take place in
Scotland - and in that context the announcements referred to in paragraph 9 above
were welcomed. There was also widespread, though by no means unanimous, support
for the view that there would be merit in the establishment of a directly elected
Scottish Assembly, but there was no agreement on what powers or functions the
Assembly should have. Of the schemes in the Consultative Document, Scheme A,
which proposed a legislative assembly and government for Scotland, commanded the
greatest support, but there was clearly a good deal of uncertainty about the
precise implications of the scheme and the full significance of the fact that it
involved a separate Scottish government responsible to the Assembly. There was
also very considerable opposition both to the abolition of the office of
Secretary of State for Scotland and to a reduction in the number of Scottish
Members of Parliament at Westminster, for which Scheme A provided. Of the other
schemes, hardly anyone thought them appropriate to Scottish conditions, except
that Scheme E, which involved an advisory assembly with limited legislative
powers and no Scottish Executive, attracted some support.

15 The process of consultation has made it apparent that opinion in Scotland
is still very much divided. Many are convinced of the need for a substantial
measure of devolution, involving a directly elected Scottish Assembly with real
powers. Others are equally convinced that any radical change in the present
system would be to Scotland's detriment, though administrative devolution might
be further developed.
Points to be resolved

16 There are a number of very important points that remain to be resolved before it is possible to put forward considered proposals for further measures of devolution for Scotland that would command general support and would carry with them the prospect of stability. The principal ones are:

(a) Finance
In any scheme of devolution to a Scottish Assembly and Government, the financial arrangements would clearly be of fundamental importance. Any major change in the present broad arrangements would be difficult to reconcile with the maintenance of a general uniformity of approach in the Kingdom as a whole to the allocation of resources and to taxation arrangements. Consideration of alternative approaches, including the proposal in Scheme A for a nominated Exchequer Board, has confirmed the very great difficulty of finding acceptable solutions to these problems.

(b) Trade, Industry and Employment
There is still a great deal of doubt about how far (if at all) powers in these fields could be devolved to a Scottish Assembly and Government without prejudice to the essential economic unity of the United Kingdom. There is a strong desire for more decision making in Scotland, but this would not necessarily involve the creation of a Scottish Assembly.

(c) Local government
There is understandable concern both about the timing of any constitutional changes in relation to the local government reorganisation which is taking place next year and about the possible attitude of a Scottish Assembly and Government to local authorities.

(d) The Secretary of State
There is a strong desire to retain an effective Secretary of State. A significant diminution in his present powers would be an inevitable consequence of a substantial measure of devolution to a Scottish Government but it may be that he could still exercise considerable powers in the financial, economic and industrial spheres as well as acting as Scotland's spokesman in the UK Cabinet. Indeed an extension of his present responsibilities in these areas might point the way to a solution to the problems outlined in paragraphs (a) and (b) above.
(e) Scottish representation at Westminster

There is a great reluctance to see any reduction in the number of Scottish Members of Parliament at Westminster, with a consequent weakening of Scottish influence in UK affairs. This must be reconciled with whatever devolutionary arrangements are made.

Decisions

17 All these outstanding problems as well as many matters of detail will require further very careful and thorough study before the Government is in a position to put forward fully worked out proposals for consideration. But at the present stage the Government have reached the following decisions of principle:

(a) A Legislative Assembly

It is the Government's intention to set up a directly elected Scottish Assembly with legislative powers within the context of the political and economic unity of the United Kingdom. The Assembly will be elected by the same method as is now used for the Westminster Parliament.

(b) The Secretary of State

A Secretary of State for Scotland will be retained within the UK Cabinet with effective powers in Scotland. An examination will be made of the extent to which further responsibilities might be devolved on to him, particularly in the fields of economic and industrial development and in financial matters.

(c) Scottish representation at Westminster

There will be no reduction in the number of Scottish Members of Parliament as a consequence of the establishment of the Scottish Assembly.

WALES

Existing devolution

18 As in the case of Scotland, substantial administrative devolution to Wales has already taken place, though at a later historical stage. The first Minister for Welsh Affairs was appointed in 1951, but the most important measures of devolution have been concentrated into the last ten years. The first Secretary
of State was appointed in 1964, and since then the Welsh Office's functions have grown rapidly. The Department now has responsibility in Wales for housing, health, the social services, primary and secondary education, child care, town and country planning, water, highways, tourism, forestry and agriculture (joint with the Ministry of Agriculture, Fisheries and Food), and many other functions. The strengthening of the Office still continues. The post of its civil service head was recently upgraded to that of full Permanent Secretary and the senior staffing has been further strengthened.

In other ways too administration has been reshaped and strengthened and decision making has been devolved to take account of Welsh interests in economic and other fields. The Secretary of State has oversight responsibility for the economic development of Wales and exercises a co-ordinating responsibility in government action to promote the welfare of Wales. Considerable powers have been delegated to the Department of Trade and Industry Office for Wales, and Wales has its own Industrial Director and Industrial Development Board. As part of the Government's policy for United Kingdom Offshore Oil and Gas, similar arrangements to those in Scotland will be made in Wales to strengthen the instruments for promoting the development of Wales' economy. The organisation which will be set up for this purpose will exercise in Wales appropriate functions of the proposed National Enterprise Board. The Government have also announced their decision, a further step to assist the economy, to transfer over 7,000 civil service posts to Wales in the next ten years. As in Scotland, identifiable public expenditure per head in Wales has for many years been running at a substantially higher level than in England.

In consequence of these and other measures Government action is increasingly adapted to fit Welsh needs and to further Welsh interests. The role of the Secretary of State with a seat in the Cabinet is fundamental. He not only has full responsibility for the matters referred to in paragraph 18 above; in other matters affecting Wales he has powers of oversight and can safeguard and further Welsh interests both in Cabinet and in discussion with Departmental Ministers. No Welsh problem escapes his attention and he exercises a powerful influence on policies affecting Wales.

Welsh interests are further represented centrally through the 36 Welsh Members of Parliament at Westminster who, in addition to their other
Consultations on the Consultative Document

22 The members of the Kilbrandon Commission were agreed that a directly elected Welsh Assembly should be established, but they were divided about the powers which it should exercise. In the main report and the Memorandum of Dissent four different schemes were proposed (Schemes A, B, C and D in the consultative document). In accordance with the Government's undertaking to carry out discussions on the Commission's Report in Wales, the Secretary of State, with the assistance of the Government's constitutional adviser, has completed a programme of consultations.

23 The bodies consulted represented political parties in Wales, local authorities, both sides of industry and the farming community. The majority were in favour of the establishment of a directly elected Assembly for Wales, but there was no general agreement on the functions it should exercise: opinion was divided between those who favoured legislative devolution and those who were for executive devolution. The minority either favoured a directly elected Welsh Advisory Council or wanted no fundamental change in existing arrangements. The points on which there was substantial agreement among those consulted was that the office of Secretary of State should continue and that there should be no reduction in the number of Welsh Members of Parliament.

24 The Secretary of State received written views from 26 organisations in Wales. In most cases these were briefly stated and did not attempt to deal with the detailed questions set out in the discussion document. The views of these organisations, mostly made up of individual local authorities and political, trade union and religious bodies, were divided: only about one-third were in favour of legislative devolution; a slightly smaller proportion preferred executive devolution; and the remainder favoured other solutions or the status quo. In addition the Secretary of State received written views from a relatively small number of individuals, most of which were in favour of schemes of at least legislative devolution.

25 Thus no consensus of opinion has emerged. The case for an elected Assembly is widely supported, but there is no general agreement about the powers it should
exercise. However, there is an evident desire to see Government decision making being made more responsive and accountable to the people, provided this can be done without disrupting the essential political and economic unity of the United Kingdom. In particular, it has been urged that the nominated bodies which at present carry out many functions in Wales should be replaced by a body representative of the Welsh people, which should also discharge some of the executive functions of Government Departments in Wales.

**Decisions**

26 The Government have considered the way ahead very carefully in the light of the Kilbrandon proposals and the subsequent consultations and their conclusion is that the needs of Wales would best be met by setting up a directly elected Assembly with mainly executive functions, including some at present carried out by the Secretary of State; it would also take over the functions of a large number of nominated bodies in Wales. It would assume certain powers of the Secretary of State in respect of delegated legislation, and it would have deliberative functions. The Secretary of State for Wales would remain and, as in the case of Scotland, would play a crucial part; consideration would be given to extending his role in relation to industrial development, finance and energy. Wales' present representation of Members of Parliament at Westminster would remain unaltered. The members of the Assembly would be elected by the same system as that used for the Westminster Parliament. Such a democratic Assembly would undertake considerable responsibilities on behalf of the people of Wales by carrying out many functions affecting daily life; it would have sufficient flexibility in operation to enable it to act effectively in discharging its responsibilities. At the same time, the retention of the office of Secretary of State and of the present number of Welsh Members of Parliament at Westminster would ensure effective representation of Welsh interests in the central formulation of policies affecting the United Kingdom as a whole and Wales in particular.
CONCLUSION

27. These proposals will represent the most significant constitutional changes to have taken place in Great Britain in the last 250 years. Their implementation will enable people in Scotland and Wales to exercise greater control over their own affairs and will bring Government closer to the people. The consequences will be far-reaching, and will affect everyone in the United Kingdom. The new arrangements must work well and endure; hence much care is needed in working out the complex new provisions which will be required. The Government will put this work in hand urgently; but it would be irresponsible at this stage to try to give details of the nature and exact powers of the new Assemblies. They believe that the decisions of principle now taken will be broadly in line with the wishes of a wide section of opinion in the two countries, and they will welcome the further expression of views to help with the many further detailed decisions which will have to be taken.
A profound public appreciation is developing of the relatively narrow fields in which the exercise of power at present is democratically accountable and those other areas where a yawning gap prevails between those who make decisions and those who bear the consequences. To most workers on the shop floor or in offices British business is at best a benevolent dictatorship. Labour has already proposed measures to promote greater democracy at work and to ensure a transformation of relationships in the factory and the workplace. But there are areas of governmental decision-making which themselves are subject to inadequate democratic control. It is to these areas that this statement is directed.

The 20th century has seen the responsibilities of central government expand far faster than provision for their democratic
supervision. As the range of government responsibility has spread over wider there has been an increasing concentration of power at Westminster and in Whitehall. At the same time assorted nominated ad hoc authorities (often organised on a regional basis) have proliferated. They have assumed not only some of these new tasks of central government, but also many of the responsibilities for public services earlier entrusted to local government such as hospitals, gas, electricity and trunk roads. In addition central government departments have evolved their own administrative and executive regional structures.

In the interests of efficiency civil servants now make a range of decisions within their regions without reference to headquarters, and without reference to the people's elected representatives. For instance Regional Controllers of the Department of Industry now make important decisions affecting the location of industry, authorising loans of up to £1 million under the 1972 Industry Act; Regional Directors of the Department of the Environment approve road improvements schemes. A regional level of governmental decision-making therefore already exists but is not subject to direct democratic oversight. Harold Wilson emphasised this in February 1973, when he pointed to the glaring gap between local authorities and central government which at present is bridged by a series of undemocratic ad hoc expedients, and to the existence of regional government without regional democracy. It is a gap which must be closed by changes in our democratic structure. They must give to the British people the power to control the decisions exercised in their name by the various nominated bodies, and outposts of government.
But we must be clear that separatism is not the answer. Nationalist parties, of Welsh, Scottish and Cornish varieties have all tried to exploit geographical remoteness from the centre of government, by playing upon the genuine fears of the people that government based in London is English and therefore alien. In contrast, since the early 1960's successive Labour governments have demonstrated particular sensitivity to the diversity of regional economic and industrial problems and needs.

The nationalists solicit 'borrowed' votes to create separate parliaments — but refuse to come clean on how else they would use such support. No-one really knows — for they do not know themselves — where they stand on the major issues of prices, unemployment and housing, or on the crucial issue of public ownership. Lacking any vision of a fairer, more just society, they seek only to create a Scotland and Wales separate from, and independent from, the United Kingdom.

They seek to serve the political and economic links which give the United Kingdom its cohesion. But these are the very links which would have to be laboriously established to avoid the disastrous economic consequences of separatism.
The Labour Movement has always recognised that the working classes' strength stems from unity. The break-up of the United Kingdom would only isolate and expose ordinary families to the excesses of big business and market forces. Scotland, Wales and the depressed regions of England face severe economic and industrial problems, but these differ only in scale from those facing the United Kingdom as a whole. They are the problems of all working people and the only definite solutions are the socialist policies, in a United Kingdom context, which we are putting forward.

The nationalist parties claim that only they understand and represent the Scottish and Welsh nations with their distinctive traditions, cultures and social values. At the same time they ignore the deep sense of identity that exists in the North West and South West of England as well as in Scotland and Wales. They fail to recognise that Labour alone of British political parties, fully comprehends from its own bitter experience the depths of injustice throughout all the nations and regions of the United Kingdom today.

But ignorance cannot forgive their attempt to steal Labour's history. It was the Labour Party which called in 1948 for the establishment of a Council of Wales; it was pressure from the Parliamentary Labour Party which resulted in the Welsh Grand Committee meeting for the first time in 1960; it was the Labour Government which created the post of Secretary of State for Wales with a seat in the Cabinet in 1964; and it was the Welsh Council of Labour which called in 1965 for an elected Welsh Assembly.

It was the Labour Party in Scotland, the party of Keir Hardie and James Maxton, which in 1958 reaffirmed its support for the principle of maximum self-government for Scotland consistent with remaining within the United Kingdom.
it was the Labour Government which encouraged the Scottish Council of Labour which in 1974, after an open, honest debate, overwhelmingly called for an elected Scottish Assembly with legislative powers.

It was out of realisation of the deepening popular frustration at the workings of the British system of government that the Labour Government in 1969 established the Kilbrandon Commission on the Constitution. The Labour Party fully endorses the unanimous view of the Commissioners in rejecting federalism and separatism, and accepts the broad conclusion of their Report that there is room and a real need for a substantial measure of devolution of power away from Westminster and Whitehall. The object of our following proposals is to adapt the British Constitution to the needs of the remainder of the 20th century; to avoid fragmenting the United Kingdom but to bring the spotlight of democracy to bear on the Scottish, Welsh and English levels of government which already exists.

We now propose the creation of directly-elected Assemblies for Scotland and Wales. We have of course an equal commitment to democratic accountability of government and equality of political rights in the English regions. In Scotland and Wales there has already been a full debate which has enabled us to make firm proposals. We shall now begin a similar consultation process in England. While the new institutions we propose for Scotland and Wales will share common characteristics, they will differ from one another in their respective powers and responsibilities. We have no wish to confine the diverse traditions of the nations and regions of the United Kingdom within an arbitrary straight-jacket of rigid uniformity, or to duplicate a series of identical institutions and plant them in unnatural settings. Different traditions already exist between Scotland, Wales and the regions of England. These must be recognised in the future structure of government.
Despite their differences and their individual sense of nationhood the Scots and Welsh have much in common. Within the United Kingdom framework there is much which the Scots and Welsh have long had in common, and which provide a basis for our proposals for the future. An essential element in our policy for both Scotland and Wales is the retention of their existing number of MP's at Westminster and the maintenance of both the posts of Secretary of State for Scotland and for Wales in the Cabinet.

It is in this context that we reject utterly the concept of a nominated Exchequer Board to decide the distribution of resources between Scotland, Wales and the regions of England. The determination of 'fair shares' is the most fundamental of political decisions and cannot be delegated by elected representatives. It must be argued out in Cabinet, with the two Secretaries of State present as of right to speak for Scotland and Wales, and approved in the House of Commons.

Moreover, even after the creation of directly elected Assemblies for Scotland and Wales the Westminster Parliament and most United Kingdom Government Departments will still have very substantial responsibilities which will affect Scotland and Wales no less than the regions of England - e.g. for the overall management of the United Kingdom economy, for finance, for foreign policy, for defence and major Trade, Industry, Employment and Energy policies etc. Hence the continuing and crucial need for the Scottish and Welsh Secretaries of State to remain in the United Kingdom Cabinet and for full Scottish and Welsh representation at Westminster.
The present method of election to the Westminster Parliament will apply to elections to the Scottish and Welsh Assemblies. It is simple to operate and well understood by the public. Above all it provides for the clear and direct accountability of the elected representative to his constituents. The single transferable vote system with multi-member constituencies is cumbersome and would cut this essential link, weakening rather than strengthening the principle of direct accountability.

Moreover, such a system of proportional representation could not operate in by-elections to the Assemblies. Finally the use of a different system for elections to the Assemblies from that employed for local council or Parliamentary elections would constitute a sure recipe for confusion on the part of the electorate.

The Scottish and Welsh Assemblies will each assume many of the present functions of the Scottish and Welsh Offices, and the responsibilities of many of the nominated authorities now operating within their boundaries. This will include for example areas such as housing, education, health economic and environmental planning, and in Wales, water.

There will be a block financial allocation to Scotland and to Wales, instead of the present method of Westminster allocation of funds for each separate field of expenditure. It will be for the Scottish and Welsh Assemblies to determine priorities in the distribution of expenditure as between the competing claims of housing, schools, roads, hospitals and welfare services.
The Assemblies will thus assume heavy responsibility. They will have to face up to the stark problem of making choices between competing demands for public spending. We believe it is right that they should have this responsibility, so that they may decide priorities against the economic and historical background of the people they represent. This is a key and central element of the devolution of power which we propose.

The discovery of oil and gas deposits in the North Sea and Celtic Sea revolutionises the opportunity for transforming the future economic and industrial prospects of all the depressed regions of the United Kingdom at a time when radical changes are being introduced into how the regions manage their own affairs. But this opportunity will only be grasped if those of our people living in areas off whose shores the major discoveries have been made are able to put aside avarice and selfishness and recall that not only Scotland and Wales, but also the North West and North East of England, have suffered as a result of a concentration of contracting industries.

Labour is determined that the community and each deserving region receives its full and fair share of the profits resulting from the exploitation of these new energy resources in accordance with its needs. This must mean that maximum benefit goes to redress the regional imbalance which the years of industrial decline have caused.

It must also mean carrying our own proposals for ensuring majority state participation in existing licences for Commercial oilfields, for majority participation under new licences, and for setting
up the British National Oil Corporation, with its headquarters in Scotland. It is not the nationalists of private capitalism which is the issue for the people of Scotland and Wales. What matters above all is that new oil wealth is exploited to the benefit of public and not private interests.

The task of breathing new life into our depressed areas is one for both central government and for the new Assemblies we propose. Only a United Kingdom Government, with the socialist policies of the Labour Party, can overcome the failures of the past and find solutions to the deep-seated unemployment problems in Scotland, Wales and parts of England.

Creating Assemblies in Scotland and Wales will not wave the magic wand. Central government will have to take direct action at the level of Britain's biggest firms in the form of planning agreements and a National Enterprise Board rather than general handouts and incentives.
The new Scottish Development Agency we propose, working side by side with the National Enterprise Board, will spearhead new employment opportunities and economic growth. There will also be similar arrangements for Wales as oil exploration develops in the Celtic Sea.

But there must be scope too for real initiative to be taken outside London. The Scottish and Welsh Assemblies will therefore participate in the decisions on how best to promote their development, for instance by drawing up their economic plans. Substantial executive powers in the trade and industry fields will be transferred from central government to enable the Assemblies to tailor policies to their own needs in the promotion of employment and industrial regeneration. It would also be appropriate for the proposed Scottish Development Agency to become responsible to the Scottish Assembly. Similar arrangements could apply in Wales.

A further feature common to our proposals for both Scotland and Wales is our intention not to take powers away from local government to the Assemblies. To do otherwise would be to run counter to the entire spirit of our basic proposals and to undermine our objective of bringing power nearer to the people.

Moreover, since we are unable at this stage, for overwhelmingly practical reasons of lack of time, to go much further than declare where we stand on the principle of devolving power from Westminster and outline the basic form our proposed scheme of devolution will take, the new authorities created by recent local government reorganisation will have time to settle down in their new functions before the Assemblies take office.
Our proposals for Scotland and Wales are directed to the needs of the present and future. But in matters of fundamental constitutional practice reasonable men do not lightly break with the traditions of the past. They are after all part of our heritage. Scotland for example has always had a distinct legal structure and legislative process firmly bedded in hundreds of years of history. So many Scottish laws today are significantly different from those in England and are indeed separately enacted for Scotland. Labour therefore proposes that the Scottish Assembly will have legislative powers within those fields in which separate Scottish legislation already exists such as housing, health, education and home affairs.

We intend that the Welsh assembly should parallel the Scottish counterpart in assuming responsibility for many of the executive functions, certainly of those at present carried out by the undemocratic nominated bodies within Wales, together with some of the Secretary of State’s executive functions. The Welsh Assembly would also assume certain powers of the Secretary of State in respect of delegated legislation. It will enjoy a wide area of decision-making, in fields such as housing, health and education, within a broad framework of central government legislation in the formulation of which the Assembly will have a substantial impact.

Above all, the Assemblies must be equipped to respond to the real needs. But in the main it will mean vital decisions affecting Scotland and Wales being made within Scotland and Wales by the Scots and Welsh themselves. It will give effect to the declaration we made in July 1973 "Labour's Programme"; which set out our intention to bring about "an effective devolution of decision-making and functions" from Whitehall to the regions and nations of the United Kingdom.
"But, we insisted, "we are not interested in the creation of talking-shops devoid of powers."

Conclusion

In promoting this policy of devolution of power we have been concerned to strengthen the principle of direct accountability. We now assert that principle, and propose the basic framework within which this should be accomplished in Scotland in Wales. The increasing sophistication and range of government activity and machinery make the task we have set ourselves highly complex and inevitably lengthy. We intend legislating for the establishment of Scottish and Welsh Assemblies as early as possible during the life of the next Labour Government. Many points of substance, of course, remain to be determined before legislation can be drafted. Some are of critical importance and cannot be taken lightly. The new system of government we propose must stand the test of time.

Our proposals will strengthen British democracy. They will restore democratic control over important levels of government, bring power nearer to the people, and enhance the ability of government to respond positively to the special needs of the various nations and regions of Britain. Labour alone of the political parties combines meaningful, viable policies for devolving power from Westminster, with reasonable prospect of being in a position to keep its promises in the next Parliament.
1. I was invited, in the context of the Cabinet's discussion on 26 July 1974 on economic strategy and public expenditure, to examine the ways open to us of restricting less essential construction expenditure in the private sector and possibly of avoiding emergency "winter-works" projects which tended to distort priorities between projects. During our discussions it had been suggested that it would not be appropriate to introduce restrictive measures at a time when the construction industry was in difficulties.

POWERS AVAILABLE

2. There are limited powers, currently in suspense, to control building by a system of licensing under the Building Control Act 1966.

3. The Act makes it unlawful to carry out any work in the construction or alteration of a building or of any other fixed works of construction or civil engineering, not exempted by or under the Act, unless a licence is obtained from the Minister of Public Building and Works (now the Secretary of State for the Environment). The control was suspended with effect from 20 November 1968. The suspension can be ended by the Secretary of State making a further Order to this effect under the Act. The Order would be subject to negative resolution by either House of Parliament.

4. The Act exempts certain types of projects from control: the main ones are projects costing less than a fixed limit, private dwellings, industrial buildings, all projects in development areas, development by or on behalf of the Crown and work carried out at the expense of local authorities and other public bodies.

5. The cost exemption limit under the Act is now £100,000. The limit can be changed by order to a lower or higher figures, subject to a minimum figure of £50,000.
POINTS FOR CONSIDERATION IN RELATION TO BUILDING LICENSING

6. The following considerations apply to any use of the Act to restrict less essential construction of such as places of entertainment:

i. Many places of entertainment are provided by adaptation rather than new construction, and those requiring adaptation work of less than £50,000 would be exempt.

ii. It would be necessary either to ban all work above the exemption limit on entertainment premises or distinguish between the merits of various forms of entertainment e.g. bingo, cinemas, clubs, theatres.

iii. Without other measures the funds and resources freed by the refusal of licences could be diverted to other uses in the private sector equally undesirable to the Government.

7. The main argument put forward for a licensing system is that it gives Government the power to impose cuts on the private sector when there is a risk of over-loading the construction industry. The work likely to be judged undesirable is however small in total volume; when controls operated in 1966-68 applications for licences for projects worth £392 million were made, of which only those for £21 million were refused. Refusals amounted therefore to less than 0.5 per cent of new construction.

CURRENT OUTLOOK

8. The industry at present faces its biggest decline in output since the war, with the threat of the loss of over 100,000 jobs by the end of 1974 compared with the end of last year. Output is expected to decline by 5 per cent during the course of this year and by a further 2 per cent in 1975. Under the present circumstances it is unlikely that private, commercial and industrial investment spending on construction will recover during 1975.

CONCLUSIONS

9. Thus, apart from the points in paragraph 6 above, this would not seem an appropriate time to reinstate the powers under the Building Control Act 1966. Nor would it seem right to use administrative delaying tactics on granting of IDCs etc.

10. My colleagues will be conscious of the dangers of "winter-works" projects which affect their Departments' priorities. But I suggest that this should be considered in the context of the construction industry package which is being discussed separately.

H M Treasury
6 September 1974
CABINET

PUBLIC EXPENDITURE 1974-75 - 1978-79

Memorandum by the Chancellor of the Exchequer

1. We have agreed as our guideline for total public expenditure that it should grow on average over the period to 1978-79 at 2\(\frac{3}{4}\) per cent a year in demand terms. One set of programmes which would match that guideline is that of the 1974 Survey report (shown for convenience in C(74) 101 table A). But that report only describes what we would get for the broad allocations of money which we set, with priority for social security, housing, infrastructure for offshore oil, price support subsidies and nationalised industries' investment and Northern Ireland (defence being subject to a special review) earlier this year. Since the Survey was made there have been some estimating and policy changes. My colleagues have now looked at these programmes and have told me where they think they need more over and above these additions, as in C(74) 101 table B. We also have substantial prospective commitments beyond these claims.

2. Unless we leave enough in our contingency reserve, we shall not live through the period without having to cut back our plans over and over again in order to accommodate some imperative new expenditure.

3. But our guideline is an economic one, not an accounting one. We are able therefore to accept expenditures beyond those of the 1974 Survey (which are already assessed in demand terms) where the addition will not add materially to demand, although in some cases problems of financing, and therefore perhaps of timing, will arise and require consideration at the time. There are prospective commitments to expenditure in this category shown in C(74) 101 table C.

4. A particular instance of acceptable addition to demand arises in the construction industry, but only in 1975-76 (and the earlier part of 1976-77) when we must expect an unusually low level of demand for this industry's output. I have therefore agreed to add to the Survey programmes the amounts shown in table 1 attached to this memorandum, without charging them against the contingency reserve, in order to enable extra public sector construction, generally of a minor kind, to be undertaken within the specified period.
5. On this account I hope that my colleagues who have asked me for extra expenditure on construction will be able to withdraw these claims. At the least (except in the case of Property Services Agency civil expenditure, which I regard as the means of removing a major source of unrest in local and provincial offices of Departments) I am regarding £ for £ of my colleagues' claims as met by the construction package.

6. The net additions which we then have to consider are set out in table 2 attached. Part 1 of that table shows changes since the Survey, either agreed changes of policy or revised costings of agreed policy. It is incomplete because it is not possible at this stage to reassess prospective shortfall; I would expect there to be some offset on this account to the escalation of estimates. I also take account of the fact that some of the policy changes (notably REP) do not add £ for £ to demand. While a total offset is not to be expected I propose that this part of the potential extra commitments should be taken into account at this stage only as background to our consideration of other potential additions.

7. These are of two kinds. First, prospective commitments with positive demand effects, listed in table 2, part 2, together with the probability that our forthcoming negotiations of rate support grant will show that the current expenditure of local authorities has been rising well above earlier estimates. Each of these items will require specific action in due course.

8. Second, there are the claims as reduced by the amounts of the construction package. These are shown in table 2, part 3. My proposals relating to them are set out in table 3; some of my proposals would clear the way for early announcements.

9. But on this basis we should be left with substantially more additional demand than could be met within our guideline. We must therefore also examine the scope for adjusting priorities between programmes so that we may accommodate the new elements which we favour. I provided notes on the issues arising in the individual programmes as part of my paper C(74) 81, and I should welcome broad guidance from my colleagues; alternatively I will accept a remit to offer my own proposals on priorities.

CONCLUSIONS

10. I invite my colleagues -

a. to note the construction industry package in table 1;

b. to agree that I should seek settlements with my colleagues responsible on the items in part 1 of table 3;
c. to endorse my proposals in part 2 of table 3 for settling my colleagues' bids in respect of those programmes;

d. to offer me their guidance on adjustment of priorities, or to give me a remit to offer my proposals, for the accommodation of other extra expenditures within our agreed guideline.

DH

HM Treasury

10 September 1974
## Table 1

**Expenditure Related to Proposed Extra Construction**

£ million at 1974 Survey prices

| 1. DOE water and sewerage, new towns, and roads | 25* |
| 2. DOE: Other environmental services | 16* |
| 3. Property Services Agency (civil) | 5 |
| 4. Education (England and Wales) and personal social services | 15 2 |
| 5. Health (England and Wales) | 14 |
| 6. Factories | 9 |
| 7. Police (England and Wales) | 3 2 |
| 8. Land drainage | 1 2 |
| 9. Scotland | 10* |
| 10. Wales (in addition to share in 4, 5, and 7 above) | 3* |
| 11. Northern Ireland | 2 2 |

| 1057 | £187

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*Some of this may slip into 1976-77

*This will be distributed through the locally-determined pool and cannot be directed to a particular service by the Department. Part may be spent on other Departments' programmes, eg education, at local authorities' discretion.

*There will be a further £ million in 1977-78.
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<td>Defence</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overseas services</td>
<td>-17</td>
<td>-24</td>
<td>-24</td>
<td>-18</td>
<td>-16</td>
<td>-16</td>
<td></td>
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<tr>
<td>Agriculture, fisheries &amp; forestry</td>
<td>+44</td>
<td>+13</td>
<td>+5</td>
<td>+5</td>
<td>+13</td>
<td>+13</td>
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<tr>
<td>Trade, industry &amp; employment</td>
<td>-12</td>
<td>+71</td>
<td>+160</td>
<td>+158</td>
<td>+158</td>
<td></td>
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<tr>
<td>Nationalised industries capital expenditure</td>
<td>+34</td>
<td>-24</td>
<td>-19</td>
<td>-3</td>
<td>-13</td>
<td></td>
<td></td>
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<tr>
<td>Roads and transport (1)</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+23</td>
<td>+23</td>
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<tr>
<td>Housing (2)</td>
<td>+14</td>
<td>+9</td>
<td>+9</td>
<td>+9</td>
<td>+9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other environmental services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Law, order and protective services</td>
<td>-</td>
<td>+2</td>
<td>+3</td>
<td>+3</td>
<td>+3</td>
<td></td>
<td></td>
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<tr>
<td>Education and libraries, science and arts</td>
<td>+5</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>Health and personal social services (3)</td>
<td>+13</td>
<td>+14</td>
<td>+15</td>
<td>+15</td>
<td>+16</td>
<td>+16</td>
<td>+16</td>
</tr>
<tr>
<td>Social security (4)</td>
<td>+1</td>
<td>+7</td>
<td>+8</td>
<td>+16</td>
<td>+46</td>
<td></td>
<td></td>
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<tr>
<td>Other public services</td>
<td>+6</td>
<td>+2</td>
<td>+2</td>
<td>+2</td>
<td>+2</td>
<td></td>
<td></td>
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<tr>
<td>Common services</td>
<td>-</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
</tbody>
</table>
(1) Excludes increases in urban transport subsidies
(2) Estimating changes based on the assumption that loans to Building Societies will be repaid in accordance with the proposed timetable.
(3) Includes policy decisions on invalid mobility;
(4) Includes policy decisions on long term pension scheme and on cash benefits for the disabled.

DEMAND

The effect of the above additions is that the programmes in their present form imply an increase in demand terms in public expenditure of 3 per cent per annum on average to 1978-79, in place of the 2½ per cent adopted by the Cabinet as their guideline.
## Table 2: Prospective Commitments Creating Additional Demand

<table>
<thead>
<tr>
<th>Nationalised industries' subsidies</th>
<th>Expenditure (£ million at 1974 Survey prices)</th>
<th>Demand effect (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>135 - - -</td>
<td>90 - - -</td>
</tr>
<tr>
<td>Local transport subsidies (England &amp; Wales)</td>
<td>120 110 105 100</td>
<td>80 73 70 66</td>
</tr>
<tr>
<td>Community ownership of development land: Administration</td>
<td>20 25 30 35</td>
<td>19 24 29 34</td>
</tr>
<tr>
<td>Agriculture and food subsidies</td>
<td>UNKNOWN (2) - - -</td>
<td>UNKNOWN - - -</td>
</tr>
<tr>
<td>Development of RB211-524</td>
<td>20 17 13 3</td>
<td>18 -15 12 3</td>
</tr>
<tr>
<td>Northern Ireland - social &amp; economic planning (3)</td>
<td>UNKNOWN</td>
<td>UNKNOWN</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>305+ 152+ 148 138</td>
<td>207+ 112+ 111 103</td>
</tr>
</tbody>
</table>

(1) These figures assume there will be no early increase in fares. The Chief Secretary has written to the Secretaries of State for the Environment and Scotland asking them to consider a policy for local transport fares which would limit fresh calls on public expenditure and the need for higher Government grants to local authorities. In Scotland, Strathclyde Regional Council have been considering abolishing fares for public transport at an estimated cost of £60-£75 million a year (roughly £45 million in demand terms) which would be in addition to the sums shown above.

(2) Of the order of £150 million - duration uncertain.

(3) Of the order of £100-150 million over 5 years, but offsetting savings are being examined.
## Summary of Net Additional Claims After Deducting \(^{(1)}\) Provision for Construction Industry Reflationary Package (Table B of C(74)101, Minus Table 1 of This Memorandum)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Defence:</strong></td>
<td></td>
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</tr>
<tr>
<td>Overseas Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas representation etc.</td>
<td>+2.2</td>
<td>+2.1</td>
<td>+1.6</td>
<td>+2.1</td>
</tr>
<tr>
<td>Overseas aid</td>
<td>+19.0</td>
<td>+20.0</td>
<td>+21.5</td>
<td>+23.0</td>
</tr>
<tr>
<td><strong>Trade, Industry and Employment:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prices and consumer protection</td>
<td>+0.9</td>
<td>+0.2</td>
<td>+0.3</td>
<td>+0.3</td>
</tr>
<tr>
<td>Employment</td>
<td>+3.0</td>
<td>+5.0</td>
<td>+8.0</td>
<td>+10.0</td>
</tr>
<tr>
<td><strong>Roads and Transport:</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Private railway sidings</td>
<td>+2.0</td>
<td>+2.0</td>
<td>+2.0</td>
<td>+2.0</td>
</tr>
<tr>
<td><strong>Other Environmental Services:</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Water and sewerage</td>
<td></td>
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<tr>
<td>New towns</td>
<td>+23.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>+1.0</td>
<td>+3.5</td>
<td>+5.0</td>
<td>+6.0</td>
</tr>
<tr>
<td>Land drainage</td>
<td></td>
<td></td>
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<tr>
<td><strong>Law, Order and Protective Services:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Urban programme - Great Britain</td>
<td>+2.0</td>
<td>+2.0</td>
<td>+2.0</td>
<td>+2.0</td>
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<tr>
<td>Flour stockpile extension</td>
<td>+0.0</td>
<td>+2.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Education and Libraries, Science and Arts:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales: savings</td>
<td>-5.0</td>
<td>-30.5</td>
<td>-59.7</td>
<td>-81.0</td>
</tr>
<tr>
<td>additions</td>
<td>+51.3</td>
<td>+39.0</td>
<td>+32.7</td>
<td>+25.9</td>
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</tbody>
</table>

\(^{(1)}\) £ million at 1974 Survey Prices
### HEALTH AND PERSONAL SOCIAL SERVICES:

**England and Wales**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Xmas bonus for pensioners (2)</td>
<td>+80.0</td>
<td>+70.0</td>
<td>+100.0</td>
<td>+90.0</td>
</tr>
<tr>
<td>6-monthly uprating of benefits</td>
<td>+210.0</td>
<td>+350.0</td>
<td>+235.0</td>
<td>+220.0</td>
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<tr>
<td>Increase in supplementary benefit disregards</td>
<td>+12.0</td>
<td>+17.0</td>
<td>+16.0</td>
<td>+15.0</td>
</tr>
<tr>
<td>Reduction in qualifying period for long term rate of benefit</td>
<td>+10.0</td>
<td>+14.0</td>
<td>+15.0</td>
<td>+15.0</td>
</tr>
<tr>
<td>Family endowment (3)</td>
<td>+105.0</td>
<td>+275.0</td>
<td>+265.0</td>
<td>+260.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>+646.9</td>
<td>+909.3</td>
<td>+774.9</td>
<td>+717.5</td>
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</table>

### SOCIAL SECURITY:

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<tbody>
<tr>
<td>Increase in supplementary benefit disregards</td>
<td>+12.0</td>
<td>+16.0</td>
<td>+15.0</td>
<td>+15.0</td>
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<tr>
<td>Reduction in qualifying period for long term rate of benefit</td>
<td>+10.0</td>
<td>+14.0</td>
<td>+15.0</td>
<td>+15.0</td>
</tr>
<tr>
<td>Family endowment (3)</td>
<td>+105.0</td>
<td>+275.0</td>
<td>+265.0</td>
<td>+260.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>+646.9</td>
<td>+909.3</td>
<td>+774.9</td>
<td>+717.5</td>
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### OTHER PUBLIC SERVICES:

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<tr>
<td>Broadcasting</td>
<td>+2.5</td>
<td>+2.5</td>
<td>+0.5</td>
<td>+0.5</td>
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<tr>
<td>Mid-term census</td>
<td>+2.5</td>
<td>+15.0</td>
<td>+2.4</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>+13.0</td>
<td>+19.0</td>
<td>+3.4</td>
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### COMMON SERVICES

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<tr>
<td>Dispersal (net cost)</td>
<td>+1.0</td>
<td>+2.5</td>
<td>+5.5</td>
<td>+7.0</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>+13.0</td>
<td>+19.0</td>
<td>+3.4</td>
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### SCOTTISH OFFICE CLAIMS NOT INCLUDED ABOVE:

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<td>Dispersal (net cost)</td>
<td>+22.7</td>
<td>+19.5</td>
<td>+9.0</td>
<td>+3.0</td>
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</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td>+646.9</td>
<td>+909.3</td>
<td>+774.9</td>
<td>+717.5</td>
</tr>
<tr>
<td>Demand effect</td>
<td>+500</td>
<td>+750</td>
<td>+650</td>
<td>+600</td>
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</table>

(1) Except unallocated construction expenditure in Wales (£3 million) and Northern Ireland (£2½ million).

(2) The cost of uprating has been calculated on the PESC assumptions about prices and earnings, and could be materially higher if the assumptions have to be changed.

(3) These are estimates of net Exchequer cost. The public expenditure cost would be significantly higher.
### Chancellor's proposals

#### Part I: smaller items

I seek authority to settle with my colleagues concerned the claims in respect of the following items:

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<tr>
<td>Overseas services</td>
<td>2.2</td>
<td>2.1</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Overseas aid</td>
<td>19</td>
<td>20</td>
<td>21.5</td>
<td>23</td>
</tr>
<tr>
<td>Prices and consumer protection</td>
<td>0.9</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
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<tr>
<td>Department of Employment</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
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<td>Private railway sidings</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Land drainage</td>
<td>1.0</td>
<td>3.5</td>
<td>5</td>
<td>6</td>
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<tr>
<td>Urban programme</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Flour stockpile</td>
<td>6</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BBC and ITA</td>
<td>2.5</td>
<td>2.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Common services - EMA</td>
<td>1.5</td>
<td>2.5</td>
<td>5.5</td>
<td>7</td>
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</tbody>
</table>

Scottish bids not included in the above:

- Law courts                   | 0.8     | 1.0     | 1.2     | -       |
- Mid-term census              | 2.5     | 15      | 2.4     | -       |

*Figures shown are after deduction of any amount shown in the construction industry package (Table 1).*
Part II: major claims

My initial proposals are as follows:

Defence Budget

Pending the outcome of the Defence Review, the 1974 Survey provision for defence in 1975-76 onwards was a notional straight-line extension of the 1974-75 total of £3612 million. The Review is not yet complete, but it is already clear that whatever final decisions are reached there is bound to be a modest increase in the 1975-76 provision over the 1974-75 level.

Education

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy changes already agreed:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction industry package - as in Table 1</td>
<td>+15½</td>
<td>+7</td>
<td>+½</td>
<td>-</td>
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<tr>
<td>Proposals</td>
<td></td>
<td></td>
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<tr>
<td>Savings</td>
<td>-5</td>
<td>-30</td>
<td>-60</td>
<td>-81</td>
</tr>
<tr>
<td>Additions:</td>
<td></td>
<td></td>
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<tr>
<td>(i) Voluntary aided schools</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
</tr>
<tr>
<td>(ii) Other</td>
<td>+10</td>
<td>+12</td>
<td>+8</td>
<td>+7</td>
</tr>
</tbody>
</table>

Net total of proposals: +6 -17 -51 -73

All the additions are for capital expenditure. I believe that my proposals would enable adequate provision to be made for the special schools, under fives and school improvements, which would mitigate the severity of the restrictions on the education programme in the most sensitive areas.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Construction industry package as in Table 1</td>
<td>+14</td>
<td>+11</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(ii) Disabled (mobility) as in Table 2, Part I</td>
<td>+4</td>
<td>48</td>
<td>+12</td>
<td>+15</td>
</tr>
<tr>
<td>Proposals</td>
<td>+14</td>
<td>+14</td>
<td>+14</td>
<td>+14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+32</strong></td>
<td><strong>+33</strong></td>
<td><strong>+26</strong></td>
<td><strong>+29</strong></td>
</tr>
</tbody>
</table>

My proposals, beyond the items already agreed, provide for the carrying forward of excess expenditure on health services which were transferred this year from local to central government and found to be costing more than had been allowed for.
<table>
<thead>
<tr>
<th>Policy changes already agreed as in Table 2, Part I</th>
<th>£ million at 1974 Survey prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii) Long term pension scheme</td>
<td>-</td>
</tr>
<tr>
<td>Proposals:</td>
<td></td>
</tr>
<tr>
<td>(iii) Uprating of pensions and other benefits:</td>
<td></td>
</tr>
<tr>
<td>(a) March and late November 1975 and then mid-November annually</td>
<td>+110</td>
</tr>
<tr>
<td>(iv) Family support FAM uprating of 35/25p in 1975-76</td>
<td>60</td>
</tr>
<tr>
<td>(v) Family endowment with residual child tax allowances introduced in 1977-78</td>
<td></td>
</tr>
<tr>
<td>(vi) Increase in disregards for supplementary benefits etc (d)</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>+189</td>
</tr>
<tr>
<td>Total of proposals only</td>
<td>+182</td>
</tr>
</tbody>
</table>

Notes:

(a) There would be an extra cost of about £25 million in 1974-75. There would also be further expenditure in 1975-76 of about £16 million on uprating the needs allowance for rent rebates and allowances.

(b) Net exchequer cost, not public expenditure cost which would be much higher.

(c) FE is introduced in 1977-78 at a rate of £2.12, i.e. rather higher than 22.03 which would be the cash equivalent of present tax allowances for children not over 11 and of FAM after a 35/25p uprating. The FE rate is uprated by half the increase in prices between 1977-78 and 1978-79.

(d) Including consequential increased cost for rent rebates and allowances.
My proposals are:

(a) We should accept two upratings in 1975. They should, if possible, be in March and late November (i.e. 8 months apart) and we would announce our intention to get back to an annual cycle in 1976 with uprating in mid-November, provided the rate of inflation falls.

(b) We should, in consequence of the upratings proposed at (a), provide no Christmas bonus this year or subsequently. These cannot be taxed and cannot be paid to all groups of social security beneficiary.

(c) We should increase FAM in 1975-76 by 35/25p and postpone the introduction of FE, by one year, to 1977-78. Residual child tax allowances would be retained.

(d) We should not reduce the qualifying period for the long term rate of supplementary benefit (SB) but we should increase disregards for SB etc.
Attached are tables summarising, for use in relation to my memorandum C(74) 100, the necessary background estimates of expenditure:

Table A: The programmes shown in the 1974 Survey
Table B: Claims for consideration
Table C: Prospective commitments creating nil or negligible additional demand

The costings in Tables A and B are agreed between Departments and the Treasury. Those in Table C are preliminary estimates only.

DH

HM Treasury

10 September 1974
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<td>Defence</td>
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<td>3612</td>
<td>3612</td>
<td>3612</td>
<td>3612</td>
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<tr>
<td>Overseas services</td>
<td>698</td>
<td>678</td>
<td>733</td>
<td>805</td>
<td>871</td>
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<tr>
<td>Agriculture, fisheries and forestry</td>
<td>1000</td>
<td>910</td>
<td>818</td>
<td>757</td>
<td>689</td>
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<td>Trade, industry and employment</td>
<td>2142</td>
<td>1577</td>
<td>1246</td>
<td>1156</td>
<td>1169</td>
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<tr>
<td>Nationalised industries capital expenditure</td>
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<td>2516</td>
<td>2706</td>
<td>2657</td>
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<td>Roads and transport</td>
<td>1602</td>
<td>1662</td>
<td>1706</td>
<td>1740</td>
<td>1783</td>
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<tr>
<td>Housing</td>
<td>3078</td>
<td>3077</td>
<td>3180</td>
<td>3252</td>
<td>3346</td>
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<tr>
<td>Other environmental services</td>
<td>1457</td>
<td>1503</td>
<td>1582</td>
<td>1633</td>
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<tr>
<td>Law, order and protective services</td>
<td>1047</td>
<td>1100</td>
<td>1144</td>
<td>1188</td>
<td>1239</td>
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<tr>
<td>Education and libraries, science and arts</td>
<td>4435</td>
<td>4571</td>
<td>4752</td>
<td>4944</td>
<td>5146</td>
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<td>Health and personal social services</td>
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<td>3893</td>
<td>4015</td>
<td>4146</td>
<td>4281</td>
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<td>Social security</td>
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<td>7040</td>
<td>7047</td>
<td>7320</td>
<td>7494</td>
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<td>Other public services</td>
<td>482</td>
<td>491</td>
<td>482</td>
<td>484</td>
<td>487</td>
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<td>Common services</td>
<td>494</td>
<td>577</td>
<td>563</td>
<td>599</td>
<td>629</td>
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<tr>
<td>Northern Ireland</td>
<td>931</td>
<td>943</td>
<td>957</td>
<td>971</td>
<td>972</td>
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<td><strong>Total programmes</strong></td>
<td>33,662</td>
<td>34,104</td>
<td>34,464</td>
<td>35,213</td>
<td>35,102</td>
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<td>Debt interest</td>
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<td>3400</td>
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<td>Contingency reserve</td>
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<td>500</td>
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<td>1000</td>
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<td>Shortfall</td>
<td>400</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
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<tr>
<td><strong>Total</strong></td>
<td>38,727</td>
<td>40,105</td>
<td>40,611</td>
<td>41,697</td>
<td>42,992</td>
</tr>
</tbody>
</table>

Adjustments to 1974-75
outturn prices and relative price effect

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<tr>
<th></th>
<th>1965</th>
<th>2601</th>
<th>2447</th>
<th>2534</th>
<th>2690</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>38,727</td>
<td>40,105</td>
<td>40,611</td>
<td>41,697</td>
<td>42,992</td>
</tr>
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</table>
### SUMMARY OF CLAIMS

€ million at 1974 Survey Prices

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<td><strong>DEFENCE:</strong></td>
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<tr>
<td>Overseas services:</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Overseas representation etc</td>
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<td>2.1</td>
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<td>2.1</td>
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<td>Overseas aid</td>
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<td>23.0</td>
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<td>0.3</td>
<td>0.3</td>
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<td>10.0</td>
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<td>Highways</td>
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<td>Private railway sidings</td>
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<td>Water and sewerage</td>
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<tr>
<td>New towns</td>
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<tr>
<td>Other</td>
<td>20.0</td>
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<td></td>
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<tr>
<td>Land drainage</td>
<td>2.5</td>
<td>3.5</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>LAW, ORDER AND PROTECTIVE SERVICES</strong></td>
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<tr>
<td>Police - capital</td>
<td>3.5</td>
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<tr>
<td>Urban programme</td>
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<td>Flour stockpile extension</td>
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<td>Service Type</td>
<td>1975-76</td>
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<tr>
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<tr>
<td><strong>Science and Arts</strong></td>
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<tr>
<td>Savings</td>
<td>- 5.0</td>
<td>- 30.5</td>
<td>- 59.7</td>
<td>- 81.0</td>
</tr>
<tr>
<td>bids</td>
<td>+ 66.8</td>
<td>+ 46.0</td>
<td>+ 33.2</td>
<td>+ 25.9</td>
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<td><strong>HEALTH AND PERSONAL SOCIAL SERVICES</strong></td>
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<tr>
<td>England and Wales</td>
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<td>+ 109.5</td>
<td>+ 113.1</td>
<td>+ 116.7</td>
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<td><strong>SOCIAL SECURITY</strong>:</td>
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<tr>
<td>Xmas bonus for pensioners (3)</td>
<td>+ 80.0</td>
<td>+ 70.0</td>
<td>+ 100.0</td>
<td>+ 90.0</td>
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<tr>
<td>6-monthly uprating of benefits (3) (6)</td>
<td>+ 210.0</td>
<td>+ 350.0</td>
<td>+ 235.0</td>
<td>+ 220.0</td>
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<tr>
<td>Increase in supplementary benefit disregards (4)</td>
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<td>+ 17.0</td>
<td>+ 16.0</td>
<td>+ 15.0</td>
</tr>
<tr>
<td>Reduction in qualifying period for long term rate of benefit</td>
<td>+ 10.0</td>
<td>+ 14.0</td>
<td>+ 15.0</td>
<td>+ 15.0</td>
</tr>
<tr>
<td>Family endowment (5)</td>
<td>+ 105.0</td>
<td>+ 275.0</td>
<td>+ 265.0</td>
<td>+ 260.0</td>
</tr>
<tr>
<td><strong>OTHER PUBLIC SERVICES</strong>:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadcasting</td>
<td>+ 2.5</td>
<td>+ 2.5</td>
<td>+ 0.5</td>
<td>+ 0.5</td>
</tr>
<tr>
<td>Mid-term census</td>
<td>+ 2.5</td>
<td>+ 15.0</td>
<td>+ 2.4</td>
<td></td>
</tr>
<tr>
<td><strong>COMMON SERVICES</strong>:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dispersal (net)</td>
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NOTES:

(1) See the note on defence in table 3 of C(74)100.

(2) The 1974 Survey Report assumed increases in school meal charges. If this is not done the additional cost would be £20 million in 1975-76 rising to £40 million in 1978-79.

(3) Figures shown are the cost if the Cabinet decides on these items.

(4) Figures would be somewhat higher than those shown because of consequential increase in needs allowance for rent rebates and allowances.

(5) These are estimates of net Exchequer cost. The public expenditure is significantly higher.

(6) The cost of uprating has been calculated on the PESC assumptions about prices and earnings, and could be materially higher if the assumptions have to be changed.
TABLE C

PROSPECTIVE COMMITMENTS CREATING NIL OR NEGLIGIBLE ADDITIONAL DEMAND

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NOTES:

1) All the estimates are very uncertain.
2) Although the additional demand in the economy as a whole is judged to be nil or negligible, the demand effect depends on the measures adopted and assumes that any increase in public sector demand will not exceed the investment that would have been carried out by private owners.
3) There would in addition be substantial administrative costs. These are shown in Table 2, Part 3 of C(74)100.
CABINET

PUBLIC EXPENDITURE TO 1978-79

Memorandum by the Central Policy Review Staff

1. In their discussion on public expenditure on 26 July Ministers gave two instructions to the Central Policy Review Staff (CPRS): first to examine the scope for savings and wider provision through greater austerity in the standards of equipment and buildings financed from public sector programmes, including the possibility of low-cost housing; and, secondly, in consultation with the Treasury, to examine certain wider issues affecting public expenditure and the need to contain it.

2. The first of these remits is discharged at Annex 1 and we recommend Ministers to instruct Departments to initiate the necessary work as a matter of urgency.

3. In carrying out the second remit, we have identified a few areas where savings might be made; these are set out in Annex 2 and we recommend Ministers to instruct Departments to initiate the necessary work.

4. We also concluded that a piecemeal review of public expenditure programmes cannot achieve the savings which are necessary, if the growth of current and planned programmes is to be contained. An effective review can only be carried out against a set of criteria, which relate to the Government's overall objectives.

'POSITIVE' CRITERIA

5. It was pointed out in the Cabinet discussion that some parts of public expenditure are important for the social contract and others for achieving greater industrial productivity. The CPRS believe there is a prima facie case for exempting the following types of expenditure, so far as possible, from cuts:

a. Investment in exploiting indigenous fuels and energy saving.

b. Productive industrial investment with a high rate of return in the short to medium term,
c. Expenditure directly related to short-term improvements in the balance of payments.

d. Expenditure on the efficient redeployment of manpower resources.

e. Pension uprating and other social spending which concentrates help on those most in need.

'NEGATIVE' CRITERIA

6. It would also be worth defining criteria which might help to identify candidates for cuts. The CPRS believes there is a prima facie case for looking more closely at programmes satisfying the following general conditions:

a. Where Public Expenditure Survey figures explicitly or implicitly allow for an improvement in standards.

b. Where there are very wide variations in existing standards (thus indicating that some may be unnecessarily high).

c. Where the benefits are indiscriminate or disproportionately concentrated on the better-off (e.g. some subsidies), or on a small minority (perhaps localised).

d. Where demand for the service in question might decline as the result of outside events (e.g. a fall in the birth rate), of a policy decision which Ministers might take soon (e.g. to raise nationalised industry prices), or of the general economic situation (e.g. a deceleration in the growth of road freight transport).

7. We recommend that Ministers should agree these or some other set of criteria, against which Departments and the Treasury can examine public expenditure programmes. The only alternative is to accept the blunt and naive instrument of an across-the-board percentage cut.

Cabinet Office

10 September 1974
ANNEX 1

PUBLIC EXPENDITURE SAVINGS THROUGH LOWER STANDARDS

1. In their remit to the CPR on public expenditure economies, the Cabinet laid particular emphasis on the search for savings through greater austerity in the standards of equipment and buildings in the public sector, including the possibility of low-cost housing. As the first stage of this study, therefore, we examined industrialised building methods and factory built homes; then, on the basis of the criteria set out above, we looked for other ways of reducing public expenditure. We report below solely on those areas where we have identified possible savings which could be made, or which we believe could produce savings after further critical study; in each case Ministers will have to decide whether the lower standards would be acceptable.

INDUSTRIALISED BUILDING

2. By industrialised building, we mean systems where large components are manufactured under factory conditions of production and tight quality control and erected on the site. The advantages of industrialised building systems are speed of erection, high quality control, lesser dependence on the (seasonal) building trades, lower design costs per marginal unit, and standardised components and procedures. The disadvantages are uniformity of layout and appearance, certain structural limitations and the initial expenses of installing the necessary capital equipment and the consequent need for long runs for the systems to be economic. The disadvantages have more force in the field of housing, where with experience of industrialised housing local authorities have greatly reduced their demand for it. We feel that industrialised building can be best regarded as an adjunct to the house building industry, rather than as a technique capable of substantial expansion.

3. This is less true of building for institutional use; in this area industrialised building is widely thought to be good value for money. However, in the past, industrialised systems have competed with traditional systems within the price constraint of cost yardsticks and have been planned and costed accordingly; if the price competition were against a common standard, cost savings should be possible. Costs could also be reduced with continuity of ordering. Local government reorganisation should make this easier in the educational field. The Department of Health and Social Security (DHSS) is developing a system of standardised design modules for hospital departments; this work should continue, but further work is needed to identify the cost savings which could be achieved. We recommend that a thorough study of the potential cost advantages of industrialised building techniques over conventional building methods should be set in hand by the Department of Education and Science (DES) and DHSS, with the assistance of the Property Services Agency.

HOUSING

4. Moveable Houses

These houses are built entirely in the factory, often in two sections, and are transported to site, where they are connected to existing services and are ready for immediate occupation. Their initial cost is marginally less (up to 10%) than that of conventional housing of the same area. They can meet Parker-Morris standards for three person homes (or smaller) and, although they cannot provide...
high site densities (as they are inherently single storey units), their speed of construction and suitability for difficult ground conditions make them an attractive proposition for further study. However, the expected life of currently available factory built housing is under 30 years (compared with 60 years plus for conventional housing); this could probably be increased by improving the quality of the external cladding but will nevertheless create problems of acceptability for loan finance, both in the public and private sectors. In the longer term, this form of housing could become significantly cheaper than comparable conventional housing - given assembly line operations, bulk orders from local authorities, more economic techniques and longer life materials. At present, the whole area is under-researched. We recommend that the Department of Environment (DOE) should set in hand studies on the scope for cost reductions.

5. **Lowering Housing Space Standards**

Up to a point, for every 1% decrease in Parker-Morris space standards there is about a 0.5% decrease in cost per house. If, for instance, pre-1967 space standards were re-imposed and a mandatory cut in space of 6% made, there would be a saving on 150,000 homes of roughly £30m. Space savings would have to be concentrated in the living room or bedrooms, given the extended use of machines in kitchens and the unavoidable space constraints in bathrooms. It is for decision whether an annual saving of £30m would outweigh the social costs of more crowded living rooms and bedrooms.

6. **Lower Standards of Finish and Materials**

One result of the continuing pressures exerted by the cost yardstick is that materials are already used in the most economic way. But a reduction in the quality and amount of kitchen fitting, which could be made up by the tenant, could save some £7m over 150,000 homes. It is for decision whether this saving outweighs the social costs.

7. **Provision of Car Space**

In a recent survey of 100 new public sector schemes, it was found that while almost one car space was provided per dwelling, only 25% of the households used these. In the same survey, it was found that 29% of households owned cars. A reduction in the level of car provision down to one car space for every two dwellings might save in the order of £20m over 150,000 homes. We recommend that the provision of car space be reduced in new estates.

8. **Simplification of Designs**

A new generation of Coronation Streets with long, uniform terraces, long runs, simplified and standardised designs, construction and fitting might lead to a saving of up to 3% on the cost of a house. If a further 10% of the 150,000 houses in the programme were of this type, savings of £3m could be made. It is for decision whether this saving outweighs the social cost.

9. **Reducing the level of Improvement Grants**

We have considered the possibility of reducing the rate of basic improvement grant from 50% to say 40%; there is, however, no available evidence from which the effect of such a change on applications for grants can be deduced. However, the rate was increased in the assisted areas to 75% for 1972 and 1973. An analysis of the effects of these changes might throw some light on the sensitivity of the number of applications to the rate of grant. We recommend that the DOE make such an analysis.
10. The bulk of the capital programme is directed towards reducing gross over-crowding in prisons (about one-third of the prison population is living two or three in a cell designed for one), and to improving or replacing the worst of the Victorian prisons. Lowering standards in closed prisons is a question of providing fewer amenities; security considerations largely rule out the possibility of lower construction standards. Savings of up to £2m over the PE3 could be made by having communal washing and lavatory facilities rather than facilities in each cell, but only at the cost of perpetuating the chamber pot routine; economies could also be made in the standards of other facilities, e.g. recreation areas. We do not recommend such savings since the harmful effects on morale would more than outweigh the marginal savings achieved.

11. Bed Ratios
The growth of personal social services and improving treatment methods should gradually reduce the number of geriatric and mental patients needing long term hospital care; it should therefore be possible over a period to reduce the scale of provision of long stay hospital beds. But because the present provision for mental patients in the community is small, and the numbers of the elderly are increasing, there will be little reduction in the need for long stay beds in the PES period. For other conditions the national average is 3.5 'acute' beds per 1000 population but the DHSS has recently designed hospitals with only 2 beds per 1000 for two areas where community health services have been developed to deal with early discharge from hospital. This lower figure may be too low, and in some cases high bed ratios may be the unavoidable consequence of outdated buildings. We recommend that the DHSS should examine closely areas with provision of beds above the national average, to identify potential economies.

12. Extended use of short-life buildings
Short-life building is already put to two major uses in the hospital service: first, temporary accommodation attached to hospitals due for redevelopment or being redeveloped; secondly, the relief of overcrowding, especially in accommodation for geriatric cases, the mentally ill and the mentally handicapped, since these groups of patients do not need the full facilities of an acute hospital. The initial costs of short-life building can be as low as 50% of the cost of a comparable conventional building; where the design, use and equipment of the building needs to be more complex, and its likely life increases, the cost rises to 80-90%. Savings can also be achieved through upgrading rather than replacing existing buildings. We recommend that the DHSS should continue to encourage the use of short-life buildings where they are appropriate.

13. Hospital Equipment
Guidance on equipment for hospitals is regularly issued by the DHSS to health authorities. The Department does not, however, know in any detail how far these guidelines are observed in practice. Provided that health authority budgets are not seriously out of line with previous budgets, they are unlikely to be challenged by the DHSS. There are one or two exceptions to this: for example, in developing a policy on radiotherapy, the DHSS has found it necessary to regulate the distribution of linear accelerators. The DHSS accepts that some equipment may be "standing idle" some of the time, and argues that this is
virtually inevitable. But it is up to the hospital demanding such equipment in the first place to satisfy the regional authority that the need is such as to guarantee a satisfactory utilisation rate. Apart from the more expensive types of equipment for specialised treatment and, for example, laboratory equipment capable of large-scale automation of tests, the Department has no figures on the rates achieved in practice for various types of equipment and give no guidance to authorities on this subject. Rigidities in the system may occasionally prevent the transfer from one hospital to another of equipment (especially for research purposes), ordered by a particular consultant who has subsequently been transferred. The DHSS is trying to deal with this problem. The CPBS does not believe it would be feasible to exercise detailed control from the centre over the purchase of all types of equipment. This is much better left to health authorities to decide, in the light of their assessment of local needs and after consultation with individual hospitals. In the short run, reduced expenditure on the purchase of equipment could probably be brought about by an arbitrary cut in the capital spending of the health service (although health authorities might in practice decide to spread such cuts over the rest of the hospital programme). In the longer run, health authorities should be given more support in their efforts to get value for money; this applies both to equipment and to its use. We recommend that the DHSS should ensure that much more guidance is available about the overall effectiveness of equipment, based on fuller information about distribution and use, and on more widespread and rigorous evaluation studies, where appropriate by the medical profession itself.

14. Reducing Area and Quality Standards

To meet the needs of the costs limits scheme the school building programme has already had to reduce area standards near to the statutory minimum, and quality standards to below the desirable level on maintenance and amenity criteria. We do not favour further reductions in standards. But we see advantages in the extended use of temporary school buildings. They are significantly cheaper, much quicker to erect and are quite suitable for use as classrooms. The major disadvantages of huts are their inability to offer variety in space, shorter life expectancy and lower (but not inadequate) standards. The extended use of temporary school buildings could lead to savings, particularly in areas of falling population where there is less need for accommodation with a 60 year life. Improving, rather than replacing, existing schools could also lead to savings but there is insufficient information available on the current state of the national school stock to enable the savings to be quantified. The DES is preparing a sample survey on the state of the national school stock. If this shows scope for significant savings, we recommend that the Department should encourage local authorities to adopt these approaches.

15. Standardising the provision of equipment

Differing accounting conventions make it impossible to determine precisely how much local authorities spend on educational equipment but it seems that there is a fairly wide range of standards between authorities. We recommend that the DES should consider giving guidance on the "reasonable" level of provision of equipment per child.
16. Telecommunications

Over 90% of the Post Office investment programme (£670m in 74/75 rising to £790m in 78/79) is for telecommunications; the chief objectives are to expand the system, to improve the quality of the existing service and to meet the demand for new services. Investment in the business sector, for new services and improvements to Telex and International Subscriber dialling, should be supported but Ministers may wish to review the Post Office's objective of a telephone in 80% of all homes by 1982/83 (the current figure is just under 50%). The revenue raised from a large additional number of small domestic users will not meet their share of the costs of the system unless connection and rental charges are increased. Reduction in the rate of growth of the domestic sector could achieve useful capital economies but only at the expense of reduced employment levels in the telecommunications industry, and an increased waiting list. We recommend that these factors should be quantified for different target dates.

17. Railways

British Rail's investment has already been severely cut but much of what remains is still aimed at improving standards. The justification given for this is that improvement is often only marginally more expensive than necessary replacement; and that in any case, improvements in standards of service, especially speed, attract additional passenger traffic and revenue. We recommend that both these assumptions should be looked at critically. There should also be a study of the proportion of investment in London and South East commuter services attributable to improvement and the extent to which this improvement would be justified.
ANNEX 2

OTHER POSSIBLE PUBLIC EXPENDITURE SAVINGS

NATIONALISED INDUSTRIES

Fuel Industries

1. Capital expenditure by the nationalised fuel industries is due to rise from £997m in 1974/75 to £1193m in 1978/79. We have already referred to the rapid growth in subsidy payments to the nationalised industries as a result of their inability (because of Government counter-inflation policy) to charge the full market price for electricity, coal and gas. But selling energy below its true cost also results in greater consumption than would otherwise have taken place. It is not possible to estimate precisely what savings in energy consumption might result from fully covering costs— including depreciation at a realistic rate (with, perhaps, some small supplement to cover future investment programmes as in Holland). But the sharp rise in oil prices imposed by the OPEC countries has already led to substantial reductions in energy consumption forecasts and it is reasonable to assume that charging energy at full cost would have a similar effect, with immediate benefit to the balance of payments by reducing oil imports. This could lead to some reduction in capital investment programmes; with reduced demand it might, for example, prove possible to spread out investment in new power stations over a longer period. Against this, if oil and coal prices remain high for a long period, it may prove advantageous to increase the size of the nuclear programme beyond what is at present allowed for in the PES estimates.

Channel Tunnel

2. On present plans the Channel Tunnel, if it goes ahead, will be financed mainly by private sector loans which would not count as public expenditure. However, if the Tunnel is not to be almost exclusively a rolling motor way, a new rail link to London will have to be built. Provision for £128.8m during the PES period has been included under the British Rail Board heading; the current estimate for the rail link is not less than £400m for completion by 1980/81, and the PES figure is therefore likely to be a significant under-estimate. The public expenditure cost of providing alternative means of transport for the increasing cross-Channel traffic, by investment in docks, ships and aircraft, could be considerably less than that of the rail link to provide a slightly slower, but more flexible service. There is no chance of being able to cancel the Channel Tunnel project this year. However the project comes up for review next year and, given the cost of the associated rail link, must be a very strong candidate for cancellation.
ROADS AND TRANSPORT

Trunk Roads

3. The CPRS suggests that no new contracts should be let which do not satisfy the criteria referred to in our covering paper.

Local Transport

4. With the introduction next year of new arrangements for financing local authority transport services, the chance should be taken to bring under control the rapidly rising level of subsidies to public transport, and to scrutinise and, if appropriate, restrain expenditure on local roads.

HOUSING

Eliminating Under Occupation of Public Section Dwellings

5. There is anecdotal evidence of the widespread under-occupation of local authority dwellings. Unfortunately there are few hard facts; but it is known that many local authority records are badly out of date, and that little effort is made to persuade tenants to move when family size falls. A sample survey should show if there is indeed a problem. If there is, consideration should be given to what sort of steps might be taken to ensure more efficient occupation of dwellings.

EDUCATION

Higher Fees

6. To the extent that higher fees mean higher grants, no savings would result. However, public expenditure could be reduced by several million pounds a year if overseas students paid something nearer the real cost of their further education.

TAXATION

Petrol Tax

7. An increase in tax on petrol of at least 15p/gallon but not on diesel fuel seems an obvious way of conserving energy, improving our balance of payments and benefiting the Exchequer. It would also bring our petrol prices more in line with those on the Continent.
CABINET

BETTER PENSIONS

Note by the Secretary of State for Social Services

For the information of my colleagues I am circulating with this note a copy of the White Paper on Better Pensions which will be published at 3.00 pm on Wednesday 11 September 1974.

B A C

Department of Health and Social Security

9 September 1974
I have called this White Paper “Better Pensions” because that is precisely what our proposals will achieve. Our policy on pensions is to secure better benefits for all pensioners, present and future, those in occupational schemes and those without such cover.

The proposals set out in this White Paper will fulfil the Government’s pledge to bring to an end the massive dependence on means-tested supplementary benefit which is the sad hallmark of old age today. The new scheme will provide better pensions in retirement, widowhood and chronic ill-health. It will bring security at the end of working life to the many millions who at present lack the advantages and cover of a good occupational scheme.

In return for wholly earnings-related contributions the scheme will provide earnings-related pensions fully protected against inflation at all times. This is one of the most precious assets of the scheme. Moreover, we have designed our proposals to help particularly the lower paid.

The new scheme will operate in partnership with well-founded occupational schemes, whose members will gain considerable benefit from the new arrangements. Terms for contracting out of the state scheme are as simple as they can be made and the pensions which members of contracted out schemes will receive will be at least as good as those of full members of the state scheme.

The pension entitlement of the individual earner will build up each year. But we cannot wait 40 years and a full working life for mature benefits. To do so would be to neglect the needs of those in mid-career or beyond. So the scheme will mature in 20 years. The pensions of those reaching pension age thereafter will be based on their best 20 years of earnings. This is a completely new feature which will ensure justice for manual and salaried workers alike. It will help younger workers and those hit by unemployment, ill health or disablement. It will enable women to draw the fullest advantage from their contributions during their working years.

We are proposing to introduce earnings-related invalidity benefits, which have been requested for so long by groups representing the disabled.

For too long women have been treated as second class citizens in pension and benefit provision. The White Paper on equality for women sets out the Government’s proposals for securing equal status. An important part of this policy is equality of treatment in the field of pensions and other benefits. The proposals in this White Paper fulfil that policy.

All women stand to gain under the new scheme whether working inside or outside the home, whether single, married or widowed. The working wife will be assured of a decent pension in her own right. She can achieve a full pension despite years spent away from paid employment while bringing up her family. Women looking after elderly relatives can similarly benefit. The widow may inherit 100% of her husband’s pension entitlement and can add to this by her
own contributions at work. The older widower and the widower who has had to be supported by his wife because of prolonged sickness can inherit her pension rights.

We have sought to make this scheme as simple as its social objectives allow and to make it comprehensible both in terms of contributions and benefits. The scheme also has the great merit of flexibility which will enable successive governments to respond to the developing aspirations of men and women in future years.

The new pension scheme should be seen as an extension of the policy under which existing pensions have been raised this summer to £10 for a single person and £16 for a married couple, with an undertaking that these basic pensions will be uprated annually in line with earnings. With the introduction of the new scheme, it will be the new base level pension which will be of particular value to existing pensioners with low incomes.

The cost of the commitments in this White Paper has been very carefully considered in relation to the capacity of the country to support it. The development of adequate pensions such as we propose must, however, imply a growing cost to be met by the rest of the community through contributions and taxation. The Government are confident that the country will be ready to pay that cost.

So I invite the fullest public debate and discussion on these proposals for better pensions, confident that they will provide real security in retirement, widowhood and chronic ill-health.

BARBARA CASTLE
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Appendix Memorandum by the Government Actuary on the finances of the proposals — 25
CHAPTER 1

THE FUTURE SHAPE OF PENSIONS

1. For 10 years successive Governments have considered plans for pensions reform. One element of the problem to be tackled has always been clear. That is the failure of the present combination of a mainly flat-rate national insurance pension and of occupational pensions of sharply varying quality and limited coverage to guarantee all pensioners more than a low standard of living, or to prevent large numbers of them from having to rely on means-tested supplementary benefits. Occupational pensions schemes have removed the threat of poverty in old age from a minority of pensioners and offer the promise of adequate pensions to greater numbers in future, but they are still far from universal in coverage and they still leave gaps in the provision of adequate benefits for chronic ill-health and widowhood.

2. There is a second factor which has become of overriding significance in recent years—inflation. If people are to face retirement without continual anxiety about money, they must have a guarantee that the value of their pension rights will be maintained both while they are being built up during working life and after the pension has been put into payment. Indeed, so changed is the situation—even in the last three years—that no proposals coming forward today could be regarded as realistic without such a guarantee.

Dependence on supplementary benefit

3. Of about 8 million retirement pensioners, some 2 million—or about 25%—also receive a supplementary pension. Widows form the poorest group among them and in their case the proportion receiving a supplementary pension is 60%. In addition it is estimated that there may be a further million old people entitled to some supplementary pension, although usually quite a small amount, who do not claim it. These figures reflect the paradox that the British social assistance programme is one of the best in the world, while British contributory benefits have fallen behind those of most other advanced industrial nations.

4. It is wrong that such large numbers of pensioners should have to rely on supplementary benefit. Men and women understandably resent the fact that after a lifetime's work and service in the community they have to rely on this type of assistance in order to keep themselves out of poverty. Furthermore, every claim for such benefits requires detailed personal investigation of the particular circumstances of an individual or family group. This calls for a high degree of human sympathy and tact. The staff of the Supplementary Benefits Commission cope well with this very difficult task, but it is not one which can be satisfactorily undertaken for massive numbers of people. There will always be a few whose exceptional circumstances will put them in need of a “safety net” provision. It is quite another matter when millions of people need supplementary benefit after a normal working life.
The present role of occupational pensions

5. For some people a reasonable income in old age is already guaranteed by their membership of an occupational pension scheme. Such schemes are socially valuable and economically important. They represent an important element of personal savings and investment. But for a number of reasons they do not—and cannot—cover the whole working population against all the contingencies for which long-term benefits are needed. They provide benefits at widely varying levels, ranging from pensions of two-thirds of final salary on retirement down to very small sums. Although the best of them manage in practice to give full protection against inflation to pensions in payment, many fall short of this. Some provide no such protection at all. Coverage is far better for staff than for manual workers and for men than for women. Though provision for widowhood is becoming more common and has been improved in recent years, many widows inherit less than a half of their husband’s pension and some get nothing at all. Most occupational schemes do not yet make adequate provision for the member forced into premature retirement through ill-health. The arrangements for the preservation of pension rights when someone leaves a pensionable employment are still incomplete, so that, in general, an employee who divides his working life between a number of jobs is less well provided for than one who stays with a single employer. As occupational pension schemes are set up voluntarily, however, the Government cannot compel all schemes to conform to the standards of the best. If the state wishes to set standards it must take the lead through its own pension scheme.

The Government’s answer

6. The Government’s first major decision on taking office was to raise the weekly flat-rate national insurance pension of £7-75 for a single person and £12-50 for a married couple, set only nine months earlier, to the present figures of £10 and £16 and to undertake that these new rates would maintain their relationship with the general level of earnings.

7. This was a first step towards the new pension scheme and as such forms part of the Government’s developing policy on pensions. With the introduction of the new scheme, the position of existing pensioners will be further reviewed in the light of the development of the economy.

8. Future pensioners will qualify for higher pensions under the Government’s new scheme. These will be earnings-related, reflecting the fact that pensions are deferred pay. For everyone with a complete insurance record, the new pensions will begin at a base level which will be the amount of the single flat-rate pension in force when the scheme is introduced. In 1974 terms this would be £10 a week. Up to the base level, the new pension will represent a £ for £ replacement of earnings. On earnings above that level, it will build up over 20 years so as then to provide in addition a quarter of average earnings between the base level and an earnings ceiling of seven times the base level, £70 a week in 1974 terms. For example:

If a man with national average earnings of £40-92 a week (the October 1973 figure for men in manufacturing and certain other industries) had been
contributing to the scheme for the last 20 years, at the corresponding point on the earnings scale, the weekly pension payable today would have been—

£17·73 (single) (ie £10 + 25% of £30·92)
£23·73 (married) (ie as above, + £6 for his wife).

If he had been earning £70 a week (the ceiling level) the weekly pension payable today would have been—

£25 (single) (ie £10 + 25% of £60)
£31 (married) (ie as above, + £6 for his wife).

In both cases the married pension rate could be increased if the wife had been earning. (See Table B in Chapter 2).

The combination of a 100% return on earnings up to a base level and a further, though lower, earnings-related return on earnings above the base level has the effect of weighting the scheme in favour of the low paid. It also has the advantage of flexibility since improvements in the base level pension will be incorporated automatically in the total pension.

9. Table A illustrates the scale of pensions which the new scheme will provide at different earnings levels when it is mature. The examples in the table and throughout this White Paper are necessarily in 1974 terms, but annual increases in the flat-rate pension will mean that the new scheme starts from a higher base level than £10 and that in cash terms its benefits will be correspondingly higher than those shown here.

<table>
<thead>
<tr>
<th>Contributor’s weekly earnings</th>
<th>Single person’s pension</th>
<th>% of earnings</th>
<th>Married couple’s pension (on husband’s record alone)</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>20</td>
<td>12·50</td>
<td>62</td>
<td>18·50</td>
<td>92</td>
</tr>
<tr>
<td>30</td>
<td>15·00</td>
<td>50</td>
<td>21·00</td>
<td>70</td>
</tr>
<tr>
<td>40</td>
<td>17·50</td>
<td>44</td>
<td>23·50</td>
<td>59</td>
</tr>
<tr>
<td>50</td>
<td>20·00</td>
<td>40</td>
<td>26·00</td>
<td>52</td>
</tr>
<tr>
<td>60</td>
<td>22·50</td>
<td>38</td>
<td>28·50</td>
<td>48</td>
</tr>
<tr>
<td>70</td>
<td>25·00</td>
<td>36</td>
<td>31·00</td>
<td>44</td>
</tr>
</tbody>
</table>

10. Full details of these new pensions are given in Chapter 2. In particular the new scheme will:

(i) ensure that during working life the pension rights built up, both in the state and contracted out schemes, will retain their relationship to earnings levels generally and that pensions in payment are fully protected against inflation;

(ii) guarantee a woman the same pension as a man with the same earnings record;
(iii) provide the first full pensions after 20 years of paying the new contributions, rather than after a working life-time of 40 years or more;

(iv) cover death and long-term sickness by widowhood and invalidity pensions on terms similar to those for retirement; and

(v) ensure that the tests which have to be satisfied by contracted out schemes are such as to secure adequate provision for the members of those schemes and for their widows.

11. The Government considered whether the reserve pension scheme for which provision was made by the previous administration under the Social Security Act 1973 should be introduced and later adapted to serve the objectives set out in this White Paper. This proved not to be practicable. It was inherent in the structure of the reserve pension scheme, based, as it was, on money purchase principles, that older contributors would get a lower pension return for their contributions than would younger members of the scheme for the same contributions. Thus older contributors could not be provided with an adequate pension except by imposing total contribution rates upon them and their employers which would be wholly excessive. Nor could a money purchase scheme provide any guaranteed protection against inflation for the pensions put into payment under it.

12. The reserve pension scheme therefore, if introduced, would have been merely a temporary expedient designed to operate only until the Government's own plans could be brought into effect. The Government decided that, from the social standpoint, the reserve pension scheme was not of sufficient value to justify requiring employees and their employers to contribute to it. It was also clear that the interests of those concerned with occupational schemes would be better served by not introducing the reserve scheme. To have done so would have meant a period of great administrative confusion, as the present contracting out arrangements were replaced first by those associated with the reserve pension scheme and then by those appropriate to the Government's own pensions plan. There were however other features of the 1973 legislation—notably the replacement of the present flat-rate and graduated contributions by a fully earnings-related contributions structure—which were wholly acceptable to the Government. These are to come into force, as planned, in April 1975.

13. The Government's proposals follow. They aim at providing adequate income during retirement, widowhood and invalidity, with a minimum of disturbance for good occupational schemes. The Government are confident that these proposals will be widely welcomed by those who share a common concern for better pensions and that it will be possible to proceed, through early legislation, to their speedy implementation.
CHAPTER 2
THE NEW SCHEME

Protection against inflation

14. It is a vital element of the new scheme that the pension rights built up and payable under it are fully protected against inflation. A major defect of the present graduated scheme is that it does not offer such protection. Neither did the proposed reserve pension scheme of the previous administration guarantee it. Under the new scheme the value of earnings-related pension rights will be maintained during working life by revaluing past earnings in line with the growth in earnings generally. Thus the amount earned in any year by an average earner will be revalued so that it represents average earnings in the year in which he retires. Once a pension has been awarded the base level element will be increased so as to maintain its relationship with current earnings levels and the remainder will receive full protection against price increases.

Graduated pension

15. Under the new scheme price protection will also extend to graduated pensions that are already in payment and to the rights which have been built up under the existing graduated scheme, which now gives no such protection.

Retirement pension

(i) The Pension Formula

16. The same pension formula will apply under the new scheme to men and women contributors. Once the scheme is mature (see paragraph 18) pensions will be based on the earnings on which contributions have been paid in the individual's best 20 years. The weekly pension will represent £1 for every £1 of average weekly earnings up to a base level and a quarter of the earnings between the base level and a ceiling. The initial base level will be set at the amount of the single flat-rate pension in force when the scheme is introduced and the ceiling will be seven times that amount. This means, in 1974 terms, a base level of £10 a week and a ceiling of £70. These figures are used throughout this White Paper for illustrative purposes. No full contributor, however low his earnings, will get less than the base level pension.

17. Examples of entitlement when the scheme is fully mature have already been given in Table A in Chapter 1, which shows the position where the wife has not been working. Table B, expressed like Table A in 1974 terms, illustrates the full pensions payable where both the husband and the wife have contributed, one having had the earnings set out in the first column and the other having had those in the second column.

(ii) The Maturity Period

18. Pensions at the levels quoted in Tables A and B will be awarded after the scheme has been in operation for 20 years. Progress towards the new scheme rates will be made year by year. For each year of the new scheme a contributor will get 1½% of his average earnings between the base level and the ceiling until those who have contributed for 20 years qualify for the full 25%. As regards pension on earnings up to the base level, entitlement under the new scheme will combine with earlier records of contributions so as to produce the £10 pension for the fully paid-up contributor. Tables C and D, also expressed
in 1974 terms, give examples of pensions payable to those retiring during the maturity period. These tables, like Table A, illustrate married couples' pensions which are derived from the husband's contributions alone.

TABLE B
FULL PENSIONS FOR A MARRIED COUPLE BOTH FORMERLY EARNING

<table>
<thead>
<tr>
<th>Weekly earnings of husband (or wife)</th>
<th>Weekly earnings of wife (or husband)</th>
<th>Pension of husband (or wife)</th>
<th>Pension of wife (or husband)</th>
<th>Joint pension</th>
<th>Joint pension as a % of total earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>20</td>
<td>15</td>
<td>12.50</td>
<td>11.25</td>
<td>23.75</td>
<td>68</td>
</tr>
<tr>
<td>30</td>
<td>15</td>
<td>15.00</td>
<td>11.25</td>
<td>26.25</td>
<td>58</td>
</tr>
<tr>
<td>40</td>
<td>20</td>
<td>17.50</td>
<td>12.50</td>
<td>30.00</td>
<td>50</td>
</tr>
<tr>
<td>50</td>
<td>20</td>
<td>20.00</td>
<td>12.50</td>
<td>32.50</td>
<td>46</td>
</tr>
<tr>
<td>60</td>
<td>30</td>
<td>22.50</td>
<td>15.00</td>
<td>37.50</td>
<td>42</td>
</tr>
<tr>
<td>70</td>
<td>30</td>
<td>25.00</td>
<td>15.00</td>
<td>40.00</td>
<td>40</td>
</tr>
</tbody>
</table>

TABLE C
PENSION AFTER FIVE YEARS

<table>
<thead>
<tr>
<th>Contributor’s weekly earnings</th>
<th>Single person’s pension</th>
<th>% of earnings</th>
<th>Married couple’s pension</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>20</td>
<td>10.62</td>
<td>53</td>
<td>16.62</td>
<td>83</td>
</tr>
<tr>
<td>30</td>
<td>11.25</td>
<td>37</td>
<td>17.25</td>
<td>57</td>
</tr>
<tr>
<td>40</td>
<td>11.87</td>
<td>30</td>
<td>17.87</td>
<td>45</td>
</tr>
<tr>
<td>50</td>
<td>12.50</td>
<td>25</td>
<td>18.50</td>
<td>37</td>
</tr>
<tr>
<td>60</td>
<td>13.12</td>
<td>22</td>
<td>19.12</td>
<td>32</td>
</tr>
<tr>
<td>70</td>
<td>13.75</td>
<td>20</td>
<td>19.75</td>
<td>28</td>
</tr>
</tbody>
</table>

TABLE D
PENSION AFTER TEN YEARS

<table>
<thead>
<tr>
<th>Contributor’s weekly earnings</th>
<th>Single person’s pension</th>
<th>% of earnings</th>
<th>Married couple’s pension</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>20</td>
<td>11.25</td>
<td>56</td>
<td>17.25</td>
<td>86</td>
</tr>
<tr>
<td>30</td>
<td>12.50</td>
<td>42</td>
<td>18.50</td>
<td>62</td>
</tr>
<tr>
<td>40</td>
<td>13.75</td>
<td>34</td>
<td>19.75</td>
<td>49</td>
</tr>
<tr>
<td>50</td>
<td>15.00</td>
<td>30</td>
<td>21.00</td>
<td>42</td>
</tr>
<tr>
<td>60</td>
<td>16.25</td>
<td>27</td>
<td>22.25</td>
<td>37</td>
</tr>
<tr>
<td>70</td>
<td>17.50</td>
<td>25</td>
<td>23.50</td>
<td>34</td>
</tr>
</tbody>
</table>

(iii) Pensions for Married Couples
19. A pensioner who has a wife under 60 will as at present be entitled to an increase of his pension for her and the pension will become hers when she reaches 60. At present the rate of this pension is £6 and Tables C and D assume that it is in payment. Where a married woman has contributed under the new scheme she will receive either the £6 or her own base level entitlement, whichever is the higher. But in any case her pension on earnings above the base level will be payable in addition.
(iv) 20 Best Years
20. Calculating the pension on the best 20 years will improve pension rates by allowing moderate or poor years to be left out of account. However, it is not intended that people who have only 20 years' contributions, or not many more, should do as well as, or better than, those who belong to the scheme for a life time. Full benefit will, as now, depend on keeping up membership of the scheme in a high proportion of the possible years. Pensions will be reduced where this condition is not met. However, the pension rights of people who are unemployed or sick—and credited with earnings—or people who in specified circumstances remain at home to look after children or sick or elderly dependants, will be protected against the effects of this membership rule (see paragraph 44).

(v) Pension Age and Increments
21. The present pension ages of 65 for men and 60 for women will be retained, because of the cost that would be involved both for the economy and the scheme in lowering the pension age for men. The retirement condition and earnings rule will remain but the level at which the earnings rule affects pensions will continue to be reviewed regularly. Anyone who defers retirement beyond normal pension age will increase his pension by 6½% for each year it is forgone. Contributions will cease to be payable by people who remain at work after pension age, though their employers will continue to pay.

(vi) The Contracted Out
22. Members of contracted out occupational pension schemes, who will pay a reduced rate of contribution (see paragraph 37), will rely on their occupational schemes for a substantial part of their retirement pension entitlement. This is described in more detail in Chapter 3.

Widow's pension

(i) The Pension Formula
23. The widow's full pension and the personal rate of widowed mother's allowance are at present at the flat rate of £10. Under the new scheme they will be replaced by earnings-related pensions. These will comprise the whole of the single rate of retirement pension which the husband was receiving when he died, or, where the husband died before reaching retirement age, a pension calculated on his earnings in his best 20 years. If he had been insured for fewer than 20 years, earnings will be credited to him at the base level in the years required to make up 20.

(ii) Widows under 60
24. The pensions described in the last paragraph will become payable after six months of widowhood. During that first period of widowhood a widow's allowance, including an earnings-related supplement, will as now be payable at a preferential rate. When widow's allowance ceases, the full pension will be available to a widowed mother, or to a woman who is over 50 when widowed or when her children grow up. A woman who is between 40 and 50 when widowed, or when her children grow up, will receive an earnings-related pension reduced according to her age at that time.
(iii) Retirement Pension for Widows

25. From age 60, or on retirement if this is later, a widow—irrespective of her age at widowhood—will be able to add 25% of her own average earnings above the base level to the pension she draws on her husband’s record, subject to the scheme’s maturity provisions (see paragraph 26) and to the limitation that her total pension may not exceed the maximum payable on one record. Table E shows the full pensions which will result from this proposal when the scheme has matured.

<table>
<thead>
<tr>
<th>Her weekly earnings (£)</th>
<th>Late husband’s weekly earnings (£)</th>
<th>Full pension on his earnings (£)</th>
<th>Addition on her earnings (£)</th>
<th>Total retirement pension (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>20</td>
<td>12-50</td>
<td>1-25</td>
<td>13-75</td>
</tr>
<tr>
<td>20</td>
<td>20</td>
<td>12-50</td>
<td>2-50</td>
<td>15-00</td>
</tr>
<tr>
<td>30</td>
<td>30</td>
<td>15-00</td>
<td>5-00</td>
<td>20-00</td>
</tr>
<tr>
<td>40</td>
<td>40</td>
<td>17-50</td>
<td>7-50</td>
<td>25-00 (Maximum)</td>
</tr>
<tr>
<td>50</td>
<td>60</td>
<td>22-50</td>
<td>2-50</td>
<td>25-00 (Maximum)</td>
</tr>
<tr>
<td>(immaterial)</td>
<td>70</td>
<td>25-00</td>
<td>nil</td>
<td>25-00 (Maximum)</td>
</tr>
</tbody>
</table>

(iv) The Maturity Period

26. As explained in paragraph 18, the first full pensions under the scheme will be paid to those who qualify after contributing for 20 years. During the scheme’s first 20 years, a widow over 60 and retired may add to the pension on her husband’s record 1½% of her own average earnings between the base level and the ceiling for each year of such earnings.

(v) The Contracted Out

27. Members of contracted out occupational pension schemes will pay a reduced level of contributions (see paragraph 37) and will rely on their occupational pension schemes for a part of their widowhood cover, as described in more detail in Chapter 3.

New benefits for widowers

28. An important new proposal is the recognition of the financial needs of widowers. A man over 65 when his wife dies will have his retirement pension recalculated on the same basis as the retirement pension his widow would have got if he had died first—see paragraphs 25 and 26. For example, if a husband has a pension of £15 including £5 related to earnings above the base level and his wife has a pension of £13 including £3 related to earnings above the base level, the survivor will receive a pension of £18, whether it is the husband or the wife.

29. The scheme also recognises the needs of a widower under retirement age who is ill when his wife dies. He will have a right to an invalidity pension calculated on her earnings record if it is better than his own.
Invalidity pension

(i) The Pension Formula

30. The existing invalidity pension is at a flat rate. This will be replaced by an earnings-related pension based on the claimant's best 20 years of earnings. It will comprise the base level pension plus, when the scheme is mature, a quarter of his average earnings between the base level and the ceiling. Where the claimant has not contributed for 20 years, he will receive the base level pension plus 1% of his average earnings between that level and the ceiling for each year of contributions.

31. Invalidity allowance is an addition to invalidity pension and depends on the age at which the claimant became sick. At present it is payable at three rates depending on whether his incapacity began before age 35, age 45, or before age 55 for women or 60 for men. It is proposed to ease these age conditions under the new scheme so that the highest rate will normally be available to anyone who fell sick before having built up a record of 20 years of earnings. This rate will become payable for incapacity starting before age 40 and the intermediate rate will cover incapacity beginning before age 50.

(ii) The Maturity Period

32. Full pensions will become payable to those who qualify when the scheme has been in operation for 20 years. Until then progress towards the full rates will be made year by year as explained in paragraph 18.

Finance

33. The Government Actuary estimates, on the assumptions stated in his report (see the appendix), that a combined contribution from employers and employees of not more than 16% of employees' earnings up to the scheme's ceiling would be required to finance the scheme in its early years if 8 million employees were contracted out. This contribution would compare with the 14% combined contribution proposed for April 1975 under the Social Security Amendment Bill now before Parliament. It covers all national insurance benefits, industrial injuries benefits, a contribution to the national health service, and the employer's contribution to the Redundancy Fund.

34. The balance between the scheme's income and expenditure will be affected by the number of occupational scheme members who are contracted out. For example, a contribution of not more than 16% would be needed in the early years if the number contracted out turned out to be 6 million, rather than 8 million. In either case, the rate would need to be increased by up to 1% within 10 to 15 years and would reach about 18% in 30 years.

35. It is not necessary to decide the initial contribution rate firmly at this point. This will depend on various factors, which will need to be reappraised nearer the time. But, for the present, it is thought right to illustrate the effects of the scheme by assuming an initial contribution of 16% and the figures shown in the text of this White Paper are on that basis. Of a 16% contribution, if that proved appropriate, the employee would pay 6% and the employer 10%.
(i) Employees' Contributions

36. For employees who earn more than the base level, contributions will be payable on all earnings up to a ceiling, which will be set at seven times the base level—roughly 1½ times average male industrial earnings. In 1974 terms, the base level and ceiling would be £10 and £70 a week respectively. Those employees who earn less than the base level will continue to be covered for the benefits of the industrial injuries scheme and they will be able to contribute voluntarily to maintain pension entitlement at the base level.

37. Employees with earnings above the base level of £10 a week will pay different rates of contributions depending on whether or not they are members of contracted out occupational schemes (see Chapter 3 below). On the assumption that the full 16½% contribution proves to be appropriate, those who are not members of contracted out schemes will contribute 6½% of all their earnings up to the ceiling. Employees in contracted out occupational schemes will contribute at the 6½% rate on earnings up to the base level and at a lower rate on earnings between the base level and the ceiling, to take account of the fact that their occupational schemes will be providing a part of their pensions which would otherwise be provided by the state scheme. In paragraph 67 it is suggested that the total contribution reduction in respect of employees who are contracted out would initially lie between 6½% and 7½% of the employee's reckonable earnings and a figure of 6½% is taken for illustrative purposes. It is assumed that the reduction would be divided between the employer and employee so that the employee is relieved of 2½% and the employer of the balance. In that event an employee's contribution of 6½% would come down, on earnings above the base level, to 4%.

38. Table F gives examples, in 1974 terms, of the contributions which would be payable on this basis at various earnings levels compared with the contributions which the Social Security Amendment Bill proposes should come into force next April.

TABLE F

CONTRIBUTIONS FROM EMPLOYEES

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>April 1975</th>
<th>New scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not contracted out</td>
<td>Contracted out</td>
</tr>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>15</td>
<td>0·82</td>
<td>0·97</td>
</tr>
<tr>
<td>30</td>
<td>1·65</td>
<td>1·95</td>
</tr>
<tr>
<td>45</td>
<td>2·47</td>
<td>2·92</td>
</tr>
<tr>
<td>70</td>
<td>3·79</td>
<td>4·55</td>
</tr>
<tr>
<td>(£69 maximum at April 1975)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(ii) Employers' Contributions

39. The pattern of contributions payable by employers will follow that of employees but will be set approximately 50% higher. Thus, on the assumption that the full 16½% contribution proves to be appropriate, an employer whose employees are fully within the state scheme will contribute 10% of their earnings
up to the ceiling. For contracted out employees an employer, on the assumptions in paragraph 37, would pay 10% on earnings up to the base level and 6% on earnings between the base level and the ceiling. Table G illustrates the contributions payable on this basis for employees at different earnings levels and compares them with those proposed from April 1975.

TABLE G

<table>
<thead>
<tr>
<th>Employee’s weekly earnings</th>
<th>April 1975 £</th>
<th>New scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>£15</td>
<td>1.27</td>
<td>1.50</td>
</tr>
<tr>
<td>£30</td>
<td>2.55</td>
<td>3.00</td>
</tr>
<tr>
<td>£45</td>
<td>3.82</td>
<td>4.50</td>
</tr>
<tr>
<td>£60</td>
<td>5.86</td>
<td>7.00</td>
</tr>
</tbody>
</table>

(£69 maximum at April 1975)

(iii) Treasury Supplement

40. The contribution from general taxation to the existing national insurance scheme amounts to about 18% of the total contributions paid by insured persons and employers. The same proportion will apply under the new scheme, but it will be based on the contribution income which the National Insurance Fund would receive if contracted out employees and their employers paid full contributions. This, together with the increase in the percentage rates of contributions as compared with those that are proposed from next April, means that Treasury support of the scheme will be substantially increased. On the assumptions stated above, it is estimated that in 1974 terms the Treasury supplement will be £1,045 million in the first full year compared with the £865 million which would have been paid under the Social Security Amendment Bill.

(iv) The Self-Employed

41. Self-employed people will pay a flat-rate contribution of £2.41 a week in 1974 terms, those with low earnings being excepted from compulsory payment as they are now. In return for their contributions, they will receive pension at the base level. Those with profits or gains exceeding £30 a week in 1974 terms (three times the base level) will in addition pay an earnings-related contribution of 8% on the excess up to the £70 ceiling. This will spread the cost of self-employed people’s benefits more fairly and will avoid the need for a substantially higher flat-rate contribution, which would have caused hardship to those with lower earnings.

(v) The Non-Employed and Very Low Earners

42. From April 1975 compulsory contribution liability will cease for people whose earnings are below a threshold level. This arrangement will be carried forward into the new scheme, where earnings below the base level will not carry contribution liability. However, low earners and the non-employed will be
entitled to pay voluntary contributions of £1·90 a week in 1974 terms if they so wish, in order to maintain title to pension at the base level. Such contributions may also be paid by those who wish to repair gaps in their contribution record.

Membership of the scheme

43. As indicated in paragraph 20, pension entitlement will depend in part on a contributor maintaining membership of the scheme throughout working life. Membership will be maintained primarily by the payment of contributions as an employee or as a self-employed or non-employed contributor, or by receipt of widow's or invalidity pension or of short-term benefit for sickness or unemployment. People who qualify for any such pensions or benefits will be credited with earnings to the extent necessary to bring their records up to the base level.

44. Membership of the scheme will continue, without any requirement to pay contributions, for a person who is at home looking after children, or who in specified circumstances has to stay at home to care for an adult receiving an invalidity or retirement pension or an attendance allowance. This provision will help those concerned to satisfy the membership test referred to in paragraph 20. It will be of particular value to the married woman or single parent who remains at home while her children are growing up, as well as to single women and others who are obliged to cut short their careers in order to look after aged relatives.

Married women and widows

45. The scheme will provide comparable treatment for men and women and in particular will include the following important features:

(i) Men and women with the same earnings record will receive the same pensions. Contributions under the new scheme will in general secure extra pension, including extra pension for wives and widows in addition to any pension on their husbands' records.

(ii) Pensions awarded under the new scheme will not be subject to the "half-test", which is a rule of the present scheme whereby a married woman who has not paid contributions or been given credits in half the weeks between marriage and pension age cannot become entitled to a pension on her own contributions.

(iii) Married women who are entitled to sickness or unemployment benefit will receive it at the same rate as other contributors. The discriminatory lower rate for married women will cease.

(iv) Pension rights will be protected during periods spent at home looking after children or the old or sick.

(v) Widowed mothers and most other widows will inherit the whole of the earnings-related pensions which their husbands had earned.

(vi) A retired widow will be able to derive pension from her own earnings as well as those of her husband. A parallel provision will apply to men who become widowers in retirement.

The contribution option

46. The Government are not prepared to perpetuate a system under which married women and some widows who go out to work have a choice between
paying full contributions for inferior benefits and paying at a reduced rate which confers no benefit rights. In a scheme which provides earnings-related pensions in return for earnings-related contributions, working men and women should contribute on exactly the same basis, whether they are single or married. The existing married women's option should therefore be abolished but the Government recognise that, for large numbers of working wives who have opted out of full contributions under the present scheme, the complete and abrupt withdrawal of their right to pay at the reduced rate would cause a sharp reduction in their take-home pay. The question therefore is how to bring about equality in the new scheme in such a way that it serves the best interests of the present and the future generations of married women and the community as a whole.

47. It is proposed that new entrants to the scheme should no longer have the right to opt out of paying full contributions and thereby deprive themselves of the valuable new benefit rights which are being made available to them. At the same time they will be able to qualify for the same rates of sickness and unemployment benefit as men and single women with the same earnings, and they will not be subject to the "half-test" which prevents some married women from qualifying for a retirement pension on their own contributions.

48. For the present generation of working wives the Government will initiate discussions with organisations representing employers and workers and with other interested organisations as to the best way of phasing out the existing system. For them also, reduced rates of unemployment and sickness benefit and the "half-test" at age 60 will go. But the Government will also want to examine the possibility that working wives should retain their right to opt out of cover for short-term benefits while coming into the scheme for retirement pensions and invalidity benefit. If, in the light of these discussions, this turns out to be a generally acceptable and workable proposition the Government will consider making this limited option available to new entrants also.

49. No final decision has therefore been reached, but for illustrative purposes the scheme has been costed on the basis that married women who go out to work will be fully covered for long-term benefits but that there will continue to be an option for short-term benefits. Table H shows, on the assumption that a married woman who did not seek cover for short-term benefits would have her contribution reduced by 13%, how her contribution would compare with those proposed in the Social Security Amendment Bill 1974 for opted-out women from April 1975.

**TABLE H**

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>April 1975</th>
<th>New scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td></td>
</tr>
<tr>
<td>£</td>
<td>£</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>0.30</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>0.60</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>0.90</td>
<td>1.42</td>
</tr>
<tr>
<td>70</td>
<td>1.38</td>
<td>3.32</td>
</tr>
</tbody>
</table>

*This means opted out of all benefits in column 2 but out of only short-term benefits in columns 3 and 4.*
CHAPTER 3

PARTNERSHIP WITH OCCUPATIONAL PENSION SCHEMES

50. A crucial factor in determining the future pattern of pension provision is the existence in this country of thriving occupational pension arrangements. Occupational schemes provide their members with additional income in retirement, generally related to earnings—including earnings in the higher ranges which state provision does not cover. They may also be geared to the needs of and agreements in particular industries or occupations. For example, they may provide for retirement at an earlier age than does the state scheme. And they make a valuable contribution to the economy through their encouragement of private saving by which employees put aside some of their current pay to provide for retirement.

51. The Government Actuary's Fourth Survey of occupational pension schemes estimated that in 1971 about 2½ million retired people and ½ million widows and other dependants were drawing occupational pensions. At the same time, some 11 million members of the working population were in occupational schemes. The survey figures suggest that cover for an occupational pension was enjoyed by about one-half of the working population, including two-thirds of employed men, but only about one-third of employed women. An increasing number of members are likely to retire with an occupational pension equal to half pay. Some will have a lump sum in addition and the better schemes also provide a widow with a pension at half the rate of her husband's entitlement.

52. On the other hand the benefits in many cases are very modest. Although the average occupational pension in payment in 1972 was over £6 a week, about 30% of the pensioners received less than £2 a week. Moreover there are gaps and weaknesses in the system. One of the most serious is the virtual absence, outside the public sector, of any guarantee of inflation-proofing after award, even in good final salary schemes. The reason for this is clear enough but the problem remains. Some schemes do not provide any permanent cover for widowhood at all and many schemes do not provide a pension for widows whose husbands have died before reaching retirement age, although lump sums are frequently payable. Looking at schemes as a whole, they tend to cater more for men than for women and more for staff than for manual workers.

53. The inferior position of manual workers is particularly striking. In 1971, despite the trend towards occupational pensions based on final salary, most of the 2½ million members of manual workers' schemes were in schemes offering a flat-rate pension for each year of membership and the amount of pension earned each year was usually less than 10p a week—a pension of less than £2 after 20 years' service. For salaried staff, on the other hand, flat-rate schemes were almost unknown. Even final salary schemes for manual workers tend to provide pensions which represent a smaller proportion of earnings than do similar schemes for salaried workers.

*Occupational Pension Schemes 1971: Fourth Survey by the Government Actuary HMSO.*
54. It has been a common feature of the pension plans of previous administrations that they have recognised the value of occupational pension schemes and sought to devise arrangements under which such schemes would share with the state the responsibility for making provision for old age. These arrangements have attempted to accommodate the kind of occupational pension schemes under which pension rights are built up in fixed money terms, ignoring changes in the value of money and the higher levels of earnings applying when the pension comes to be paid. Such schemes are of very limited value in a period of inflation and cannot easily be fitted into the framework of a state scheme under which pension levels have to be judged against the living standards current at the time when the pensions are in payment.

55. Successive Governments have tried various ways of resolving the problem. The National Insurance Act 1959 provided that a part of the state scheme should operate in fixed money terms, so that very modest occupational schemes could be contracted out of it fully. The result of this is that the value of pension units earned in 1961, the first year of the state graduated scheme, has now fallen by 50% and action is needed to prevent a further progressive decline in value (see paragraph 15). The National Superannuation and Social Insurance Bill 1969 chose instead a system of partial contracting out or “abatement”, under which occupational pension schemes had to provide a pension calculated in fixed money terms which would have been deducted from a state pension fully protected against inflation. Such an arrangement, under which the state and occupational pensions were calculated on entirely different bases, was, however, criticised by some commentators as both complex and artificial. The Social Security Act 1973 was more akin to the 1959 Act, with the effect that the limitations of modest occupational schemes were to be imposed upon the reserve pension scheme.

56. If occupational pension schemes had not developed beyond such restricted levels and all that was at issue was the need to bring schemes of this character into partnership with the state provision, the right answer would probably be to abandon the attempt to devise a satisfactory basis for contracting out and to encourage employers to supplement their employees’ state pensions through private provision. This is the pattern of pension provision commonly found in European countries. Such a system, which did not aim at any integration between state and occupational pensions, would have the advantage of simplicity. It would avoid the risk that improvements in the state scheme might have to be ruled out because they could not be matched by the private sector and would mean that such requirements as Governments decided to lay on occupational schemes in general would not have to be supplemented by a further set of rules for contracted out schemes. In recent years, however, an increasing number of occupational schemes have adopted a “final salary” basis—reckoning their members’ pensions by reference to the salary or wage earned over a short period prior to retirement. Between 1963 and 1971 the proportion of private sector schemes which adopted this basis rose from one in eight to nearly one in two and by 1971 over 60% of private scheme members, as well as almost all of those in the public sector, were covered by such schemes.

57. Of the 8 million people who were members of final salary schemes in 1971 over 7½ million were earning pensions of at least one-eighthieth of salary each year. Even allowing for the fact that not all salary may be pensionable,
many of them stand to retire on at least half-pay after 40 years' service with one employer. Both in terms of quality and quantity, therefore, such schemes now take the lead in occupational pension provision and this makes possible a new and much more effective kind of partnership in which state and occupational schemes can combine in a simple and logical way to provide a total pension that is adequate and fully protected against inflation. Thus in future all employees, throughout their working life, will have the opportunity of building up entitlement to a worth-while pension based on their earnings. Some will do this entirely through the state scheme; others by a combination of state and occupational provision.

Conditions for contracting out

58. It will therefore be open to employers who have occupational schemes to contract their members out of a part of the state cover on the terms described below and to enter into partnership with the state in providing pensions for them. It is proposed that members of contracted out schemes and their employers shall pay the full state contribution on earnings up to the base level and that they will be fully covered for personal pension at that level from the state scheme. On earnings between the base level and the state scheme's ceiling, they and their employers will pay a reduced contribution. In return they will retain full coverage under the state scheme for short-term benefits and invalidity pension and partial coverage for earnings-related widow's pensions (see paragraph 62). For personal retirement pension on this band of earnings, they will look to their occupational scheme but there will be arrangements to ensure that at pension age their total pension is at least as much as if they had been fully in the state scheme throughout and that they receive comparable protection against inflation after pension age.

59. The Government propose that if it is to be used for contracting out an occupational pension scheme will have to satisfy two main complementary conditions in the provision of personal pensions: First, a scheme will have to provide a pension based on final salary, or average salary revalued in line with the growth in earnings generally, with an annual accrual rate equivalent to at least one-eightieth of pensionable salary, as defined by the scheme. An accrual rate of eightieths corresponds to the 1½% a year at which state pension will build up on the upper band of earnings for men over 45 and women over 40 at the commencement of the new scheme. It is also a formula which is already commonly provided (or bettered) by final salary schemes. Schemes will be allowed to provide for accrual to cease after a member has qualified for a pension representing half pensionable salary on retirement. Second, a contracted out scheme will be required to provide a pension which will be at least as much as the state scheme would have paid on the upper band of earnings in respect of the period of contracting out, had those same earnings been used to calculate the state pension for that period. This amount, which is referred to as the guaranteed minimum pension, would be in practice the pension for which contracted out schemes would take over responsibility from the state scheme. After retirement its value will, as paragraph 65 describes, be guaranteed by the state.
60. The need for a “minimum benefit rule” of this kind arises because the calculation of pension entitlement from a contracted out scheme will not necessarily follow that proposed for the state scheme. In the first place, many occupational pension schemes, unlike the state scheme, do not base their pensions on gross pay but on a lesser figure, which may exclude earnings from such sources as bonuses and overtime. Secondly, a scheme member’s career pattern may, in some cases, mean that a pension based on final salary is not as favourable as one based upon earnings revalued in line with the growth in earnings levels generally, as the new state pensions will be. To meet this point, the minimum benefit rule will, where necessary, override a scheme’s ordinary rules so as to provide the guaranteed minimum pension.

61. The amount of guaranteed minimum pension due to each scheme member will be notified to schemes in each case by the Department of Health and Social Security. It is also envisaged that there will be arrangements whereby contracted out schemes can be supplied with information about the current level of guaranteed minimum pension for particular scheme members before pension age.

Cover for widowhood
62. The Government propose that each contracted out scheme will also be required to satisfy two main conditions in the provision of widow’s pensions. First, a contracted out scheme will have to provide widow’s pensions based on final salary, or average salary revalued, with an annual accrual rate equivalent to at least one one-hundred-and-sixtieth of pensionable salary. Second, a contracted out scheme will be required to provide a widow’s pension which is at least half the amount of the husband’s guaranteed minimum pension at the time of his death. The balance of the widow’s pension will be made up by the state scheme, so that the widow receives in total at least as much as if her husband had never been contracted out at all. This division of responsibility for widowhood cover is proposed partly because it is consistent with the present level of widowhood provision in good occupational schemes, but also because it makes possible a degree of flexibility in the type of benefit to be provided.

63. It has been a common practice amongst occupational pension schemes, particularly in respect of death in service benefits, to provide for widowhood by means of lump sum cover rather than pension cover. Whilst in general the Government consider that it is better for pensions rather than lump sum payments to be provided, they are ready to examine the possibility of lump sum payments being accepted as an alternative to widow’s pensions in some circumstances. The Government would welcome views, therefore, on whether lump sum payments should be accepted as an alternative to the provision of a widow’s pension by the occupational scheme on the basis set out in paragraph 62 and, if that alternative were to be adopted, on the circumstances in which it should be permitted.

Increments for deferred retirement
64. Where the drawing of the state pension is deferred beyond the normal retirement age of 65 (men) or 60 (women) it is proposed that increments should be paid in recognition of the pension forgone in the form of an increase of
6\% \text{ each year pension is forgone (see paragraph 21). To ensure that contracted out employees will be no worse off if they work beyond retirement age, contracted out schemes will be required to make provision on a similar basis.}

**Protecting the pension against inflation**

65. In the state scheme that part of the pension based upon earnings between the base level and the ceiling will, as indicated in paragraph 14, receive full price protection. At present only occupational schemes in the public sector guarantee price protection, although it is also achieved in practice by certain schemes in the private sector. In these circumstances the Government have thought it right not to require contracted out schemes to guarantee to provide any increase in pensions after award. Instead the state scheme will provide for the guaranteed minimum pension on upper band earnings (see paragraphs 59 and 62) to be increased in line with prices. An alternative would have been to require schemes to provide a fixed measure of post-award increase and for the balance to be paid by the state scheme. In the Government's view a mixed arrangement of this kind would have been unnecessarily complex.

66. A problem arises as to how the increases mentioned above should be paid to the pensioner. One way would be for the increases to be paid direct to the pensioner as part of the state scheme pension. The alternative would be to pay the increases through contracted out schemes as part of the occupational pension. This would be dependent upon it proving possible to devise satisfactory administrative arrangements for the payments through occupational schemes to be made and monitored. Subject to this, the payment of the increases through the occupational scheme has much to commend it, but the Government would welcome the views of those concerned with occupational pension schemes on this point.

**Contribution reduction**

67. Members of occupational pension schemes who are contracted out will pay a lower contribution to the state scheme on that account, as will their employers. The contribution reduction will reflect the cost of providing through the occupational scheme the pension forgone under the state scheme. The amount of pension forgone in the state scheme for each year of service will vary according to the age of the employee at the start of the scheme. This is because the state scheme provides a higher rate of build-up in the initial years so as to enable full pensions to be paid to those who retire after 20 years in the scheme. It follows that the average cost of providing the pension forgone in the state scheme will fall over the years and so will the contribution reduction for contracted out employees. The adjustment in the level of contribution reduction might conveniently be made at five-yearly intervals. On each occasion that the contribution reduction is assessed the aim will be to set the reduction at a level which fairly reflects the cost of providing in a typical occupational scheme the pension for contracted out members which they would otherwise have received from the state scheme. This will involve striking an average cost as between employees of different ages and, in conformity with their policy of moving towards pension arrangements which are the same for men and women, the Government propose that the same contribution reduction should apply for
both male and female employees. Preliminary calculations by the Government Actuary suggests that the reduction might lie initially between 6% and 7% of the employee's earnings between the base level and the ceiling. A more detailed assessment will be needed before the initial amount is finally settled, but for purposes of illustration a reduction of 6\% has been assumed, of which 2\% would go to reduce the employee's contribution.

Preservation of pension entitlement

68. Special provision will be needed to safeguard the pension entitlement of people who leave contracted out schemes before pension age or who are members of schemes which cease to be contracted out. At present there is no requirement that the value of their pensions should be maintained until they are put into payment. A crucial weakness of "final salary" schemes is that when pension rights are preserved for an employee leaving before retirement age, they are based on his earnings at the time of leaving, which may be far below general levels of earnings by the time he retires. Some schemes provide for increases in preserved pensions but, except in the public sector, such increases are seldom more than a small fixed percentage, falling far short of increases in earnings and prices. This could well be a bar to the mobility of members of contracted out schemes. Members of the state scheme will have their earnings revalued in line with the general movement of earnings no matter how many times they move from one firm to another. Clearly similar provision is needed for people in contracted out schemes who leave early. Contracted out schemes will therefore be required to ensure that the amount of a preserved pension is maintained so that it is not less at any point than the amount of the guaranteed minimum pension for the relevant period of contracted-out service.

Buying back employees into the state scheme

69. Where members leave a contracted out scheme after only a short period, or where a scheme itself ceases to be contracted out, there will be arrangements for the scheme to reinstate—or "buy back"—members into full state pension entitlement. The extent to which such a "buy back" facility should be available and the basis on which it should be costed will be matters on which the Government will be consulting those concerned with occupational pension schemes. But it is important to emphasise that this facility is seen by the Government as playing only a limited role. It will not form a major part of the new arrangements, but will be designed only to safeguard the position of members of schemes which cease to be contracted out schemes and of members who leave schemes after short service.

Supervision of contracting out arrangements

70. When a satisfactory basis has been settled for the relationship between contracted out schemes and the state scheme, it will be necessary for the ensuing arrangements to be supervised. The Government intend that the task of deciding whether an occupational scheme should be accepted as a contracted out scheme and of ensuring that a contracted out scheme has adequate financial backing should be the responsibility of the Occupational Pensions Board, which was set up under the Social Security Act 1973.
Clearing house arrangements

71. The Government see a need to examine the extent to which it may be necessary to set up “clearing house” arrangements of some kind for preserved pensions. This raises difficult problems and before coming to any definite conclusions the Government will wish to consult those concerned with the operation of occupational pension schemes.

Public sector schemes

72. Of the 11 million employees who are members of occupational pension schemes some 4 million are employed in the public sector, composed mainly of civil servants, teachers, firemen, police, staff of local authorities and the national health service and employees of nationalised industries. Where the Government are the employer there will be full discussion with representatives of the staff, but, in general, the Government are confident that public sector schemes can satisfy the conditions for contracting out of the state scheme and that those conditions would provide a reasonable basis for such schemes to contract out.

Summary

73. The previous paragraphs have outlined a system of contracting out which should make it possible for good occupational pension schemes to continue to make provision for their members in partnership with the state scheme, with the minimum disruption to themselves. They will be required to provide an annual accrual rate equivalent to at least one-eightieth of pensionable salary as defined by the scheme and to provide a pension (the guaranteed minimum pension) at age 65 for men and 60 for women which is at least as much as the pension forgone in the state scheme on upper band earnings. They will also be required to provide widow’s pensions at half this rate of accrual, with a minimum pension of half the husband’s guaranteed minimum. After award the state would ensure that these guaranteed minimum pensions were uprated in line with prices. Working out such an arrangement will inevitably involve the study of many technical details and the Government are anxious to enter into early consultation on these. But they are satisfied that, with goodwill on all sides, solutions can be found to any problems arising from the proposed arrangements in time for the necessary legislation to be introduced at an early date.
CHAPTER 4

IMPROVING OCCUPATIONAL PENSION SCHEMES
GENERALLY

74. The last chapter dealt specifically with the arrangements for occupational pension schemes which are contracted out. Those schemes which are not contracted out and whose members therefore remain fully within the state scheme will be able to continue alongside the state scheme with any adjustments found necessary to meet the new situation. This chapter deals with certain questions which will affect all occupational schemes whether or not they are contracted out.

Equal status for women

75. The Government are committed to the principle that women should have a fair deal in occupational pension schemes. This demands that schemes should not discriminate against women in the rules for admission. It is proposed therefore to legislate so that women have the same access to occupational schemes as men doing comparable work, so that they are admitted at the same age, after the same period of qualifying employment and on the same basis of compulsion or choice. For this purpose, it is envisaged that the question whether or not men and women are doing comparable work will be decided along the same lines as similar questions under the Equal Pay Act, 1970.

76. With this fundamental right to equal access secured the Government will go on to review in detail all the considerations relating to providing cover for women in occupational pension schemes to see whether there are other respects in which action is required to ensure that schemes do not discriminate against women. The question of representation of women on boards of trustees and management of occupational pension schemes is referred to below (paragraph 81).

Preservation and transferability

77. The pension rights of those who leave their job before normal pension age after a minimum period of service must be preserved whether or not they are contracted out. The Government have therefore judged it right to let the preservation requirements of the Social Security Act 1973 come into force in April 1975 as planned. In brief, these require that all occupational pension schemes should at least preserve or otherwise safeguard the pension rights which the early leaver has earned at the time he leaves. From any point of view they represent a long overdue step forward. The Government appreciate that these requirements involve a considerable degree of adjustment and additional cost for many schemes and that the Occupational Pensions Board have already devoted a good deal of effort to helping schemes to implement the requirements. The present need is to get the new system fully established and working smoothly. The Government will maintain a close watch on the way these requirements work in practice in order to see whether they need to be supplemented.
78. The question of a system of universal transferability of pension rights has been much discussed by those interested in occupational pensions. Most would agree that transferability is a desirable ideal. The difficulty lies in devising workable legislative requirements capable of universal application and which are fair to all concerned. The Government have concluded they cannot deal with the problem in the legislation now proposed.

79. Protection of the value of pension rights earned and of pensions in payment are vital issues which have already been discussed in this White Paper. The Government are proposing through the minimum benefit rule to require occupational schemes which contract out to revalue, in line with the general movement of earnings, the accrued pension rights of early leavers for which the scheme has taken over liability from the state. The question whether the balance of the pension rights of early leavers in contracted out schemes, or all such rights in schemes which are not contracted out, should be revalued is a difficult problem which the Government have under review. Increases of pensions in payment do not create a special problem, because the preservation requirements in the 1973 Act already require preserved pensions in payment to be treated in the same way as full-term pensions.

Questions referred to the Occupational Pensions Board

80. There are several matters concerning the actual running of occupational schemes generally which in the Government's view require special attention. First, the members must be able to feel sure that the benefits which they have earned in a scheme will in fact be forthcoming at the time they are due. This question of confidence becomes particularly important in an era of inflation. Second, there is evidence of concern about the degree of communication between those responsible for schemes and the members, many of whom have little knowledge of the pension schemes to which they belong. Third, the close relationship between the state and occupational schemes now proposed clearly ought to involve members of schemes themselves, either as individuals, or through their trade unions or representatives, in the administration and surveillance of schemes.

81. This is the background to the Government's recent request to the Occupational Pensions Board to consider and to report at an early date on three issues—which are interrelated—affecting all occupational schemes. They are as follows:

(a) the financial security of the benefits which schemes have undertaken to provide, ie whether those benefits are adequately secured;
(b) the provision of information about schemes, in particular about schemes' finances, both to members and more generally; and
(c) the possibilities of greater involvement of scheme members, including whether specific provision should be made for women to participate, in the running of their schemes, eg as trustees or on boards of management.

In each case the Occupational Pensions Board have been asked to indicate whether in their view legislation is appropriate and if so what it should cover.
CHAPTER 5
CONCLUSION

82. The Government's proposals show the way in which adequate pension provision, such as is common in industrialised countries abroad, but which most people in Britain have lacked for too long, can be achieved by a partnership between the state and good occupational schemes.

Economic implications of the proposals
83. The scheme will lead to a gradually increasing transfer of income and therefore of claims on resources from the economically active section of the community to those who have retired. This will be reflected in the gradual increase in contribution rates referred to in paragraph 34. These contributions and the taxation required to finance the Exchequer's share of the cost will mean that take-home pay of employees will be restricted and prices increased, compared with what would otherwise have been the case. But the full costs will accrue only gradually and will be far outweighed by the improvement in living standards generally resulting from economic growth.

84. The main aim is to raise the standard of living of retirement pensioners, both in absolute terms and in relation to the rest of the population. National insurance pensioners already have a guarantee that they will share in the general improvement in living standards made possible by economic growth, now that the Government has undertaken a statutory obligation to uprate the basic retirement pension in line with earnings. The additional effect of the new scheme will be to raise pensioners' living standards faster than those of the rest of the population.

85. At present, the basic state pension, together with payments of supplementary pension and rent and rate rebates, provide pensioners with rather over one-third of the average income of the rest of the population—counting a child as half an adult for this purpose. It is estimated that other sources provide a further one-third so that the average pensioner income is now rather more than two-thirds of that of the rest of the population. There is, however, considerable variation for individuals on either side of these average levels.

86. By the time most pensioners are receiving benefit at the full new rates—say in about 40 years' time—the average value of the national insurance pension, together with the minimum guaranteed pension provided by contracted out schemes, should have risen to over half the average income of the rest of the population. Thus, if pensioners' income from all other sources is still about one-third of the average income of the rest of the population, their total income will rise to over five-sixths of that average. This improvement will be concentrated on those who do not have an adequate occupational pension, and those who have fewest resources outside their basic state entitlement.

87. The pensioners' share of total personal consumption is at present about 10%. The new scheme will increase that share over the next 40 years or so by nearly one third to 13%. There will be a corresponding fall in the share going
to the working population which will be reduced by about 3% of total personal consumption. On any reasonable assumption about the rate of economic growth this will form a very small proportion of the improvement in living standards of the working population over this period.

88. The Government recognise and attach importance to the contribution made through funded occupational schemes to savings. The amount of such savings has been estimated as being about £1,200 million in 1971 and it would seem likely that there will be some effect, at least at the outset, on these savings. The effect will depend on the numbers in occupational schemes which are contracted out. However, the proposals for partnership with good occupational schemes are designed to enable those schemes to maintain or expand their contribution to savings.

89. From the point of view of the individual contributor, the scheme implies some redistribution of income from his years in work to his years in retirement. For the community as a whole, the redistribution must be within the total available at the time for personal consumption, as determined by the potential size of the total national product and by the claims of investment, public services and the balance of payments. Provided that adequate provision is made for these claims, there should be no adverse effect on employment or productivity, or on future economic growth.

The way ahead

90. The next step will be for the Government to discuss their proposals with representative organisations, including the TUC, the CBI and those concerned with occupational pension schemes. Some features, particularly in the area of contracting out, have been deliberately left open and will not be settled until after the views of those affected are known. After taking account of views and comments, the Government will present the new legislation as early as possible in 1975. The aim will be to bring the new scheme into force as quickly as possible and in any case no later than April 1978.

91. This is the third pension plan to be put forward by a Government in the last six years. It draws on the best features of each of the two previous plans and provides a firm foundation for the development of pensions fitted to the needs of our time.
APPENDIX

MEMORANDUM BY THE GOVERNMENT ACTUARY ON THE FINANCES OF THE PROPOSALS

1. This appendix reports on the cost of the proposals, which are described in detail in chapters 2 and 3 of the White Paper, and on the contribution rates required to support them. As under the present national insurance scheme, the rates of contribution under the new scheme will be set from time to time at the levels required to produce the income which, together with the corresponding Treasury supplements, would broadly match current expenditure on benefits and costs of administration.

2. In the earnings-related formula for calculating retirement, invalidity and widows’ pensions the base level will be fixed so as to produce a pension, on earnings up to this level, equal to the flat-rate pension in force when the new scheme is introduced. The extra cost of the new scheme will largely represent the cost of pensions calculated on earnings between the base level and the ceiling. The expenditure on these pensions will, however, only build up slowly so that, as shown by the estimates given below, the additional outgo compared with the present scheme will be relatively small initially but will grow steadily over the years. Thus it must be expected that the rates of contribution over the years.

3. Provision is made for members of occupational schemes which meet certain standards to be contracted out of a part of the retirement and widows’ benefits, and this will have an important effect on the finances of the scheme. The lower rates of contribution which will apply for contracted out employees will lead to a loss of income, but there will be no immediate reduction in the outgo under the scheme. Over the years, however, the loss of income will be increasingly offset, and may eventually be exceeded, by the saving in expenditure on pensions. In this way, the effect of contracting out is to require a higher initial rate of contribution but to moderate the increases which will be needed later and it will thus tend to equalise the rates of contribution over the years.

The basis of the estimates

4. In accordance with normal practice for long-term estimates for national insurance, the estimates in this report are shown on the basis of constant earnings. Projections on this basis illustrate, in present-day terms, the trends of income and outgo if both benefits and contributions were to be increased in step with the movement of earnings. However, adjustments have to be made to allow for departures from this implicit assumption.

5. Long-term estimates of income and outgo under the present scheme in the form that the scheme will take from April 1975 under Part 1 of the Social Security Act 1973, as modified by the Social Security Amendment Bill 1974 now before Parliament, were published earlier this year in my report on the financial provisions of that Bill (Cmnd 5652). These estimates were expressed in terms of the £10 pension and other benefit rates which took effect at the end of July 1974, with earnings at the estimated level at that date, and the same basis has been adopted for the estimates in the present memorandum. The demographic and other assumptions underlying the earlier estimates have also been retained. On Government instructions, a rate of unemployment of
2½% has again been assumed and, for the purpose of the adjustments referred to below, earnings have again been assumed to rise over future years at a rate of 8% per annum, of which 3% represents the margin over the rate of increase in prices.

6. In determining pensions under the new scheme, earnings will be revalued in line with changes in the national average up to the time of award and, once in payment the pension on earnings up to the base level will be increased regularly on the same basis. The pension arising from the upper band of earnings will be increased after award by amounts sufficient to protect the purchasing power as prices rise but, to the extent that earnings rise faster than prices, these increases will be less than in line with the movement of earnings and adjustments have been made to take account of this.

7. Adjustments have also been made to allow for the fact that whilst benefits remain fixed between successive upratings, which are assumed to be at annual intervals, the yield of earnings-related contributions increases continuously with rising earnings, subject only to the effect of the ceiling.

Numbers contracted out

8. The number of employees in occupational schemes who will be contracted out cannot be forecast at this stage. It is estimated that in 1971 about 7½ million employees were members of final salary pension schemes providing pensions at a rate of not less than 1/80th of pensionable salary for each year of service and these schemes could thus meet the main qualifying condition for contracting out, in regard to personal pension, and further schemes may be set up or converted to this basis. It cannot be assumed, though, that all employers operating such schemes would choose to contract out, and the finances of the scheme are illustrated in this report on alternative assumptions about the number contracted out. In each case it has been assumed that the distribution by age and sex and the average earnings between the base level and the ceiling would be the same as for employees contracted out under the present graduated scheme and also that the number contracted out initially would increase over the years in line with the growth in the working population.

Married women's option

9. As explained in paragraphs 46-49 of the White Paper, it is proposed that the existing option for married women to pay contributions at a reduced rate and to forgo the right to benefits, other than industrial injuries benefits, should be abolished for future entrants to the scheme. It is the Government's intention to initiate discussions with interested organisations before reaching a decision on the best way of phasing out the option for the present generation of working wives and to explore the possibility of retaining an option in regard to cover for short-term benefits. For purposes of illustration the scheme has been costed on the basis that married women who go out to work will be fully covered for long-term benefits but that there will continue to be an option for short-term benefits. It is estimated that, for insured persons as a whole, a total contribution of about 1¼% of earnings is required to finance the cost of short-term sickness benefit, unemployment benefit and maternity allowance, and it has been assumed that the rate of contribution for married women who exercise an option not to be covered for these benefits will be reduced by this amount of 1¼% of earnings. As at present, the employer will pay contributions at the full standard rate in every case.

10. The proportion of married women who would choose not to be insured for short-term benefits in such circumstances can only be a matter of conjecture; the assumption made is that three-quarters of those exercising the option under the present scheme, or a little over one-half of all married women in employment with earnings above the base level, would continue to do so if the option were limited to short-term benefits.
Cost of benefits

11. Table 1 shows estimates of benefit expenditure for the first 30 years of the new scheme, which is assumed to commence in April 1978. Estimates for the cost of the present scheme are shown for purposes of comparison.

**TABLE 1**

Estimated costs of benefits  
(based on July 1974 earnings levels)

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TABLE 2

Estimated joint contributions in respect of employed persons participating fully in the scheme which would be required to balance expenditure in each of the first 5 years and thereafter, on average, during each 5 year period shewn.

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<th>Year</th>
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<tr>
<td></td>
<td>No contracting out</td>
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<tr>
<td></td>
<td>%</td>
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<tr>
<td>1978-79</td>
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<td>13.7</td>
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<td>13.8</td>
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<td>13.9</td>
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<td>14.0</td>
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<td>1983-84 to 1987-88</td>
<td>14.2</td>
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<tr>
<td>1993-94 to 1997-98</td>
<td>15.8</td>
</tr>
<tr>
<td>1998-99 to 2002-03</td>
<td>16.7</td>
</tr>
<tr>
<td>2003-04 to 2007-08</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Note: The contributions include 1.0% for the national health service and 0.2% for the Redundancy Fund.

12. The rising expenditure over the years is mainly attributable to the gradual increase in the average pensions awarded under the new scheme. The extra costs shown include the additional benefits which would be payable if all married women were in future to be insured for long-term benefits in their own right, as has been assumed. The cost of protecting the present graduated pension entitlements against the effects of inflation from 1978 onwards is also shown as an extra cost attributable to the new scheme, as there is no provision for these pensions to be increased under existing legislation.

13. Apart from the provisions for married women, short-term benefits have been assumed to remain unaltered from the present scheme. The extra costs shown are wholly accounted for by the abolition of the reduced rates of sickness and unemployment benefit for married women and by the assumption that fewer married women than at present would exercise the option to forgo benefit in return for lower contributions if this option were limited to short-term benefits.

Rates of contribution

14. Table 2 shows estimates of the rates of contribution required over the years to balance expenditure on alternative assumptions about the number contracted out. For purposes of comparison, contributions on the basis of no contracting out are also shown. The rates represent the total percentage contributions payable by employees and employers jointly on all earnings up to the ceiling for persons fully participating in the scheme. They include a contribution of 1% towards the cost of the national health service and of 0.2% for the Redundancy Fund, as provided for under the Social Security Act 1973, and may be compared with the rate of 14% which would apply from April 1975 under the present scheme.

15. For members of occupational pension schemes who are contracted out, reduced rates of contribution will be payable on earnings above the base level. As explained in paragraph 67 of the White Paper, the reductions, which will be the same for both...
men and women, will represent the estimated average cost of providing through a funded occupational scheme that part of the state pension for which the occupational scheme is taking over responsibility. This amount will be calculated on earnings between the base level and the ceiling during the period of contracted out employment, with no regard to the "best 20 years" provisions under the state scheme, but the percentage of the earnings to be provided by the occupational scheme will depend on the age of the employee at the starting date of the new scheme. For persons within 20 years of minimum pension age at the outset, the state pension on earnings above the base level will accrue at the rate of $1\frac{1}{2}\%$ a year, reaching $25\%$ of average earnings after 20 years. For younger employees, however, the pension will be limited to $25\%$ of their average earnings above the base level and the amount forgone in the state scheme in respect of a period of contracted out employment will be calculated on the basis that this $25\%$ pension accrues uniformly over the period between the commencement of the new scheme and the attainment of pension age so that, for example, for a man aged 25 or a woman aged 20 at the commencement of the new scheme the pension would be taken as accruing over 40 years. It follows that the average rate at which employees contracted out are forgoing pensions in the state scheme will fall gradually over the years and, therefore, the reductions in the rates of contribution must also diminish.

16. Preliminary calculations suggest that a reduction in the region of $6\%$ to $7\%$ in the joint contribution on earnings above the base level might be appropriate for the first 5 years of the scheme and, for the purpose of the estimates in Table 2, a rate of $6\frac{1}{2}\%$ falling at 5 yearly intervals to $4\frac{3}{4}\%$ after 30 years has been assumed.

17. Table 2 shows that increasing rates of contribution would be required over the years as the cost of the new scheme gradually builds up. The table also shows how the rate needed initially would depend very materially on the extent of contracting out. For example, allowing for a small margin, a rate of contribution approaching $16\frac{1}{2}\%$ would be required if 8 million employees were contracted out but if the number were 6 million or 4 million, rates no higher than $16\%$ or $15\frac{1}{2}\%$ respectively would be sufficient. Contributions would have to be increased, within 15 years, to rates in the region of $16\frac{1}{2}\%$ to $17\%$, depending on the numbers contracted out, and to about $18\frac{1}{2}\%$ after 30 years.

18. Even after 30 years, however, the expenditure would not fully reflect the level of benefits which will ultimately be payable under the scheme. Although, after the scheme has been in operation for 20 years, pensions on the upper band of earnings will be awarded at the full $25\%$ rate, after 30 years substantial numbers of pensions will still be in payment based on the lower rates which applied to awards during the first 20 years. Also the average earnings on which pensions are based, which will be taken over the best 20 years of a member’s working life, will continue to increase slowly for many years. It is estimated that the average pension in payment in 2008/09 will still be some $10\%$ below the ultimate level under the scheme and, other things being equal, the rate of contribution would have to be increased by about a further $1\frac{1}{2}\%$ over a period of 20 years after 2008/09. The rate of contribution required at any time will, however, depend not only on the level of benefits but also on the relative numbers of pensioners and contributors, and any estimates of contributions so far into the future would be very speculative.

Edward Johnston

Government Actuary's Department.
CABINET

REVIEW BODY ON ARMED FORCES' PAY -
PAY OF SERVICE MEDICAL AND DENTAL OFFICERS

Note by the Secretary of State for Defence

I attach for the information of my Cabinet colleagues the Supplement to the Third Report by the Armed Forces' Pay Review Body. This deals with the pay of Service medical and dental officers, and is to be published as a White Paper tomorrow, 11 September.

R M

Ministry of Defence

10 September 1974
REVIEW BODY
ON
ARMED FORCES PAY
PAY OF SERVICE MEDICAL AND
DENTAL OFFICERS

Supplement to Third Report
1974

Chairman:
H. W. ATCHERLEY
REVIEW BODY ON ARMED FORCES PAY

The Review Body on Armed Forces Pay was appointed in September 1971 to advise the Prime Minister on the pay and allowances of members of Naval, Military and Air Forces of the Crown and of any women's service administered by the Defence Council.

The members of the Review Body are:

- H. W. Atcherley (Chairman)\(^1\)
- Ewen M'Ewen
- J. E. Mortimer
- Miss A. R. Murray, J.P.
- C. A. Roberts, C.B.E.
- J. R. Sargent\(^2\)

The Secretariat is provided by the Office of Manpower Economics.

Mr. J. E. Mortimer did not take part in this review of the pay of Service Medical and Dental Officers.

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\(^1\) Also a member of the Top Salaries Review Body.

\(^2\) Also a member of the Review Body on Doctors' and Dentists' Remuneration.
PAY OF SERVICE MEDICAL AND DENTAL OFFICERS

1. Medical and dental officers in the armed forces are a self-contained group for pay purposes, and their pay is considered in the light of the decisions that follow recommendations by the Review Body on Doctors' and Dentists' Remuneration as they affect General Medical Practitioners in the National Health Service (NHS). For this reason, it could not be considered in our Third Report.\(^1\) Certain of the recommendations in that Report were, however, of general application throughout the Services. As a result, in common with other servicemen and women, doctors and dentists already benefit from the introduction of threshold arrangements and from certain new or revised allowances, including the flat-rate daily payment for all ranks up to and including Brigadier who serve continuously in Northern Ireland for more than 14 days. At the same time, the revised charges for food and accommodation which we recommended apply also to Service doctors and dentists.

2. We thought it right in our Third Report both to indicate the extent to which the recognition of the special features of Service life fall short of what we believe to be justified, and to re-state in some detail the principles on which both the military salary and the charges for food and accommodation have been based since 1970.\(^2\) In the same way, we consider this a suitable occasion on which to describe again the standards by which the pay of Service medical and dental officers is assessed. The aim is to provide, over a career from Captain to Colonel before the addition of the X factor, average earnings equal to the average net earnings\(^3\) of general medical practitioners in the National Health Service. The pay of the medical and dental Brigadier is designed to provide a reasonable differential over the maximum pay of the medical Colonel, and a logical progression to the pay of the medical Major General (which is outside our terms of reference). The criterion of "the average net earnings of general medical practitioners in the National Health Service" is necessarily imprecise, if only because the average for a particular year cannot be known with certainty until long after it has ended. It follows, therefore, that in recommending Service salaries for a period ahead, we have to use the best forward estimate of the average net earnings of general medical practitioners in the NHS for the same period. The Review Body on Doctors' and Dentists' Remuneration itself provides an estimate of the average net remuneration\(^4\) that its recommendations are intended to produce, and we make use of this, the most authoritative, estimate. If we are to do this, we have to defer our consideration of the pay of Service doctors and dentists until decisions have been taken on those recommendations.


\(^2\) ibid, Chapter 1.

\(^3\) ie net of practice expenses.

\(^4\) The "intended average net earnings" of a general practitioner is the amount the Review Body on Doctors' and Dentists' Remuneration calculate should be received, net of expenses, by the "average" practitioner as a result of their recommendations for fees and allowances for the items of his work for the National Health Service. These include standard and supplementary capitation fees, basic practice allowance, a supplementary practice allowance for night and weekend responsibilities, fees for vaccinations, for treatment of temporary residents and for emergency treatment. A proportion of practice expenses are reimbursed by direct payments but the remainder have to be met out of the gross remuneration from fees and allowances.
3. Forward estimates are unlikely to coincide regularly and exactly with the historic figures of average net earnings. But we would not expect to have to make retrospective adjustment unless, taking one year with another, it could be demonstrated that the method adopted did not provide the comparability with the NHS general medical practitioner that is its aim. Certain doubts have been expressed to us on the adequacy of the criterion as it has been interpreted and applied since it was introduced in 1969–70. The British Medical Association have told us that, in their view, the criterion should, and indeed was intended to, comprehend the total earnings from all sources of general medical practitioners in the NHS. The Ministry of Defence also have questioned whether it is right to use earnings from the NHS alone as the standard of comparison for the pay of Service medical and dental officers.1

4. We recognise that every pay system needs to be examined from time to time, so that change may be introduced where it is shown to be necessary: in this case, the long-standing interpretation of the remuneration of the analogue of general medical practitioners in the NHS has been questioned, and we intend to examine the structure and pay levels of Service medical and dental officers in the light of present-day requirements during our next review, when we shall take into account the views that have been expressed to us. This will entail consideration of a range of factors on which we have no evidence at present.

5. The BMA have emphasised to us the importance of an early report and, on this occasion, because this supplementary review is part of the review that formed the basis of our Third Report and the increases will be effective from 1 April 1974, our recommendations are made within the provisions of the Stage 3 Pay Code2 in the same way exactly as in the main review. The recommendations in the Fourth Report of the Review Body on Doctors’ and Dentists’ Remuneration were also made in this context: they have been accepted by the Government and the report has been published.3 They are designed to produce an increase in the average net remuneration of general medical practitioners in the NHS and, in the same way as in the 1973 Report, to allow for a modest increase in earnings from other official sources.4 The recommended total increase in the average net earnings of the GMP is £377, of which £335 falls within the pay limits and £42 is met from the flexibility margin permitted by the Pay Code.5 The balance of the increase within the individual pay limit of £3506 which is estimated to be taken up by increased earnings from other official sources is, therefore, £15. Because Service medical and dental officers are not in a position to earn additional fees from other official sources, we took the view last year that the increase justified by comparison with earnings

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1 The Report of the Defence Medical Services Inquiry Committee 1973 also drew attention to the fact that some general practitioners in the NHS earn more than the average (paragraph 208 and recommendation (78)).
3 Cmnd. 5644, June 1974.
4 A General Medical Practitioner in the NHS may receive fees from other official sources for service outside his practice responsibilities: examples include locum work in hospitals, medical examinations for Government Departments and Local Authorities and for the Police.
5 Counter-Inflation (Price and Pay Code) (No. 2) Order 1973, paragraphs 139 and 140.
6 ibid, paragraph 138.
from the NHS should not be restricted on this account. We take the same view now, and we conclude that the increase in the average earnings of general medical practitioners in the NHS on which the increase in pay of Service medical and dental officers should be based is £392 (that is, £377 plus £15).

6. A further adjustment has to be made. The most recent estimate of the average net remuneration of general medical practitioners in the NHS for 1973–74 is £5,770, or £20 more than the intended average net remuneration of £5,750 which the recommendations in the Third Report (1973) of the Review Body on Doctors' and Dentists' Remuneration were designed to produce, and on which the recommendations in the supplement to our Second Report were based. Under the provisions of the Pay Code, the increase recommended in the Fourth Report of the Review Body on Doctors' and Dentists' Remuneration has to be added to the base figure of £5,770, and an average increase of £412 in the pay of Service medical and dental officers can therefore be justified now on the basis of comparison with intended average net earnings of general medical practitioners in the NHS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated average net earnings of GMPs in the NHS in 1973–74</td>
<td>£5,770</td>
</tr>
<tr>
<td>Add the estimated increase in fees from “other official sources” in 1973–74</td>
<td>£10</td>
</tr>
<tr>
<td>Add the increase recommended in 1974–75 (including £15 increase in fees from “other official sources”)</td>
<td>£392</td>
</tr>
<tr>
<td>Deduct the “intended average net earnings” from NHS in 1973–74 (£5,750) plus the £10 increase in fees from “other official sources”, adopted in 1973–74 as a basis for the pay of Service medical and dental officers</td>
<td>£5,760</td>
</tr>
<tr>
<td>Overall difference</td>
<td>£412</td>
</tr>
</tbody>
</table>

7. We now recommend new rates of pay for medical and dental officers from Captain to Brigadier, for provisionally registered medical practitioners (PRMPs) and for medical and dental cadets, in the light of the recommendations for general medical practitioners in the NHS and taking into account evidence submitted to us by the Ministry of Defence and by the British Medical Association (who also gave oral evidence). We need to satisfy ourselves that the increases which we recommend comply with the provisions of the Stage 3 Pay Code, and we have therefore considered these calculations in relation to them. The pay limit under the Code, in terms of the maximum amount by which the average pay bill per head of a group may be increased in a 12-month period, is either—

i. 7 per cent of the average pay bill per head of the group for the preceding 12-month period; or

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1 Cmd. 5644, paragraph 48.
subject to a further limit of £350 a year for any individual. An increase in the pay limit of up to 1 per cent of the pay bill (or one-seventh of £2.25 per week per head) is also allowed, inter alia where a settlement incorporates changes in pay structures or grading structures or in systems of payment designed to remedy anomalies or to secure specific improvements in efficiency.

8. The pay limit of 7 per cent of the average pay bill provides more than enough for an increase of £350 for all Service doctors and dentists at all ranks from Captain to Brigadier as a principal pay increase. This leaves a balance of £62 by comparison with the average increase of £412 which can be justified on the basis of comparison with the earnings of the general medical practitioner in the NHS. This balance can be met only to the extent that the requirements for the use of the flexibility margin are observed and within the financial provision available under it. It is not enough to point to the use of the flexibility margin by the Review Body on Doctors' and Dentists' Remuneration as the means of modifying the fee structure applicable to general medical practitioners in the NHS, to claim equal justification for its use in the armed forces, where no such fee structure exists: we need to satisfy ourselves that the use of the flexibility margin is justified in armed forces terms.

9. A flat rate cash increase of £350 at all points in the pay scales from Captain to Brigadier would be admissible under the Pay Code and can be justified both by the external criterion and by the need to improve recruitment (a point to which the BMA attached great importance in evidence to us); but it would run counter to the principles which we have adopted hitherto in distributing increases in pay, and which we consider should continue. These principles recognise the need to provide incentives both to achieve higher rank and to transfer at appropriate stages from short service commissions to permanent regular commissions. In our view, rather higher increases in pay, commensurate with higher rank, are required and, on this occasion, we consider that this can best be achieved by superimposing on the flat rate £350 increase a series of stepped additional increases which produce, on average, the additional £60 justified by the external comparison and permitted under the flexibility margin.

The X factor

10. We explained the background to the introduction of the X factor in our Third Report: briefly, it is intended to compensate for the balance of advantage and disadvantage of Service life by comparison with civil life which cannot be precisely measured in financial terms. In that report, we were able to

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2 ibid, paragraph 138.
3 ibid, paragraphs 139 and 140.
4 Flexibility margin (1 per cent of average pay bill per head) £104,680 divided by the number of officers from Captain to Brigadier (1,741)—average amount per officer: £60-13.
5 Cmnd. 5631, Chapter 1.
6 The Stage 3 Pay Code provided, for the first time, a standard against which payment for one of the elements which made up the basis of the X factor could be measured and quantified—we refer to work done in "unsocial" hours.
7 ibid, Chapter 2.
recommend an increase in the X factor for the generality of servicemen and women covered by it: the greater part of this increase, 3.75 percentage points, was based on detailed evidence of the extent to which they were required to work during "unsocial" hours and we regarded it as right that the payment which we considered justified on this account should be added to the X factor. We limited our recommendation to an increase of 3.75 percentage points in order to comply with the provisions of the Pay Code, but we made known in our report our general view on the levels of the X factor, and the Government took account of this and decided that it should be increased from 5 per cent to 10 per cent for the men's Services and from 1 per cent to 5 per cent for the women's Services: the additional 1.25 percentage points is in recognition of the increased degree of turbulence in Service life, which applies to Service medical and dental officers in the same way as to other members of the armed forces.

11. We are, however, unable to recommend that the X factor for Service medical and dental officers should be increased by the same total amount, for the following reasons:

(a) The average net earnings of general medical practitioners in the NHS include an amount (at present averaging £614.40) for out-of-hours services. Indeed, we were told by the BMA in oral evidence that this element recognises the extent to which general medical practitioners are "on call" and, to this extent, an element of the X factor is already recognised in the pay of Service doctors and dentists. We have no firm evidence of the amount of work done in "unsocial" hours by Service medical and dental officers and we are not convinced by the arguments put to us by the BMA that it is not already recognised, or that the Service doctor is called on to do more work during "unsocial" hours than is the NHS general medical practitioner. To increase the X factor for Service medical and dental officers on the grounds of work done in "unsocial" hours would involve paying twice for the same feature, and the "unsocial" hours provisions of the Pay Code do not admit recognition of being "on call".

(b) Nor did the Review Body on Doctors' and Dentists' Remuneration recommend increases in the payments for out-of-hours service—the supplementary practice allowance, the supplementary capitation fee and the night visit fee—under the "unsocial" hours provisions of the Code, because these payments form part of the average net remuneration of general medical practitioners in the NHS. In our view, it would be wrong to recommend an increase in the pay of Service medical and dental officers by using provisions of the Code that have been found inapplicable to their NHS counterparts.

12. We conclude, therefore, that the X factor for Service medical and dental officers should be increased to reflect the amount of the general increase that is attributable to increased turbulence only (ie by 1.25 percentage points). This recommendation reflects exactly the element of the X factor increases that was covered by a Ministerial consent for the armed forces as a whole under the Stage 3 arrangements, and assuming, as we do, that this consent applied to the whole of the armed forces within our terms of reference, the 1.25 percentage points increase in the X factor can now be extended to Service doctors and dental officers.
dentists. We recommend an increase in the upper limit of the X factor to £325, except for Brigadiers to whom the £300 tapered limit recommended in our Third Report¹ for the other branches of the armed forces should apply. We are, however, concerned about the problems that may be created by the existence of different levels of X factor for different categories of servicemen, resulting from the application of different criteria in the determination of their pay, and we intend to review the matter as soon as we are in a position to do so.

13. Taking all these factors into account, we recommend the introduction of the following pay scales for medical and dental officers from Captain to Colonel with effect from 1 April 1974. (Current pay scales are shown for the purpose of comparison.)

Table 1

Proposed military salaries, inclusive of X factor, for Service medical and dental officers: annual rates

<table>
<thead>
<tr>
<th>Rank</th>
<th>Proposed scale of military salary (from 1 April 1974)</th>
<th>Current scale (1 April 1973)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Captain:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On appointment</td>
<td>4,548</td>
<td>4,099</td>
</tr>
<tr>
<td>After 2 years</td>
<td>4,614</td>
<td>4,165</td>
</tr>
<tr>
<td>After 4 years</td>
<td>4,701</td>
<td>4,249</td>
</tr>
<tr>
<td>Major:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On appointment</td>
<td>5,413</td>
<td>4,938</td>
</tr>
<tr>
<td>After 1 year</td>
<td>5,479</td>
<td>5,001</td>
</tr>
<tr>
<td>After 2 years</td>
<td>5,552</td>
<td>5,070</td>
</tr>
<tr>
<td>After 3 years</td>
<td>5,643</td>
<td>5,161</td>
</tr>
<tr>
<td>After 4 years</td>
<td>5,898</td>
<td>5,413</td>
</tr>
<tr>
<td>After 5 years</td>
<td>5,990</td>
<td>5,504</td>
</tr>
<tr>
<td>After 6 years</td>
<td>6,052</td>
<td>5,566</td>
</tr>
<tr>
<td>After 7 years</td>
<td>6,147</td>
<td>5,658</td>
</tr>
<tr>
<td>Lieutenant-Colonel:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On appointment</td>
<td>6,577</td>
<td>6,085</td>
</tr>
<tr>
<td>After 2 years</td>
<td>6,705</td>
<td>6,212</td>
</tr>
<tr>
<td>After 4 years</td>
<td>6,836</td>
<td>6,340</td>
</tr>
<tr>
<td>After 6 years</td>
<td>6,968</td>
<td>6,471</td>
</tr>
<tr>
<td>After 8 years</td>
<td>7,092</td>
<td>6,596</td>
</tr>
<tr>
<td>Colonel:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On appointment</td>
<td>7,512</td>
<td>7,008</td>
</tr>
<tr>
<td>After 2 years</td>
<td>7,596</td>
<td>7,092</td>
</tr>
<tr>
<td>After 4 years</td>
<td>7,702</td>
<td>7,198</td>
</tr>
<tr>
<td>After 6 years</td>
<td>7,789</td>
<td>7,282</td>
</tr>
<tr>
<td>After 8 years</td>
<td>7,873</td>
<td>7,366</td>
</tr>
</tbody>
</table>

¹ Cmd. 5631, paragraph 43.
Medical and dental Brigadiers
14. We recommend that the military salary of the medical and dental Brigadier should be increased from £7,818 to £8,304 with effect from 1 April 1974.

Provisionally registered medical practitioners
15. We recommend that the military salary of the provisionally registered medical practitioner should be increased from £2,416 to £2,785 with effect from 1 April 1974.

Medical and dental cadets
16. We recommend that the pay of medical and dental cadets should be increased by 7 per cent with effect from 1 April 1974, as we recommended for university cadets who intend to take up commissions in other arms of the Services. We do not propose an increase in the education grant at the present time.

17. We have expressed the recommended salaries as the annual amounts which approximate most closely to daily rates of pay. The detailed scales (prepared by the Ministry of Defence) are in the Appendix.

The cost of our recommendations
18. The pay limit calculated in accordance with the provisions of the Stage 3 Pay Code amounts to £733,000 and this may be extended by a maximum of £105,000 to accommodate the proposal which we make under the flexibility margin provisions of the Code. The cost of proposals chargeable against these limits is:

<table>
<thead>
<tr>
<th>Principal pay increases</th>
<th>Flexibility margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Captain to Brigadier</td>
<td>Captain to Brigadier</td>
</tr>
<tr>
<td>PRMPs</td>
<td></td>
</tr>
<tr>
<td>Medical and dental cadets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>616,000</td>
<td>105,000</td>
</tr>
<tr>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>658,000</td>
<td></td>
</tr>
</tbody>
</table>

The cost of the proposed increase in the X factor is £118,000. The total cost of our proposals is thus £881,000.

H. W. ATCHERLEY (Chairman)
D. P. DREYER
Ewen M’Ewen
A. R. MURRAY
C. A. ROBERTS
J. R. SARGENT

OFFICE OF MANPOWER ECONOMICS
23 August 1974

1 The figures have been rounded to the nearest £1,000.
### APPENDIX

#### ALL SERVICES

**PAY OF MEDICAL OFFICERS AND DENTAL OFFICERS**

<table>
<thead>
<tr>
<th>Rank</th>
<th>New rates of pay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Daily</td>
</tr>
<tr>
<td>*Cadet, Medical</td>
<td>£2.78</td>
</tr>
<tr>
<td>*Cadet, Dental</td>
<td></td>
</tr>
</tbody>
</table>

Provisionally registered medical practitioners:

- **Acting Surgeon Lieutenant/Lieutenant/Flying Officer**
  - On appointment: £7.63
  - After 2 years in the rank: £12.46
  - After 4 years in the rank: £12.88

- **Surgeon Lieutenant/Captain/Flight Lieutenant**:
  - On appointment: £12.46
  - After 2 years in the rank: £12.64
  - After 4 years in the rank: £12.88

- **Surgeon Lieutenant-Commander/Major/Squadron Leader**:
  - On appointment: £14.83
  - After 1 year in the rank: £15.01
  - After 2 years in the rank: £15.21
  - After 3 years in the rank: £15.46
  - After 4 years in the rank: £16.16
  - After 5 years in the rank: £16.41
  - After 6 years in the rank: £16.58
  - After 7 years in the rank: £16.84

- **Surgeon Commander/Lieutenant-Colonel/Wing Commander**:
  - On appointment: £18.02
  - After 2 years in the rank: £18.37
  - After 4 years in the rank: £18.73
  - After 6 years in the rank: £19.09
  - After 8 years in the rank: £19.43

- **Surgeon Captain/Colonel/Group Captain**:
  - On appointment: £20.58
  - After 2 years in the rank: £20.81
  - After 4 years in the rank: £21.10
  - After 6 years in the rank: £21.34

- **Colonel/Group Captain after 8 years in the rank**: £21.57

- **Surgeon Captain with 8 years’ seniority Brigadier/Air Commodore**: £22.75

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*Education Grant of £949 per annum (£2.60 daily) is paid in addition.*
1. The Cabinet, at their discussion on 5 September invited me, in consultation with the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Wales and the Minister of State, Civil Service Department, to revise the draft White Paper in the light of the Cabinet's conclusions. This has been done and a revised draft is at Annex for the Cabinet's consideration. As the Cabinet desired, it has been clearly differentiated in language from the Party document issued last week while retaining the structure and positive approach which was derived from that Party document.

2. There are two points of substance to which I draw my colleagues' attention -

a. Executive powers. We concluded on 5 September that the proposals in the White Paper should not specifically provide for separate executive governments for Scotland and Wales or commit the Government on the scope of the powers and functions to be devolved. The Ministerial Group concluded that it was not politically possible to write the White Paper without conveying in terms that the assemblies would be given some (but unspecified) executive powers of the kind now exercised by the Scottish and Welsh Offices under the Secretaries of State and by certain of the non-democratic nominated bodies. The relevant paragraphs are 27 (last sentence) and 28b. (which needs to be read with the statement of Scottish and Welsh Office functions in paragraphs 5 and 9). Colleagues will wish to consider whether this degree of commitment is acceptable.
b. **Finance.** Paragraph 28c. deals with the financial allocations for the functions over which the assemblies will have responsibility in terms which the Chancellor of the Exchequer had proposed before he had to withdraw from the meeting. We omitted from his text, however, any reference to uniformity of charges (as distinct from uniformity of standards) because it was thought that in the matter of eg rents there was already difference as between Scotland and England. The Chancellor and the Cabinet will wish to consider whether this is acceptable.

3. I invite my colleagues' agreement to the revised text of the White Paper and to its urgent publication.

S W

**Department of Prices and Consumer Protection**

10 September 1974
INTRODUCTION

1. In 1968 the Government announced their decision to set up the Royal Commission on the Constitution. The Prime Minister said at the time that an important reason for appointing the Commission was the "strong feeling, not only in Scotland and Wales, but in many parts of England, of a greater desire for participation in the process of decision-making, moving it nearer - wherever this is possible - to the places where people live". The Commission, under the chairmanship of Lord Kilbrandon, reported in October 1973. It was unanimous in rejecting separatism and federalism and in recommending directly-elected Scottish and Welsh assemblies, but was divided in the rest of its recommendations. The Queen's Speech on 12 March 1974 said the Government "will initiate discussions in Scotland and Wales on the Report of the Commission on the Constitution, and will bring forward proposals for consideration". Accordingly, to provide the basis for these discussions the Government published on 3 June 1974 "Devolution within the United Kingdom - Some Alternatives for Discussion". This Consultative Document summarised the various schemes of devolution recommended in the Kilbrandon Commission's main Report and in the Memorandum of Dissent which accompanied it and posed a number of questions and identified problems relating to each of the possible schemes. The Government are now able to report on the outcome of the consultations they have undertaken during the Summer of 1974 and, in the light of them, to set out their decisions of principle as a basis for further development.

THE UNITY OF THE UNITED KINGDOM

2. The Government agree wholeheartedly with the Commission on the Constitution in rejecting separatism and federalism as a solution. The Government, like the Royal Commission, regard it as a vital and fundamental principle to maintain the economic and political unity of the United Kingdom. This is not just a matter of tradition and sentiment, important thought they are. The unity of the country and of the economy is essential both to the strength of our international
position and to the growth of our industry and national wealth. That unity is thus crucial if we are to play an effective role in international negotiations, whether political or economic; and it is crucial for the central management of the economy and so to the redistribution of resources in favour of all the less prosperous areas of the United Kingdom.

3. It does not follow, however, that each of the constituent parts of the United Kingdom must be treated in exactly the same way. While the people of Scotland and Wales, as the Royal Commission noted, consider themselves to be British, they are also deeply conscious of the fact that they are Scottish or Welsh. Nor does it follow that Scotland and Wales must be treated exactly like each other. They have differing histories, backgrounds and cultural traditions. Because the circumstances of the two countries are so different, the present arrangements for their government are not the same and it will not be surprising if their future systems of government are different. What is important is that needs and aspirations of the Scottish and Welsh people are properly met. In this context the Government are firmly convinced, as was the Royal Commission, that the United Kingdom must remain one country and one economy and that constitutional change must be undertaken with the clear objective of strengthening rather than weakening this unity.

4. Within the United Kingdom there has however already been a substantial movement of Government and decision-making away from London - what the Kilbrandon Commission called administrative devolution. These developments, which have been of benefit especially to Scotland and Wales, are summarised in the following paragraphs. The Government intend to build on what has already been achieved, in order to provide more democratic involvement.

EXISTING DEVOLUTION

Scotland

5. Since 1885 when a Secretary for Scotland was appointed, and particularly from 1939 when the Scottish Office in broadly its present form was established in Edinburgh, a very wide measure of administrative devolution has been developed. Since the war additional functions have been progressively transferred to the Scottish Office. The Secretary of State, as a member of the United Kingdom Government, now has major responsibility in Scotland (with some exceptions) both for the formulation of policy and its execution in such major fields as
agriculture and fisheries; education; local government and environmental services; social work, health and housing; roads and certain aspects of shipping and road transport services. He is also responsible for a range of other functions from police and fire services to sport and tourism. The United Kingdom Government's administrative functions arising from these responsibilities are carried out in the five Scottish Departments based on St Andrew's House in Edinburgh. For most of these subjects there is separate Scottish legislation or Scottish application clauses in United Kingdom Acts of Parliament. Separate Scottish legislation has special Parliamentary machinery to handle it consisting of the Scottish Grand Committee, on which all 71 Scottish Members of Parliament sit, and two Scottish Standing Committees which consider the details of Scottish legislation.

6. One basic reason for these differences in legislation and administrative practice arises from the existence of a separate system of Scottish law, the preservation of which was provided for in the Union settlement of 1707. The Secretary of State has accordingly responsibility for legal services in Scotland, and other important responsibilities are exercised by the two Scottish Law Officers, the Lord Advocate and the Solicitor General for Scotland. But it is not just a case of Scottish legislation in parallel with that for England and Wales; there are usually distinctive Scottish features and in some cases the approach is markedly different, reflecting the differing needs and conditions of Scotland and the people living there. Many examples are to be found in such fields as health, education, social work, housing and criminal law. Devolution to Scotland – in the sense of running things differently in Scotland because Scotland is different – is therefore nothing new.

7. The Secretary of State also has a major role in the planning and development of the Scottish economy and plays a full part in the Government's determination of Energy policy. He exercises a co-ordinating function over activities in Scotland, such as the location of industry, the creation of employment and the development of North Sea oil, which are not his direct responsibility but have an important, indeed vital, effect on the economy.

*The full list of the Secretary of State's responsibilities is as follows: agriculture and fisheries, criminal law, crofting, education, electricity, environmental services, health, Highlands and Islands development, housing, legal services, local government, police, prison and fire services, roads, certain aspects of shipping and road transport services, social work, sport, recreation and the arts, tourism, town and country planning and youth and community services.
of Scotland. The United Kingdom Departments with significant Scottish responsibilities have offices in Scotland with delegated powers and work closely with the Scottish Office. The decentralisation of central government functions has also benefited the Scottish economy and the Government has decided to further this by transferring 6,000 Ministry of Defence and 1,000 Ministry of Overseas Development posts to Glasgow over the next ten years.

8. The existence of these separate administrative arrangements in Scotland has greatly benefitted the people of Scotland in that they have enabled special Scottish needs to be recognised and met. A practical illustration of this is that identifiable public expenditure per head in Scotland has been at a very significantly higher level than elsewhere in the United Kingdom (except in very recent years in Northern Ireland).

Wales

9. Substantial administrative devolution to Wales has also already taken place, though at a later historical stage than in the case of Scotland. The first Minister for Welsh Affairs was appointed in 1951, but the most important measures of devolution have been concentrated into the last ten years. The first Secretary of State was appointed in 1964, and since then the Welsh Office’s functions have grown rapidly. The Department now has responsibility in Wales for housing, health, the social services, primary and secondary education, child care, town and country planning, water, highways, tourism, forestry and agriculture (jointly with the Ministry of Agriculture, Fisheries and Food), and many other functions. The strengthening of the Office still continues; the post of its Civil Service head was recently upgraded to that of full Permanent Secretary.

10. In other ways too administration has been reshaped and strengthened and decision-making has been devolved to take account of Welsh interests in economic and other fields. The Secretary of State has a general responsibility for the economic development of Wales and exercises a co-ordinating responsibility in Government action to promote the welfare of Wales. Considerable powers have been delegated to the Department of Trade and Industry Office for Wales, and Wales has its own Industrial Director and Industrial Development Board. The Government have also announced their decision, as a further step to assist
the economy, to transfer over 7,000 Civil Service posts to Wales in the next ten years. As in Scotland, identifiable public expenditure per head in Wales has for many years been running at a substantially higher level than in England.

11. In consequence of these and other measures Government action is increasingly adapted to fit Welsh needs and to further Welsh interests. The role of the Secretary of State in the United Kingdom Government is fundamental. He not only has full responsibility for the matters referred to in paragraph 9 above; in other matters affecting Wales he has powers of oversight and he safeguards and furthers Welsh interests both in Cabinet and in discussion with departmental Ministers, thus exercising a direct and powerful influence on all policies affecting Wales.

12. Welsh interests are further represented centrally through the 36 Welsh Members of Parliament at Westminster who, in addition to their other Parliamentary or Ministerial functions, all sit on the Welsh Grand Committee which provides a further forum for debate and discussion of matters concerning Wales.

England

13. For historical reasons there has not been the same pressure for substantial devolution in England. The fact of the differing circumstances and needs of different parts of England was however recognised by the creation in 1964 of the Economic Planning Boards and Councils; the Councils have been a valuable source of advice to successive Governments on the special requirements of their regions, and the Planning Boards have strengthened and extended the delegation of decision-making from Whitehall Departments to regional centres. For instance, Regional Controllers of the Department of Industry now make important decisions affecting the location of industry by authorising loans of up to £1 million under the 1972 Act: Regional Directors of the Department of the Environment approve road improvement schemes and take the majority of the Department's planning decisions. Furthermore the Government have put forward for discussion certain proposals to aid democratisation in specific fields, for instance area and regional health authorities and statutory neighbourhood councils.
14. While recognising the benefits to Scotland and Wales of the existing system, the Kilbrandon Commission unanimously concluded that directly-elected assemblies ought to be established for Scotland and for Wales to meet the legitimate desire of their people for greater control over their own affairs. The Commission was not agreed, however, on how this objective should be achieved and in the main Report and the Memorandum of Dissent four schemes were set out for implementing this decision in relation to Scotland (Schemes A, B, C and E) and Wales (Schemes A, B, C and D). The Government invited all interested organisations and members of the public to comment on these schemes. For ease of reference, the description of the schemes in the Consultative Document is reproduced as an Appendix to this White Paper.

Scotland

15. The response of individual members of the public was disappointing; only about 170 letters or papers, some quite brief, were received. Of these there was no clear majority for any one solution, and indeed a significant number expressed no specific view.

16. On the other hand over 60 organisations, including the political parties, submitted written views. Among these there was considerable support for Scheme A or variations of it. While very few indeed favoured Schemes B or C, there was some support for Scheme E. A number wanted more decision-making in Scotland, without associating that demand with any specific scheme. Some wanted no change in the present system and others wanted any decision deferred until the new local authorities had had time to settle down. Most of those representing local government were particularly concerned about the possible effects of the Schemes considered on the new local authorities and their powers. Strathclyde Regional Authority, for example, urged the Government "to ensure that the new authorities are given sufficient time and independent power to establish and develop themselves and that in the meantime the discussions should continue".

17. During July and August 1974 a series of discussions was held in Scotland by Scottish Ministers, accompanied by the Government's constitutional adviser, Lord Crowther-Hunt, with some of the organisations which had submitted written observations. Bodies consulted in this way included the Scottish Council of
the Labour Party, the Scottish National Party, the Scottish Council (Development and Industry), the Scottish Trades Union Congress, the Council of the Confederation of British Industry in Scotland, the Church and Nation Committee of the Church of Scotland and various local authority representatives. These discussions reinforced points made in the written submissions and some points emerged of particular significance. One was a strong desire for more Government decision-making to take place in Scotland — and in that context the announcements referred to in paragraph 30 below were welcomed. There was also widespread, though not unanimous, support for the view that there would be merit in the establishment of a directly-elected Scottish assembly, but there was no agreement on what powers or functions the assembly should have. Of the schemes in the Consultative Document, Scheme A, which proposed a legislative assembly and government for Scotland, commanded the greatest support, but there was clearly a good deal of uncertainty about the precise implications of the scheme and the full significance of the fact that it involved a separate Scottish government responsible to the assembly. There was also very considerable opposition both to the abolition of the office of Secretary of State and to the reduction in the number of Scottish Members of Parliament at Westminster, for which Scheme A provided. Of the other schemes, hardly anyone thought them appropriate to Scottish conditions, except that Scheme E, which involved an advisory assembly with limited legislative functions and no Scottish Executive, attracted some support.

18. The process of consultation has made it apparent that opinion in Scotland is still divided. Many are convinced of the need for a substantial measure of devolution, involving a directly-elected Scottish assembly with real powers. Others, though a minority, are equally convinced that any radical change in the present system would be to Scotland's detriment, though administrative devolution might be further developed. But the overwhelming view was that the essential political and economic unity of the United Kingdom should be preserved.

Wales

19. In accordance with the Government's undertaking to carry out discussions on the Commission's Report in Wales, the Secretary of State, with the assistance of the Government's constitutional adviser, has completed a programme of consultations.
20. The bodies consulted represented political parties in Wales, local authorities, both sides of industry and the farming community. The majority were in favour of the establishment of a directly-elected assembly for Wales, but there was no general agreement on the functions it should exercise: opinion was divided between those who favoured legislation devolution (Scheme A) and those who were for executive devolution (Schemes B or C). The minority either favoured a directly-elected Welsh Advisory Council (Scheme D) or wanted no fundamental change in existing arrangements. The points on which there was substantial agreement among those consulted was that the office of Secretary of State should continue and that there should be no reduction in the number of Welsh Members of Parliament.

21. The Secretary of State received written views from 30 organisations in Wales. In most cases these were briefly stated and did not attempt to deal with the detailed questions set out in the discussion document. The views of these organisations, mostly made up of individual local authorities and political, trade union and religious bodies, were divided: about one-third were in favour of legislative devolution; nearly half preferred executive devolution; and the remainder favoured other solutions or the status quo. In addition the Secretary of State received written views from a relatively small number of individuals, most of which were in favour of schemes of at least legislation devolution.

22. Thus no consensus of opinion has emerged. The case for an elected assembly is widely supported, but there is no general agreement about the powers it should exercise. However, there is an evident desire to see Government decision-making made more responsive and accountable to the people, provided this can be done without disrupting the essential political and economic unity of the United Kingdom. In particular, it has been urged that the nominated bodies which at present carry out many functions in Wales should be replaced by a body representative of the Welsh people, which should also discharge some of the executives functions of Government Departments in Wales.

SOME MAJOR ISSUES

23. In a matter of this kind it is not surprising that, as the consultations have demonstrated, there are diverging views. The consultations also showed that while the majority of organisations and individuals who responded to the
Government's invitation had a general picture of the sort of arrangements they favoured, few of them were prepared to accept all the implications which seemed logically to follow from these arrangements. The Government's continued studies during recent months have shown that any substantial scheme of devolution raises difficult problems; and a number of very important matters remain to be resolved before it is possible to put forward detailed proposals which would command general support and would carry with them the prospect of stability. The major issues are -

a. Finance and Economic Management
In any scheme of devolution the financial arrangements would clearly be of fundamental importance. Any major change in the present broad arrangement has to be reconciled with the maintenance of a general uniformity of approach in the Kingdom as a whole to the allocation of resources, to taxation arrangements and to the overall management of the economy. Consideration of alternative approaches, including the proposal in Scheme A for a nominated Exchequer Board, has confirmed the very great difficulty of finding acceptable solutions to these problems.

b. Trade, Industry and Employment
There is still a great deal of doubt about whether and if so how far executive powers in these fields could be devolved to Scottish and Welsh assemblies without prejudice to the essential economic unity of the United Kingdom. There is a strong desire for more decision-making in Scotland and Wales, but this would not necessarily require the creation of an elected assembly.

c. Local government
There is understandable concern both about the timing and effect of any constitutional changes in relation to the re-organisation of local government, and about the possible attitude of directly-elected assemblies to the new local authorities who have just taken over their full responsibilities in Wales and will be doing so in Scotland next year.

d. The Secretary of State
There is a strong desire both in Scotland and in Wales to retain an effective Secretary of State. Major changes and a diminution in their present powers would be an inevitable consequence of a substantial measure of devolution;
careful thought will have to be given to their precise role. They will however retain important executive functions, will act as spokesmen for Scotland and for Wales in the United Kingdom Government for those matters which are not devolved and will contribute to the formulation of United Kingdom policy as a whole. Indeed, an extension of their responsibilities, particularly in the field of industry, may point the way to a solution to some of the problems outlined in sub-paragraphs a. above.

e. Representation in the United Kingdom Parliament
There is a great reluctance to see any reduction in the number of Scottish or Welsh Members of the United Kingdom Parliament at Westminster, with a consequent weakening of Scottish or Welsh influence in United Kingdom affairs. This must be reconciled with whatever devolutionary arrangements are made.

THE GOVERNMENT'S DECISIONS

24. All these outstanding problems as well as a great many matters of detail will require further very careful and thorough study before the Government are in a position to put forward fully worked out proposals. But they accept the broad conclusion of the Kilbrandon Commission that a substantial measure of devolution within the United Kingdom is desirable and that it is practicable to establish directly-elected assemblies in both Scotland and Wales.

25. The Government attach equal importance to democratic accountability of government in England. In Scotland and Wales there has already been a sufficient debate to enable the Government to make firm proposals. In England, however, the consultation process is not yet complete, and it would be wrong to go further until all the bodies consulted have had the opportunity to express themselves and it is clear what the people of England want.

26. Northern Ireland comes into a different category from Scotland and Wales because of the facts of its history and geography and the presence of two communities in the province. The Government have already published their proposals for Northern Ireland in a White Paper "The Northern Ireland Constitution" (Cmnd 5675) based on elections to a Consultative Convention whi
will enable elected representatives of the people of Northern Ireland to consider "what provision for the government of Northern Ireland is likely to command the most widespread acceptance throughout the community". Final decisions on these proposals will be taken by Parliament.

27. For Scotland and Wales the Government now propose the creation of directly-elected assemblies. While these new institutions will have certain common characteristics and relationships to the central government, they will naturally have to reflect the differences in governmental structure between Scotland and Wales which already exist. In particular, as explained in paragraphs 5 and 6, Scotland has a distinctive legal structure which is recognised in existing legislative practice. The Government have therefore concluded that the Scottish assembly should have a legislative role and have legislative powers within fields in which separate Scottish legislation already exists such as, for example, housing, health and education. Taking account of the different structures of law in Scotland and Wales but with the same principles in mind the Government intend that the Welsh assembly should parallel the Scottish counterpart in assuming certain powers of the Secretary of State in respect of delegated legislation. The Welsh assembly would also be given responsibility for many of the executive functions at present carried out by non-democratic nominated bodies within Wales, and by the Secretary of State himself.

28. The membership, functions and procedures of the assemblies will call for detailed study and consideration. The Government's provisional proposals on some key aspects are as follows -

a. Membership will be on the same system as membership of the United Kingdom Parliament, ie a single member elected for a geographical area. This is simple to operate, easily understood by the public and provides for the clear and direct accountability of the elected representative to his constituents. The single transferable vote and alternative vote systems would not have these advantages; they are cumbersome and complicated, and in their divergence from current practice for local authority and Parliamentary elections they would be confusing to electors.
b. The assemblies will assume some of the executive functions of the Scottish and Welsh Offices, and of the non-democratic nominated authority now operating within their boundaries.

c. The financial allocation for the functions over which the assemblies have responsibility will be in the form of a block grant voted by the United Kingdom Parliament which will take account of both local needs and the desirability of some uniformity of standards of services in all parts of the United Kingdom. It will be for the assemblies to judge among competing priorities within Scotland and Wales in the light of their own assessment of their communities' needs: as between, for example, hospital and roads or schools and houses.

d. The assemblies will not be expected to assume existing powers from local government, since this would undermine rather than improve democracy. There will, of course, be a new relationship to be established between the assemblies and local government, and the new authorities created by recent local government reorganisation will require time to settle down in their new functions before this can be achieved.

29. The setting up of Scottish and Welsh assemblies does not, however, detract in any way from the overriding interest of all the peoples of the United Kingdom in the determination of United Kingdom policies as a whole. The United Kingdom Parliament and the central Government Ministers will of course remain fully responsible for the overall interests of the United Kingdom and it is essential that the determination of United Kingdom policies should fully reflect the needs and contributions of all its constituent parts. For this reason the Government regard it as essential that both Scotland and Wales should retain their existing number of Members of Parliament in the United Kingdom Parliament and that there should continue to be Secretaries of State for Scotland and Wales who act as full members of the United Kingdom Government in forming United Kingdom policies. This is especially important in relation to the distribution of resources as between Scotland, Wales and the regions of England: these are fundamentally political decisions and cannot in the
Government's view be delegated to a nominated Exchequer Board as the authority to be responsible for this task. It must be determined within the Government itself, with the two Secretaries of State able to speak for Scotland and Wales, and approved in the House of Commons with Scotland and Wales fully represented in it.

OFF-SHORE OIL AND ECONOMIC DEVELOPMENT

30. The discovery of oil and gas deposits in the North Sea and Celtic Sea promises — though there is much to be done before the promise is fulfilled — new economic and industrial opportunities for the less prosperous areas in Scotland and Wales and the different parts of England. The Government have already acted: the headquarters of the Offshore Supplies Office of the Department of Energy is to be transferred to Glasgow and the new British National Oil Corporation is to have its headquarters in Scotland. Still more important in the Scottish context is the Government's intention to establish a Scottish Development Agency, which is to be responsible to the Secretary of State for Scotland. Its task will be to strengthen the instruments available for promoting the development and restructuring of the Scottish economy. It will also carry out in Scotland appropriate functions of the National Enterprise Board. And within the British Airports Authority a separate organisation to be known as Scottish Airports is to be set up. Similar arrangements will be made in Wales to strengthen the instruments for promoting the development of Wales' economy.

31. The Government is determined that the community and the regions in need receive their full and fair share of the profits resulting from the exploitation of these new energy resources. This must mean that maximum benefit goes to redress the regional imbalances in Scotland, Wales and England which have followed in the wake of the first Industrial Revolution.

32. The task of economic reconstruction is one for both central and regional government. Creating assemblies in Scotland and Wales will not of itself be a solution to our regional unemployment problems which have been so intractable up to now. Central government will have to take direct action on the lines already put forward in the White Paper on the Regeneration of British Industry.
But there must be scope too for real initiative and participation at the level of the assemblies, for instance by drawing up regional economic plans, and consideration will need to be given to the relationship between the Development Agencies and the Assemblies.

CONCLUSION

33. In its approach to devolution the Government is concerned to foster democratic control over the increasingly complex processes of modern government and to bring government closer to the people. The people and their representatives must have a full share in the decision-making process. This is the main objective - to make a reality of the principle of democratic accountability. The Government has now decided in principle the way in which this should be accomplished in Scotland and Wales.

34. The Government intends to legislate for the establishment of Scottish and Welsh assemblies as soon as possible. Much work still remains to be done and many critical decisions taken on which the Government will wish to have the widest consultations. But when detailed schemes have been worked out and implemented the Government believe that this could bring great benefits to the people of Scotland and Wales. They would be able to have a decisive voice in the running of their own domestic affairs. At the same time the political and economic unity of the United Kingdom would be preserved - with all the attendant benefits from that unity which accrue to the people of Scotland and Wales no less than to the people in the different parts of England. There are, of course, many material aspirations and social objectives which devolution cannot further. Nor can it solve - indeed if wrong decisions were taken it could aggravate - our basic economic problems of how to raise the national output, reduce inflation and secure a satisfactory balance of payments. The Government are, however, confident that, given the will to make devolution work, the proposals here outlined can provide a framework which will give full scope for the creative energies of all our people.

10 September 1974
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.\(^2\) 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
- Town and country planning
- New towns
- Housing
- Building control
- Water supply and sewerage
- Ancient monuments and historic buildings
- Roads (including the construction, use and licensing of vehicles)
- Road passenger transport
- Harbours
- Other environmental services (e.g., prevention of pollution, coast protection and flood prevention)
- Education (probably excluding universities)
- Youth and community services
- Sports and recreation
- Arts and culture (including the Welsh and Gaelic languages)

\(^2\) 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.

\(^2\) 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 (including matters such as betting, gaming, and lotteries, obscene publications, shop hours and liquor licensing)  
Crown estates  
Tourism  

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

- Police  
- Legal matters, including law reform  
- Fire services  
- Highlands and Islands development (including crofting)  
- Criminal policy and administration  
- Sea transport  
- Prisons  
- 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.

(5) 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.

(6) Majority Report, paragraph 1134.

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

(8) 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.\(^{(1)}\)

**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.

\(^{(1)}\) 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.
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.

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(19) Majority Report, paragraphs 831 to 833 and 1158.
(20) Majority Report, paragraph 1159.
(21) The scheme is set out in the Majority Report, at paragraphs 1174 to 1183.
(22) Majority Report, paragraphs 1175 and 1178.
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 \textit{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.\(^{(26)}\)

\textit{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 summarised 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.\(^{(27)}\)

\textit{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 \textit{ad hoc} bodies.

\(^{(23)}\) Majority Report, paragraph 1176.  
\(^{(24)}\) Majority Report, paragraph 1178.  
\(^{(25)}\) Majority Report, paragraph 1177.  
\(^{(26)}\) 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.\(^{(28)}\)

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.\(^{(29)}\)

**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

\(^{(28)}\) 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.
11 September 1974

CABINET

PUBLIC EXPENDITURE ON EDUCATION 1974–75 TO 1978–79

Memorandum by the Secretary of State for Education and Science

1. At a time when public expenditure has to be severely constrained, it is all the more important that we should get our priorities right. If we follow the Chancellor's proposals I fear we shall be taking the wrong course; while assenting to large increases in subsidies and transfer payments, we shall be starving the basic social services, including education, of the resources they need to operate at even a tolerable level of efficiency.

2. Over the last year education has lost ground in the allocation of resources, compared with many other programmes. It suffered severely under the cuts imposed by the last Government in December 1973, and we have done nothing to restore those cuts. Nor has education had any share of the large increases in public expenditure which we authorised for other services soon after we came into office.

3. The formula we adopted earlier this year to set expenditure limits for programmes for the purposes of the Public Expenditure Survey Committee (PESC) report bore as hardly upon education as on any other service. However the education figures in the PESC report, taking the four years 1975–76 to 1978–79 together, fell within the prescribed limits, though only by postulating further severe reductions in both capital and current expenditure. Since that report was prepared revised forecasts of pupil and student numbers have led me to judge that, by taking a calculated risk about future likely demand for education, it is possible to reduce my estimates (excluding those for Scotland) by £176 million over the four years. In particular I am ready to accept a target of 640,000 students in higher education in 1981, compared with the figure of a million that we advocated when in opposition. This presents an opportunity to restore many of the cuts which were assumed for PESC purposes, and my proposals, as set out in the Chancellor's paper, are intended to achieve this purpose and still yield a small net saving. For his part, the Chancellor has offered me £23 million as part of the package for the reflation of the building industry—a very welcome step which will however help me only in 1975–76—£4 million for an increase in the rate of grant to Church schools (which will do nothing to provide additional educational facilities) and £37 million for other expenditure, a total of £64 million. This does not go nearly far
enough. In the first place I must restore the cut of £25 million in local authority current expenditure on education in 1975-76 built into the PESC figures. Coming immediately after the cuts in 1974-75 made by our predecessors last year, it is bound to depress the standard of provision of books and equipment, already a subject of widespread complaint, and may well lead to unemployment among newly trained teachers - all this at a time when the Bullock Committee has just recommended a big effort to improve the teaching of reading.

4. On capital expenditure:

i. The nursery building programme for 1975-76 would still fall short of the £22.9 million (starts) already allocated by our predecessors to local authorities for that year (and for 1974-75). If our statement in The Queen's Speech of priority for nursery education is to be honoured, the cut must be restored.

ii. The special school building programme for 1975-76 would still be well below the original figure. Here again, if our pledges to help handicapped children are not to be broken, the cut must be restored.

iii. The non-advanced further education programme of £15 million (starts) for 1975-76 would be only half the original figure. Further education at this level not only provides opportunities for the majority of school leavers who do not go on to university or other higher education but also represents an investment in skilled manpower urgently needed by industry. I want to see the original programme restored.

iv. I must do more to replace old schools, secondary - to help comprehensive reorganisation - as well as primary. The figures that I have in mind (£37 million starts in 1975-76 rising to £55 million in 1978-79) are still well below those planned by the last Government.

5. Even after the additions proposed in the two previous paragraphs, my programme will not allow for the restoration of free milk to all children under 11. It also envisages increases totalling 3p in the charge for school meals next year, the first of which would take effect in January 1975. Indeed I attach so much importance to the restoration of the cuts which I have listed, that, as a contribution towards the expenditure entailed, beyond the limits proposed by the Chancellor, I am ready to see the price of the school meal increased by 3p (as was done in April 1971) in January next, with subsequent increases each year sufficient to ensure that the charge to parents keeps pace with rising prices.

6. I invite my colleagues to note the consequences for the education service of accepting the Chancellor's proposals, and to approve my own proposals as set out in paragraphs 3 and 4.
HEALTH AND PERSONAL SOCIAL SERVICES

1. In my discussions with the Chancellor of the Exchequer I stressed the need for additional provision of £100 million over that provided for 1975-76 in the PESC Report to meet the urgent needs of the health services. The policy changes already agreed and the proposals put forward by the Chancellor of the Exchequer (see Table 3 of C(74) 100) would provide some £30 million of the additional money I need. But this leaves a gap of £70 million both in 1975-76 and the remaining years of the Survey period which must be filled if we are to avoid the risk of a virtual collapse of the health service.

BACKGROUND

2. The broad background to these needs may be summarised as follows:

i. It is widely accepted that the National Health Service (NHS) has been seriously under-financed for many years. There are still large areas of the country where standards are acceptably low and which must have additional money if they are to be able to provide anything like an adequate service. The average age of our hospitals is 70 years and fully 20 per cent of these were built before 1861.

ii. My Department, more than any other, suffers from the pressures of a growing and ageing population. Total population is growing at about 0.2 per cent each year but the proportion of people aged 65 years and over is increasing much more rapidly (by 100,000 or 1.6 per cent a year). New accommodation and services must be provided for the elderly both in hospitals and in the community and the cost of these is very heavy.
iii. There are steadily increasing pressures on the NHS as a result of the public demand for better health care (not only as regards treatment but in the field of preventive medicine) and the desperate need to improve conditions in services for the mentally ill and handicapped.

iv. Cuts in expenditure made by our predecessors exacerbated the serious problem of arrears of maintenance of buildings, plant and equipment. In 1972 the backlog was estimated at over £100 million and unless we do something about it this will grow over the Survey period to even larger proportions. Present PESC figures leave no margin to deal with these arrears. In addition, as a result of new legislation, we have to undertake another £100 million of work to provide for fire precautions in hospitals that will meet the standards now set.

v. The NHS is in process of radical re-organisation and the new Health Authorities have to meet the unavoidable cost of this from their already strained resources.

CAPITAL NEEDS

3. As the recent Report of the Expenditure Committee has underlined, the cuts imposed by our predecessors (which we have maintained) on capital programmes mean that we are faced with a virtual moratorium on starts of major new schemes for both 1975-76 and 1976-77 and very seriously reduced expenditure on smaller projects of great significance in social terms eg homes and hostels for the elderly and mentally ill and handicapped. I need £30 million extra capital for hospitals alone and the amount allotted to my Department in the construction industry package will fill only a minor part of this gap: only enough in fact to allow us to maintain the planned expansion of the Health Centre programme. Even before the capital cuts our programme of new district general hospitals would only have reduced the average age of hospitals to 50 years by the end of the century. We cannot make any progress in replacing the asylums and infirmaries of the last century if the additional funds that I am seeking cannot be provided.

REVENUE NEEDS

4. The proposals of the Chancellor of the Exchequer include provision for carrying forward excess expenditure on health services transferred this year from local to central government but this together with the small increase provided in the PESC Report will give little opportunity for any improvement after allowance has been made for the revenue consequences of capital schemes started in past years. Indeed, there is a real danger that in many areas the revenue allocations that we can provide will involve a reduction of standards.
SUMMARY

5. Thus, against the background of past neglect, we must have additional resources for the health services if they are not to come to a "grinding halt" as forecast in the Report of the Expenditure Committee. In view of the overall economic constraints I have resisted any temptation to overstate my cases. My estimate that the NHS needed an increase of £100 million over the figure given in the PESC Report was a modest one. Part of this has been provided but unless I can have the balance of about £70 million that I need we shall enter a period of risk in which at best the health services will only be able to 'make do and mend'! We have said that we are committed to the concept of a comprehensive National Health Service and pledged ourselves to revise and expand it. If we do not honour this pledge we shall both lose the confidence of the NHS staff and our credibility in the eyes of the public.

FAMILY ALLOWANCES AND FAMILY ENDOWMENT

6. The Chancellor proposes (C(74) 100):­

a. That the increase in family allowances (FAM) next year should be limited to 35p/25p (bringing the current rates to a level of £1.25 for all children after the first).

b. That the introduction of a scheme of family endowment providing improved cash allowances (including allowances for first and only children) in replacement of child tax allowances should be deferred for a year to April 1977, and that the new rates of allowance should be limited to £2.12 with residual child tax allowance.

7. I have already reduced my bids for social security for 1976-77 from £734 million, (including £275 million for Family Endowment at the £2.40 rate) to £415 million. Any further reduction would be disproportionate in relation to our social objectives.

8. Family allowances have not been increased since 1968. I propose an increase in April 1975 of 60p a week for the second child and 50p for the third and each later child, resulting in a uniform rate of £1.50. I then propose the introduction of a fully-fledged family endowment scheme in April 1976, if we possibly can, with a uniform rate of £2.40 a week for each child - including the first, who does not qualify for a family allowance at the moment. This rate of £2.40 will be enough to replace present child tax allowances (CTAs) completely, together with family allowances of £1.50.
9. I do not think we can defend the deferment of the scheme beyond 1976, if that can possibly be achieved. We are already under pressure to provide some form of benefit for the first child in the family; and the coalition of pressure groups working for this will be very vocal in the next Election. And we should beware of exaggerating the economy to be gained from deferment. In the absence of family endowment, even assuming that FAM could be held at my proposed 1975 level of £1.50, it seems unrealistic to assume that child tax allowances could remain unchanged in 1976. On PESC price assumptions over the 2 years 1974-75 and 1975-76, the cost of increasing CTAs by only half the increase in prices would be £95 million.

10. As to a reduction in the rate, I consider that there is no scope at all for a lower increase than my proposal for a FAM rise of 50-60p in 1975. Even this rate would fall short of maintaining the October 1968 FAM values. With a FAM increase of 50-60p a reduction in the £2.40 rate (e.g. to £2.20) saving £60 million would mean, if substantial numbers of ordinary taxpaying families were not to be worse off even in cash terms, the retention of residual CTAs for some five million children aged over 11. This would cushion the reduction to £2.20 for taxpayers where they have older children. No such cushion will be available to those too poor to pay tax, the very people we aim to help, who will stand to lose the full 20p per child. And for taxpayers, who form the great majority of families, even at the £2.40 rate, it is likely that inflation will seriously erode and in some cases completely eliminate the gains they would otherwise have made from family endowment.

11. A rate of £2.20 or £2.12 with residual CTAs has the further structural disadvantage that it subsequently becomes more expensive to introduce Family Endowment at a uniform rate to subsume the residual CTAs without making appreciable numbers of families worse off. This dilemma could only be avoided by reproducing the age relationship between CTA rates in age related Family Endowment. This is not a welcome constraint. There are other possibilities for differential rates besides age relationships and other age relationships besides those which obtain for CTAs.

12. A rate of £2.40 is less vulnerable than £2.20 or £2.12 to Conservative references to their proposed child credit rate of their Tax Credit Scheme. This on the Green Paper structure would be £2.70 now, and well over £3 by 1976. Although it would not be difficult to show that their tax credit scheme would be so expensive as to be quite irrelevant now, it is desirable to minimise the impact of this criticism.
13. Either deferment or a lower rate would cause serious difficulty in relation to pressure for a Finer benefit for one-parent families. I was only able to drop this item for this year's PESC on the understanding that we were to make worthwhile progress on Family Endowment.

14. Finally, I am bound to suggest that if further economy is needed, it can be effected by making Family Endowment worth the same for all taxpayers by abolishing CTAs against higher rate tax. I understand this would save at least £35 million. While I understand the desire not to deprive higher-rate taxpayers of the extra value which CTAs at present represent for them, it is far from clear that this desire should receive priority in the extremely straitened circumstances in which we are now having to plan our social policies.

B A C

Department of Health and Social Security

11 September 1974
16 September 1974

CABINET

DEMOCRACY AND DEVOLUTION PROPOSALS FOR SCOTLAND AND WALES

Note by the Prime Minister

For the information of my colleagues I am circulating with this note a copy of the White Paper on Democracy and Devolution Proposals for Scotland and Wales, which will be published at 10.30 am on Tuesday 17 September 1974.

H W

10 Downing Street
16 September 1974
Democracy and Devolution
Proposals for Scotland and Wales
Democracy and Devolution—Proposals for Scotland and Wales

INTRODUCTION

1. In 1968 the Government announced their decision to set up the Royal Commission on the Constitution. The Prime Minister said at the time that an important reason for appointing the Commission was the “strong feeling, not only in Scotland and Wales, but in many parts of England, of a greater desire for participation in the process of decision making, moving it nearer—wherever this is possible—to the places where people live”. The Commission, under the chairmanship of Lord Kilbrandon, reported in October 1973. It was unanimous in rejecting separatism and federalism and in recommending directly elected Scottish and Welsh assemblies, but was divided in the rest of its recommendations. The Queen’s Speech on 12 March 1974 said the Government “will initiate discussions in Scotland and Wales on the Report of the Commission on the Constitution, and will bring forward proposals for consideration”. Accordingly, to provide the basis for these discussions the Government published on 3 June 1974 “Devolution within the United Kingdom—Some Alternatives for Discussion”. This Consultative Document summarised the various schemes of devolution recommended in the Kilbrandon Commission’s main Report and in the Memorandum of Dissent which accompanied it and posed a number of questions and identified problems relating to each of the possible schemes. The Government are now able to report on the outcome of the consultations they have undertaken during the Summer of 1974 and, in the light of them, to set out their decisions of principle as a basis for further development.

THE UNITY OF THE UNITED KINGDOM

2. The Government agree wholeheartedly with the Commission on the Constitution in rejecting separatism and federalism as a solution. The Government, like the Royal Commission, regard it as a vital and fundamental principle to maintain the economic and political unity of the United Kingdom. This is not just a matter of tradition and sentiment, important though they are. The unity of the country and of the economy is essential both to the strength of our international position and to the growth of our industry and national wealth. That unity is thus crucial if we are to play an effective role in international negotiations, whether political or economic; and it is crucial for the central management of the economy and so to the redistribution of resources in favour of all the less prosperous areas of the United Kingdom.

3. It does not follow, however, that each of the constituent parts of the United Kingdom must be treated in exactly the same way. While the people of Scotland and Wales, as the Royal Commission noted, consider themselves to be British, they are also deeply conscious of the fact that they are Scottish or Welsh. Nor does it follow that Scotland and Wales must be treated exactly like each other. They have differing histories, backgrounds and cultural traditions. Because the circumstances of the two countries are so different, the present arrangements for their government are not the same and it will not be
surprising if their future systems of government are different. What is important is that the needs and aspirations of the Scottish and Welsh people are properly met. In this context the Government are firmly convinced, as was the Royal Commission, that the United Kingdom must remain one country and one economy and that constitutional change must be undertaken with the clear objective of strengthening rather than weakening this unity.

4. Within the United Kingdom there has however already been a substantial movement of Government and decision making away from London—what the Kilbrandon Commission called administrative devolution. These developments, which have been of benefit especially to Scotland and Wales, are summarised in the following paragraphs. The Government intend to build on what has already been achieved, in order to provide more democratic involvement.

EXISTING DEVOLUTION

Scotland

5. Since 1885 when a Secretary for Scotland was appointed, and particularly from 1939 when the Scottish Office in broadly its present form was established in Edinburgh, a very wide measure of administrative devolution has been developed. Since the war additional functions have been progressively transferred to the Scottish Office. The Secretary of State, as a member of the United Kingdom Government, now has major responsibility in Scotland (with some exceptions) both for the formulation of policy and its execution in such major fields as agriculture and fisheries; education; local government and environmental services; social work, health and housing; roads and certain aspects of shipping and road transport services. He is also responsible for a range of other functions from police and fire services to sport and tourism.* The United Kingdom Government's administrative functions arising from these responsibilities are carried out in the five Scottish Departments based on St. Andrew's House in Edinburgh. For most of these subjects there is separate Scottish legislation or Scottish application clauses in United Kingdom Acts of Parliament. Separate Scottish legislation has special Parliamentary machinery to handle it consisting of the Scottish Grand Committee, on which all 71 Scottish Members of Parliament sit, and two Scottish Standing Committees which consider the details of Scottish legislation.

6. One basic reason for these differences in legislation and administrative practice arises from the existence of a separate system of Scottish law, the preservation of which was provided for in the Union settlement of 1707. The Secretary of State has accordingly responsibility for legal services in Scotland, and other important responsibilities are exercised by the two Scottish Law Officers, the Lord Advocate and the Solicitor General for Scotland. But it is not just a case of Scottish legislation in parallel with that for England and Wales; there are usually distinctive Scottish features and in some cases the approach is markedly different, reflecting the differing needs and conditions of Scotland and the people living there. Many examples are to be found in such fields as

* The Secretary of State's major responsibilities are as follows: agriculture and fisheries, criminal law, crofting, education, electricity, environmental services, health, Highlands and Islands development, housing, legal services, local government, police, prison and fire services, roads, certain aspects of shipping and road transport services, social work, sport, recreation and the arts, tourism, town and country planning and youth and community services.
health, education, social work, housing and criminal law. Devolution to Scotland—in the sense of running things differently in Scotland because Scotland is different—is therefore nothing new.

7. The Secretary of State also has a major role in the planning and development of the Scottish economy and plays a full part in the Government's determination of Energy policy. He exercises a co-ordinating function over activities in Scotland, such as the location of industry, the creation of employment and the on-shore facilities needed for North Sea oil, which are not his direct responsibility but have an important, indeed vital, effect on the economy of Scotland. The United Kingdom Departments with significant Scottish responsibilities have offices in Scotland with delegated powers and work closely with the Scottish Office. The decentralisation of central Government functions has also benefited the Scottish economy and the Government has decided to further this by transferring 6,000 Ministry of Defence and 1,000 Ministry of Overseas Development posts to Glasgow over the next ten years.

8. The existence of these separate administrative arrangements in Scotland has greatly benefited the people of Scotland in that they have enabled special Scottish needs to be recognised and met. A practical illustration of this is that identifiable public expenditure per head in Scotland has been at a very significantly higher level than elsewhere in the United Kingdom (except in very recent years in Northern Ireland).

Wales

9. Substantial administrative devolution to Wales has also already taken place, though at a later historical stage than in the case of Scotland. The first Minister for Welsh Affairs was appointed in 1951, but the most important measures of devolution have been concentrated into the last ten years. The first Secretary of State was appointed in 1964, and since then the Welsh Office's functions have grown rapidly. The Department now has responsibility in Wales for housing, health, the social services, primary and secondary education, child care, town and country planning, water, highways, tourism, forestry and agriculture (jointly with the Ministry of Agriculture, Fisheries and Food), and many other functions. The strengthening of the Office still continues; the post of its Civil Service head was recently upgraded to that of full Permanent Secretary.

10. In other ways too administration has been reshaped and strengthened and decision making has been devolved to take account of Welsh interests in economic and other fields. The Secretary of State has a general responsibility for the economic development of Wales and exercises a co-ordinating responsibility in Government action to promote the welfare of Wales. Considerable powers have been delegated to the Department of Trade and Industry Office for Wales, and Wales has its own Industrial Director and Industrial Development Board. The Government have also announced their decision, as a further step to assist the economy, to transfer over 7,000 Civil Service posts to Wales in the next ten years. As in Scotland, identifiable public expenditure per head in Wales has for many years been running at a substantially higher level than in England.

11. In consequence of these and other measures Government action is increasingly adapted to fit Welsh needs and to further Welsh interests. The role of the Secretary of State in the United Kingdom Government is fundamental.
He not only has full responsibility for the matters referred to in paragraph 9 above; in other matters affecting Wales he has powers of oversight and he safeguards and furthers Welsh interests both in Cabinet and in discussion with Departmental Ministers, thus exercising a direct and powerful influence on all policies affecting Wales.

12. Welsh interests are further represented centrally through the 36 Welsh Members of Parliament at Westminster who, in addition to their other Parliamentary or Ministerial functions, all sit on the Welsh Grand Committee which provides a further forum for debate and discussion of matters concerning Wales.

England

13. For historical reasons there has not been the same pressure for substantial devolution in England. The fact of the differing circumstances and needs of different parts of England was however recognised by the creation in 1964 of the Economic Planning Boards and Councils; the Councils have been a valuable source of advice to successive Governments on the special requirements of their regions, and the Planning Boards have strengthened and extended the delegation of decision making from Whitehall Departments to regional centres. For instance, Regional Controllers of the Department of Industry now make important decisions affecting the location of industry by authorising loans of up to £1 million under the 1972 Act: Regional Directors of the Department of the Environment take the majority of the Department’s planning and highways decisions. Furthermore the Government have put forward for discussion certain proposals to aid democratisation in specific fields, for instance area and regional health authorities and to provide for statutory neighbourhood councils to be set up.

CONSULTATIONS ON THE CONSULTATIVE DOCUMENT

14. While recognising the benefits to Scotland and Wales of the existing system, the Kilbrandon Commission unanimously concluded that directly elected assemblies ought to be established for Scotland and for Wales to meet the legitimate desire of their people for greater control over their own affairs. The Commission was not agreed, however, on how this objective should be achieved, and in the main Report and the Memorandum of Dissent four schemes were set out for implementing this decision in relation to Scotland (Schemes A, B, C and E in the Consultative Document) and Wales (Schemes A, B, C and D). The Government invited all interested organisations and members of the public to comment on these schemes. For ease of reference, the description of the schemes in the Consultative Document is reproduced as an Appendix to this White Paper.

Scotland

15. The response of individual members of the public was disappointing; only about 170 letters or papers, some quite brief, were received. Of these there was no clear majority for any one solution, and indeed a significant number expressed no specific view.
16. On the other hand over 60 organisations, including the political parties, submitted written views. Among these there was considerable support for Scheme A or variations of it. While very few indeed favoured Schemes B or C, there was some support for Scheme E. A number wanted more decision making in Scotland, without associating that demand with any specific scheme. Some wanted no change in the present system and others wanted any decision deferred until the new local authorities had had time to settle down. Most of those representing local government were particularly concerned about the possible effects of the schemes considered on the new local authorities and their powers. Strathclyde Regional Authority, for example, urged the Government "to ensure that the new authorities are given sufficient time and independent power to establish and develop themselves and that in the meantime the discussions should continue".

17. During July and August 1974 a series of discussions was held in Scotland by Scottish Ministers, accompanied by the Government's constitutional adviser, Lord Crowther-Hunt, with some of the organisations which had submitted written observations. Bodies consulted in this way included the Scottish Council of the Labour Party, the Scottish National Party, the Scottish Council (Development and Industry), the Scottish Trades Union Congress, the Council of the Confederation of British-Industry in Scotland, the Church and Nation Committee of the Church of Scotland and various local authority representatives. These discussions reinforced points made in the written submissions and some points emerged of particular significance. One was a strong desire for more Government decision making to take place in Scotland—and in that context the announcement referred to in paragraph 34 below were welcomed. There was also widespread, though not unanimous, support for the view that there would be merit in the establishment of a directly elected Scottish assembly, but there was no agreement on what powers or functions the assembly should have. Of the schemes in the Consultative Document, Scheme A, which proposed a legislative assembly and government for Scotland, commanded the greatest support, but there was clearly a good deal of uncertainty about the precise implications of the scheme and the full significance of the fact that it involved a separate Scottish government responsible to the assembly. There was also very considerable opposition both to the abolition of the office of Secretary of State and to the reduction in the number of Scottish Members of Parliament at Westminster, for which Scheme A provided. Of the other schemes, hardly anyone thought them appropriate to Scottish conditions, except that Scheme E, which involved an advisory assembly with limited legislative functions and no Scottish Executive, attracted some support.

18. The process of consultation has made it apparent that opinion in Scotland is still divided. Many are convinced of the need for a substantial measure of devolution, involving a directly elected Scottish assembly with real powers. Others, though a minority, are equally convinced that any radical change in the present system would be to Scotland's detriment, though administrative devolution might be further developed. But the overwhelming view was that the essential political and economic unity of the United Kingdom should be preserved.
19. In accordance with the Government's undertaking to carry out discussions on the Commission's Report in Wales, the Secretary of State, with the assistance of the Government's constitutional adviser, has completed a programme of consultations.

20. The bodies consulted represented political parties in Wales, local authorities, both sides of industry and the farming community. The majority were in favour of the establishment of a directly elected assembly for Wales, but there was no general agreement on the functions it should exercise: opinion was divided between those who favoured legislative devolution (Scheme A) and those who were for executive devolution (Schemes B or C). The minority either favoured a directly elected Welsh Advisory Council (Scheme D) or wanted no fundamental change in existing arrangements. The points on which there was substantial agreement among those consulted were that the office of Secretary of State should continue and that there should be no reduction in the number of Welsh Members of Parliament.

21. The Secretary of State received written views from 30 organisations in Wales. In most cases these were briefly stated and did not attempt to deal with the detailed questions set out in the discussion document. The views of these organisations, mostly made up of individual local authorities and political, trade union and religious bodies, were divided: about one-third were in favour of legislative devolution; nearly half preferred executive devolution; and the remainder favoured other solutions or the status quo. In addition the Secretary of State received written views from a relatively small number of individuals, most of which were in favour of schemes of at least legislative devolution.

22. Thus no consensus of opinion has emerged. The case for an elected assembly is widely supported, but there is no general agreement about the powers it should exercise. However, there is an evident desire to see Government decision making made more responsive and accountable to the people, provided this can be done without disrupting the essential political and economic unity of the United Kingdom. In particular, it has been urged that the nominated bodies which at present carry out many functions in Wales should be replaced by a body representative of the Welsh people, which should also discharge some of the executive functions of Government Departments in Wales.

SOME MAJOR ISSUES

23. In a matter of this kind it is not surprising that, as the consultations have demonstrated, there are diverging views. The consultations also showed that while the majority of organisations and individuals who responded to the Government's invitation had a general picture of the sort of arrangements they favoured, few of them were prepared to accept all the implications which seemed logically to follow from these arrangements. The Government's continued studies during recent months have shown that any substantial scheme of
devolution raises difficult problems; and a number of very important matters remain to be resolved before it is possible to put forward detailed proposals which would command general support and would carry with them the prospect of stability. The major issues are:

(a) Finance and Economic Management

In any scheme of devolution the financial arrangements would clearly be of fundamental importance. Any major change in the present broad arrangement has to be reconciled with the maintenance of a general uniformity of approach in the Kingdom as a whole to the allocation of resources, to taxation arrangements and to the overall management of the economy. Consideration of alternative approaches, including the proposal in Scheme A for a nominated Exchequer Board, has confirmed the very great difficulty of finding acceptable solutions to these problems.

(b) Trade, Industry and Employment

There is still a great deal of doubt about whether and if so how far executive powers in these fields could be devolved to Scottish and Welsh assemblies without prejudice to the essential economic unity of the United Kingdom. There is a strong desire for more decision making in Scotland and Wales, but this would not necessarily require the creation of an elected assembly.

(c) Local government

There is understandable concern both about the timing and effect of any constitutional changes in relation to the re-organisation of local government, and about the possible attitude of directly elected assemblies to the new local authorities who have just taken over their full responsibilities in Wales and will be doing so in Scotland next year.

(d) The Secretary of State

There is a strong desire both in Scotland and in Wales to retain an effective Secretary of State. Major changes and a diminution in their present powers would be an inevitable consequence of a substantial measure of devolution; careful thought will have to be given to their precise role. They will however retain important executive functions, will act as spokesmen for Scotland and for Wales in the United Kingdom Government for those matters which are not devolved and will contribute to the formulation of United Kingdom policy as a whole. Indeed, an extension of their responsibilities, particularly in the field of industry, may point the way to a solution to some of the problems outlined in sub-paragraphs (a) and (b) above.

(e) Representation in the United Kingdom Parliament

There is a great reluctance to see any reduction in the number of Scottish or Welsh Members of the United Kingdom Parliament at Westminster, with a consequent weakening of Scottish or Welsh influence in United Kingdom affairs.
THE GOVERNMENT'S DECISIONS

24. All these outstanding problems as well as a great many matters of detail will require further very careful and thorough study before the Government are in a position to put forward fully worked out proposals. But they accept the broad conclusion of the Kilbrandon Commission that a further substantial measure of devolution within the United Kingdom is desirable and that it can best be achieved by the establishment of directly elected assemblies in both Scotland and Wales.

25. The Government attach equal importance to democratic accountability of government in England. In Scotland and Wales there has already been a sufficient debate to enable the Government to make firm proposals. In England, however, the consultation process is not yet complete, and it would be wrong to go further until all the bodies consulted have had the opportunity to express themselves and it is clear what the people of England want.

26. Northern Ireland comes into a different category from Scotland and Wales because of the facts of its history and geography and the presence of two communities in the province. The Government have already published their proposals for Northern Ireland in a White Paper “The Northern Ireland Constitution” (Cmnd 5675) based on elections to a Consultative Convention which will enable elected representatives of the people of Northern Ireland to consider “what provision for the government of Northern Ireland is likely to command the most widespread acceptance throughout the community”. Final decisions on these proposals will be taken by Parliament.

27. For Scotland and Wales the Government now propose the creation of directly elected assemblies.

28. While these new institutions will have certain common characteristics and relationships to the central Government, they will naturally have to reflect the differences in governmental structure between Scotland and Wales which already exist. In particular, as explained in paragraphs 5 and 6, Scotland has a distinctive legal structure which is recognised in existing legislative practice.

29. The Government have therefore concluded that the Scottish assembly should have a legislative role and have legislative powers within fields in which separate Scottish legislation already exists such as, for example, housing, health and education.

30. Taking account of the different structures of law in Scotland and Wales but with the same principles in mind the Government intend that the Welsh assembly should parallel the Scottish counterpart in assuming certain powers of the Secretary of State in respect of delegated legislation. The Welsh assembly would also be given responsibility for many of the executive functions at present carried out by nominated bodies within Wales, and by the Secretary of State himself.
31. The membership, functions and procedures of the assemblies will call for detailed study and consideration. The Government’s provisional proposals on some key aspects are as follows:

(a) Membership will be on the same system as membership of the United Kingdom Parliament, i.e. a single member elected for a geographical area. This is simple to operate, easily understood by the public and provides for the clear and direct accountability of the elected representative to his constituents.

(b) The assemblies will assume some of the executive functions of the Scottish and Welsh Offices, and of the nominated authorities now operating within their boundaries.

(c) The financial allocation for the functions over which the assemblies have responsibility will be in the form of a block grant voted by the United Kingdom Parliament under arrangements which will take account of both local needs and the desirability of some uniformity of standards of services and of contributions in all parts of the United Kingdom. It will be for the assemblies to judge among competing priorities within Scotland and Wales in the light of their own assessment of their communities’ needs: as between, for example, hospitals and roads or schools and houses.

(d) The assemblies will not be expected to assume existing powers from local government, since this would undermine rather than improve democracy. There will, of course, be a new relationship to be established between the assemblies and local government, and the new authorities created by recent local government reorganisation will require time to settle down in their new functions before this can be achieved.

32. The setting up of Scottish and Welsh assemblies does not, however, detract in any way from the overriding interest of all the peoples of the United Kingdom in the determination of United Kingdom policies as a whole. The United Kingdom Parliament and the central Government Ministers will of course remain fully responsible for the overall interests of the United Kingdom and it is essential that the determination of United Kingdom policies should fully reflect the needs and contributions of all its constituent parts.

33. For this reason the Government regard it as essential that both Scotland and Wales should retain their existing number of Members of Parliament in the United Kingdom Parliament and that there should continue to be Secretaries of State for Scotland and Wales who act as full members of the United Kingdom Government in forming United Kingdom policies. This is especially important in relation to the distribution of resources as between Scotland, Wales and the regions of England: these are fundamentally political decisions and cannot in the Government’s view be delegated to a nominated Exchequer Board as the authority to be responsible for this task. It must be determined within the Government itself, with the two Secretaries of State able to speak for Scotland and Wales, and approved in the House of Commons with Scotland and Wales fully represented in it.
OFF-SHORE OIL AND ECONOMIC DEVELOPMENT

34. The discovery of oil and gas deposits in the North Sea and Celtic Sea promises—though there is much to be done before the promise is fulfilled—new economic and industrial opportunities for the less prosperous areas in Scotland and Wales and England. The Government have already acted: the headquarters of the Offshore Supplies Office of the Department of Energy is being transferred to Glasgow and the new British National Oil Corporation is to have its headquarters in Scotland. Still more important in the Scottish context is the Government's intention to establish a Scottish Development Agency, which is to be responsible to the Secretary of State for Scotland. Its task will be to strengthen the instruments available for promoting the development and restructuring of the Scottish economy. It will also carry out in Scotland appropriate functions of the National Enterprise Board. And within the British Airports Authority a separate organisation to be known as Scottish Airports is to be set up. Similar arrangements will be made in Wales to strengthen the instruments for promoting the development of Wales' economy.

35. The Government is determined that the community as a whole and the regions in need receive their full and fair share of the benefits resulting from the exploitation of these new energy resources. This must mean that maximum benefit goes to redress the regional imbalances in Scotland, Wales and England which have followed in the wake of the first Industrial Revolution.

36. The task of economic reconstruction is one for both central and regional government. Creating assemblies in Scotland and Wales will not of itself be a solution to our regional unemployment problems which have been so intractable up to now. Central Government will have to take direct action on the lines already put forward in the White Paper on the Regeneration of British Industry. But there must be scope too for real initiative and participation at the level of the assemblies, for instance in the drawing up of regional economic plans, and consideration will need to be given to the relationship between the Development Agencies and the assemblies.

CONCLUSION

37. In its approach to devolution the Government is concerned to foster democratic control over the increasingly complex processes of modern government and to bring government closer to the people. The people and their representatives must have a full share in the decision-making process. This is the main objective—to make a reality of the principle of democratic accountability. The Government has now decided in principle the way in which this should be accomplished in Scotland and Wales.

38. The Government intends to legislate for the establishment of Scottish and Welsh assemblies as soon as possible. Much work still remains to be done and many critical decisions taken on which the Government will wish to have the widest consultations. But when detailed schemes have been worked out and implemented the Government believe that this will bring great benefits to the people of Scotland and Wales. They will be able to have a decisive voice in the
running of their own domestic affairs. At the same time the political and economic unity of the United Kingdom will be preserved—with all the attendant benefits from that unity which accrue to the people of Scotland and Wales no less than to the people in the different parts of England. There are, of course, many material aspirations and social objectives which devolution cannot further. Nor can it solve—and if wrong decisions were taken it could aggravate—our basic economic problems of how to raise the national output, reduce inflation and secure a satisfactory balance of payments. The Government are, however, confident that, given the will to make devolution work, the proposals here outlined provide a framework which will give full scope for the creative energies of all our people.
APPENDIX

EXTRACT FROM THE CONSULTATIVE DOCUMENT
"DEVOLUTION WITHIN THE UNITED KINGDOM"

THE SCHEMES RECOMMENDED IN THE MAJORITY REPORT
AND THE MEMORANDUM OF DISSENT

A. Legislative Devolution for Scotland and Wales

1. Legislative devolution was recommended for Scotland by eight of the
thirteen members of the Commission and for Wales by six members.\(^1\)

General description

2. 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.\(^2\) 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

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

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

\(^1\) 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.

\(^2\) Majority Report, paragraph 1126.
Social work services (including, for Scotland, probation and after-care)  Health  Agriculture, fisheries and food (except price support and some other functions)
Miscellaneous regulatory functions (including matters such as betting, gaming, and lotteries, obscene publications, shop hours and liquor licensing)  Forestry  Crown estates  Tourism

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

<table>
<thead>
<tr>
<th>Police</th>
<th>Legal matters, including law reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire services</td>
<td>Highlands and Islands development</td>
</tr>
<tr>
<td>Criminal policy and administration</td>
<td>(including crofting)</td>
</tr>
<tr>
<td>Prisons</td>
<td>Sea transport</td>
</tr>
<tr>
<td>Administration of justice</td>
<td></td>
</tr>
</tbody>
</table>

5. 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.

6. The legislative assemblies in Scotland and Wales would each have about 100 members directly elected for a fixed term of four 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.

7. 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.

8. 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.

9. 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.
10. 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 subven­
tions. They might also be able to raise loans to meet capital expenditure.

11. 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

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

General description

13. 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

14. The scheme envisages that the broad range of functions set out in paragraph 13 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.

15. 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.(8)

16. 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.(9)

17. The general financial arrangements are outlined at the end of paragraph 13 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.

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

(9) Memorandum of Dissent paragraphs 212 and 254 to 255.
18. 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.

19. 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

20. This scheme was recommended by two members who signed the Majority Report.\(^{10}\)

General description

21. 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.\(^{11}\) It could, however, like Scheme B above, be considered for application to Scotland and Wales only.

22. 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.

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\(^{10}\) 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.

\(^{11}\) 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 27 below).

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

Main features of the scheme

23. 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.

24. 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.

25. 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.

26. 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.
27. The relationship between the regional assemblies and local government could develop in a number of different ways.\(^{(18)}\) 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.

28. The precise relationship between the regional assemblies and \textit{ad hoc} bodies would depend on a detailed review.\(^{(19)}\)

\textbf{D. Welsh Advisory Council}

29. Three members who signed the Majority Report recommend the establishment of a Welsh Advisory Council.\(^{(20)}\)

\textit{General description}

30. 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.

\textit{Main features of the scheme}

31. 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 \textit{ad hoc} bodies operating there. It would inevitably be interested in, but would in no sense supervise, the activities of local authorities.\(^{(21)}\)

32. The Council’s scrutiny would range over such matters as the Welsh economy, employment, major road development and land use proposals,

\(^{(18)}\) Majority Report, paragraphs 831 to 833 and 1158.

\(^{(19)}\) Majority Report, paragraph 1159.

\(^{(20)}\) The scheme is set out in the Majority Report, at paragraphs 1174 to 1183.

\(^{(21)}\) Majority Report, paragraphs 1175 and 1178.
public services and the Welsh language. It would also hold an annual debate on the Government's expenditure proposals for Wales.\(^{(22)}\) 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 \textit{ad hoc} bodies operating in Wales.\(^{(23)}\)

33. 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.\(^{(24)}\)

E. A Scottish Council with Advisory and Legislative Functions

34. One member who signed the Majority Report recommended the establishment of a Scottish Council with advisory and legislative functions.\(^{(25)}\)

\textit{General description}

35. There would be a directly elected Scottish Council which would have the same advisory functions as proposed for the Welsh Council and summarised at paragraphs 30 to 33 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

36. Eight members of the Commission recommended this scheme for English regional councils with advisory and co-ordinating powers.\(^{(26)}\)

\textit{General description}

37. 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 \textit{ad hoc} bodies.\(^{(27)}\)
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**

38. 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.

39. 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.

40. 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.\(^\text{[27]}\)

41. 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**

42. This scheme is recommended for England by one member of the Commission.\(^\text{[28]}\)

**General description**

43. 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

\(^{[27]}\) Majority Report, paragraph 1204.

\(^{[28]}\) 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.\(^{(29)}\)

\(^{(29)}\) The organisation of the House of Commons on these lines is discussed in paragraphs 1050 to 1092 of the Majority Report.
CABINET

ELECTION BUSINESS COMMITTEE

Note by the Secretary of the Cabinet

1. In accordance with custom on the announcement of a Dissolution, the Prime Minister has appointed, for the duration of the Election campaign, an Election Business Committee with the following composition and terms of reference.

COMPOSITION

Lord Chancellor (Chairman)
Secretary of State for Prices and Consumer Protection
Secretary of State for Trade
Secretary of State for Education and Science
Lord Privy Seal

TERMS OF REFERENCE

"To provide a forum for the clearance of statements of policy by the Government; to co-ordinate, as appropriate, comments from Departments on the guidance prepared for the use of Government Party candidates in dealing with enquiries put to them during the Election campaign; and to consider replies by Departments to similar enquiries from Opposition Party candidates, organisations and members of the public".

SECRETARIAT

The Secretaries are Mr J A Hamilton, Mr K R Stowe and Mr R L Baxter, Cabinet Office.

2. A note which will be issued to all Departments giving guidance on the submission of matters to the Election Business Committee and for dealing with enquiries or requests for information, particularly by Parliamentary candidates, is annexed for the information of the Cabinet.

Signed JOHN HUNT

Cabinet Office
16 September 1974
ANNEX
ELECTION BUSINESS COMMITTEE

GENERAL

1. At a General Election the Government of the day is expected to vindicate its policies to the electorate, and by convention the Government Party is entitled to ensure that statements made on its behalf are factually correct and consistent with Government policy. The provision of rapid advice to Government candidates is made through the medium of an Election Business Committee of the Cabinet. Government Departments, however, must not appear to engage in Party politics or be used for Party ends; and should provide consistent factual information on request to candidates of different Parties, organisations and members of the public. It is desirable that Departments should, so far as possible, follow a common procedure in replying to enquiries and requests for information; and the Election Business Committee supervises these aspects also.

2. The circumstances of an Election demand the greatest speed in dealing with enquiries; in particular, the aim should be to answer those for Parliamentary candidates within the day.

FACTUAL INFORMATION

3. a. Departments should provide any Parliamentary candidate, organisation or member of the public with purely factual information which -

   i. Is not classified.

   ii. Does not require disproportionate time or effort to produce (of the guidelines for answering Parliamentary Questions).

b. Local and Regional Offices should deal similarly with straightforward enquiries to them, referring doubtful cases to Headquarters for decision.
REQUESTS FOR COMMENT OR GUIDANCE

4. a. From Labour Party Headquarters. Labour candidates and their agents are expected to look to the Party Headquarters who will collate requests and prepare draft replies. In appropriate cases the drafts will be forwarded to the Secretary of the Election Business Committee, who will obtain the comments of the Ministers concerned, and will if necessary submit final drafts of replies for the Committee's approval. The Party Headquarters will be responsible for passing on the necessary guidance to candidates.

b. From Labour candidates or their agents direct to Departments. These should be referred, through the Private Office of the responsible Minister, to the Secretary of the Election Business Committee. They should be accompanied by the Minister's advice on whether they should be considered by the Committee, and on the terms of a reply.

c. From Opposition candidates, organisations and members of the public. These should be answered by the responsible Minister or his Private Secretary -

i. Direct, in cases where the Government's policy is well established and widely known.

ii. In other cases, following clearance with the Election Business Committee via the Secretariat.

In either case, two copies of the eventual reply should be sent to the Secretary of the Committee.

POLICY STATEMENTS

5. a. If an enquiry addressed to a Department from any quarter appears to call for an important statement of policy, the Minister concerned may decide to seek the guidance of the Election Business Committee; and in any case it would be advisable to inform the Secretary of the Committee of the enquiry and the terms of the response.
b. If a Minister wishes to suggest a topic, where no issue of policy is concerned, on which guidance should be given to Labour candidates, the suggestion should be sent to the Party Headquarters, who will prepare first drafts and forward them to the Secretary of the Election Business Committee.

CONSTITUENCY CORRESPONDENCE

6. During the Election period replies to constituency letters received from Members of Parliament before the Dissolution, or to similar letters from Parliamentary candidates, should take into account that they may become public knowledge and the subject of political comment. They should be handled wherever possible under Ministerial guidance. In some cases it may not be appropriate for Ministers to reply personally to such letters until the result of the Election is known; in cases where the facts do not admit of delay a reply should normally be sent by the Private Secretary.

7. While it is impossible to cover every contingency or lay down hard and fast rules the following observations may be of help.

a. Once Parliament is dissolved, a Member of Parliament's constitutional right to represent his constituent's grievances to Government disappears also, and all candidates for an election are strictly speaking on an equal footing. But this doctrine should be applied in a reasonable way. Subject to the points made in paragraph 6 above Ministers ought to reply to constituency letters from MPs written before the Dissolution. In many cases it will be courteous for them to reply to letters written after the Dissolution by former Members: but they will not want to give any appearance of discrimination on constituency correspondence as between letters from Labour and other candidates. In some cases however a Private Secretary reply may be more appropriate.

b. Clearly the main consideration must be to ensure that the citizen's interests are not prejudiced; but Departments should also bear in mind -

i. There may be indications that some personal case is likely to be politically controversial - eg two candidates may write in about it, or there may be local publicity. There is little one can do
except keep a wary eye for trouble and ensure so far as possible that letters are simple, straightforward and give no room for misrepresentation. They should not be delayed because they may be difficult provided they do not raise issues of policy.

ii. Privilege covering correspondence between Ministers and MPs lapses on the Dissolution. Care should be taken in dealing with cases about individuals that letters to former MPs do not contain remarks that could be represented as defamatory.

c. Letters from former MPs or candidates asking for comment on matters of policy raised by their constituents should be handled in accordance with paragraph 4 above.

d. It will obviously become more difficult for Ministers to deal with individual cases as Polling Day approaches. If possible Departments should try to clear correspondence outstanding from before the Dissolution by 1 October.

18 September 1974
CABINET

STRATEGY AND PRIORITIES

Note by the Secretary of the Cabinet

By direction of the Prime Minister the attached memorandum by the Central Policy Review Staff is circulated for consideration by the Cabinet on 17 October.

Signed JOHN HUNT

Cabinet Office

14 October 1974
INTRODUCTION

The situation confronting Ministers is dangerously precarious.

2. The quadrupling of oil prices which followed the last round of fighting in the Middle East has created a very large imbalance in the world economy. This has exacerbated the down-turn in world economic activity which began in mid-1973 and threatens to drive most industrial countries into recession, and to disrupt the economies of the poorer non-oil-producing countries, particularly in Asia. The instability of the economic situation is creating new international political tensions between oil producers and oil consumers, between rich industrial countries and developing countries, and among the industrial countries themselves. These tensions are made worse by the increasing strains within NATO, by the uncertainties about the future of the EEC, and the spread of nuclear weapons.

3. Against an international background which is both rapidly changing and potentially unstable - and which the United Kingdom is increasingly unable to influence - Ministers are faced with a number of critical issues which will require immediate attention. The most urgent of these problems are economic - inflation and the social contract; the threat of bankruptcies and the loss of industrial confidence; the uncertainties about unemployment; the danger that, with the balance of payments in such heavy deficit, any loss of foreign confidence could very quickly produce an unmanageable run on sterling and a serious depreciation of the exchange rate; the difficulty of bringing increased claims for public expenditure within the resources available.

4. But, while the immediate problems are, in appearance, economic, there are no simple economic remedies which will produce easy or lasting solutions. If solutions are to be found they will need to be long-term in character, and they will have far-reaching social and political, as well as economic, implications.
5. In present circumstances, Ministers will find themselves faced with the need to take decisions on a wide range of issues. In many instances they will be urged, or tempted, to take the kind of action which will ease the immediate situation. But action which is designed to ease difficulties in one sector will often add to the difficulties of other sectors; and measures which concentrate on the short term are liable, all too frequently, to exacerbate difficulties in the longer term.

6. For all these reasons Ministers need, at the beginning of the new Parliament, to take stock of the situation as a whole; and, in the light of that stocktaking, to take a view of priorities and their strategy for achieving them.

7. This paper is intended to provide the basis for such a review. It is concerned not so much with specific recommendations for immediate action, but rather to identify the main issues and to suggest how they might be approached and how coherent solutions might be developed.

I - LONG-TERM OBJECTIVES

8. The Government's principal longer-term objectives may be set out as follows —

- to effect a major improvement in the United Kingdom's rate of economic growth;
- drastically to reduce the differences in prosperity and unemployment in different parts of the country;
- to reduce inflation to acceptable levels;
- to secure a satisfactory balance of payments position;
- to provide the basis for sustainable increases in both individual living standards and publicly provided services;
- to bring about, by fiscal policies and by the extension of public ownership a fairer distribution of income, wealth and power in society.
9. The progress that can be made towards these objectives during the next five years is necessarily limited, and in the next two years very limited indeed. The object must therefore be to work out policies and priorities which will form a basis for their achievement in the longer term, and for moving in the right direction in the medium term.

10. In particular, the achievement of a higher rate of economic growth, which is essential if the other objectives are to be achieved, will depend on the successful development of investment policies to increase productivity and exports, and of manpower policies to make the best use of the manpower available and remove the constraints to growth resulting from endemic shortages of the right kinds of skill.

II - THE MEDIUM TERM: ECONOMIC MANAGEMENT

Resource Constraints

11. Not all policies depend on increased use of resources. But what Ministers can do, over the next five years, is to a considerable extent determined by the resources at their disposal. Projecting the growth of resources is a hazardous undertaking, but experience shows that any Government which takes an over-optimistic view about the rate of growth of resources - and its capacity to increase the rate of growth of national resources - will soon find itself heading for a situation in which it is over-committed, it has to cut back in crisis conditions, and its failure to achieve unrealisable objectives results in frustration and demoralisation.

12. The average rate of increase of national output over the past 15 years has been 2.8 per cent a year. In only 4 of those 15 years has the rate of growth been much above 3 per cent, and those have been years when the economy has been recovering from a recession. On the best assessment of trends in productivity and the growth of the labour force, the rate of growth of national output over the next five years might be put at 3½ per cent per annum.

13. In considering the claims on this extra output the main conclusions are -

a. after taking into account all the likely gains from North Sea Oil, if we are to get out of deficit by 1978-79, we shall have to devote
about 20 per cent of the probable increase in national resources over the next five years to the balance of payments;
b. if we are to sustain our present modest rate of economic growth and provide the capital equipment necessary for full employment in the medium term, we need to increase productive investment, both public and private, by up to about 5 per cent a year; this extra investment would, if achieved, pre-empt a further 25 per cent of the probable increase in resources up to 1978-79;
c. in consequence, if the needs of the balance of payments and productive investment are to be met, little more than half the increase in resources over the next five years is likely to be available for increases in public expenditure and in the real take-home pay of wage and salary earners;
d. if planning is based on a rate of increase of private consumption which is unrealistically low, the public will respond by greater wage demands; given the inflexible nature of public expenditure programmes, such demands will be at the expense of exports and investment, and the whole strategy of "borrowing through to 1979" could collapse;
e. even if public expenditure is allowed to increase at the 2½ per cent a year illustrated in the Public Expenditure Survey, this implies a rate of increase in average real take-home pay of about 1½ per cent a year, or less than half the expected rate of increase of output and incomes; the achievement of this over a five year period will have serious implications both for the burden of taxation, and for the problem of containing demands for excessive increases in pay;
f. redistributive taxation of income and wealth will not release sufficient resources on anything like the scale needed to make possible both faster increases in workers' living standards and public expenditure than those shown above. Redistributive fiscal action is important in relation to social equity, but it cannot offer a significant source of extra resources for increasing public expenditure or raising real wages. Resources will be released to the extent that taxation reduces the current consumption of the better-off. So far as income is concerned, only 10 per cent of families have pre-tax incomes in excess of twice average industrial earnings, and these incomes are already pretty heavily taxed; so far as wealth taxes are
concerned, the people affected are not very numerous, and are likely to pay them by reducing their savings or selling assets, rather than by reducing their expenditure on goods and services very much, so that the resources released for other purposes will be very small.

Economic Management and Priority Objectives

14. Even if private consumption and public expenditure are contained within these limits, it will be difficult to achieve the required increases in exports and investment. The size of the present deficit and the loss of competitiveness from inflation, mean that a further downward movement of the exchange rate will almost certainly be necessary if the balance of payments objective is to be achieved. Judging by past performance, exchange rate adjustments may not be enough, and active policies of export promotion will almost certainly be required.

15. With industrial profits depressed, and lack of confidence widespread, it will be very difficult to induce the private sector to put in hand investment on the scale which the economy needs for longer-term growth. General measures of fiscal and monetary policy by themselves may well fail to induce the increases in investment and exports which the economy needs. The role of the NEDC and Planning Agreements in promoting exports and investment therefore need to be examined urgently, and other forms of collaboration between the Government and the private sector explored.

III - INFLATION

16. On present trends, the increase in retail prices between the fourth quarter of 1973 and the fourth quarter of 1974 will probably be of the order of 17-20 per cent, and the corresponding increase over 1975 perhaps 18-21 per cent.

17. The strains resulting from a 35 per cent increase in prices over two years will be very serious. But the implications for the longer term are even more disquieting. Judging by the way in which increases
in prices and earnings have tended to follow one another in the past, one must expect increases in retail prices of the order of 15-20 per cent during 1976, and of 10-15 per cent in 1977, even if import prices behave reasonably favourably.

18. In other words, unless some means can be found to alter the way in which increases in prices and increases in earnings interact, it could well be three or four years before the rate of inflation came down to single figures; and during that period one could expect something like a doubling of the price level and a halving of the purchasing power of the pound.

19. In tackling inflation, all the short-term arguments favour maintenance of very tight price control, and continuing to subsidise food and nationalised industry prices at an increasing rate. But -

i. if the price code is not relaxed soon, the damage to industry and future investment prospects will be unacceptable;

ii. to keep exports competitive, some depreciation of sterling over the next year or so is probably unavoidable, and the impact on the price level will have to be accepted;

iii. subsidies are at best a temporary and expensive expedient for buying time.

20. Up to now, no effective way has been found of combining full employment, price stability and uncontrolled free bargaining. It is illusory to suppose that a solution can be found simply by giving priority to free bargaining and unemployment; since the resulting inflation would itself make the employment objective unattainable. If statutory controls and mass unemployment are both rejected as unacceptable, then the only hope is to try and build on and strengthen the social contract, and get it accepted as a continuing institutional method of relating individual pay settlements to the overall needs of price stability. This requires
that Ministers should start considering the development of the social contract in a longer-term context, rather than accepting the "take it gently for the moment" approach of the TUC. A lot of thinking and persuasion will be required if this approach is to have any chance of success: a start needs to be made soon.

IV - ECONOMIC MANAGEMENT - SHORT TERM

21. The prospects for output and employment next year are, at present, very uncertain. There is no sign yet of the rise in unemployment which some observers have been predicting. Whether further reflationary action is required, and what form it might take, will need very careful thought.

22. More immediately, a number of companies in the private sector are in serious financial difficulties. The combination of inflation in companies' costs which is not adequately allowed for by the tax system, the effects of the Price Code and the slowdown in activity has meant that profits have been drastically squeezed. At the same time the very large increases in prices of raw materials and oil have created a very heavy demand for cash for financing stocks and work in progress. This, coming at a time when industry was only beginning to recover from the 1971-72 recession, has brought a lot of firms, both large and small, to near bankruptcy.

23. In this situation it is very difficult to devise short-term measures consistent with the medium-term objectives of economic management. The threat of impending bankruptcies and rising unemployment will require some reflationary action and measures to improve industrial profitability and cash flow. But, with the prospect of stagnation or recession in the rest of the world next year, it will be necessary to proceed with considerable caution: i. if our creditors considered we were reflating too rashly, loss of foreign confidence could be a serious embarrassment, and make exchange rate management more difficult; ii. we could easily overdo it, as on so many past occasions, and leave industry without the capacity to expand exports fast enough when the recovery of world trade comes; iii. action to reduce unemployment must depend, at least to some extent, on how effectively the social contract can be established and extended.
24. The Government is committed to a substantial extension of public ownership, to an interventionist industrial policy, and to the encouragement, in a variety of ways, of worker participation and industrial democracy. These commitments, superimposed on the commitment to continued price controls, the squeeze on profits, and the liquidity crisis facing large parts of the private sector have created an atmosphere of uncertainty and hostility in the private sector of industry. Until this uncertainty and hostility are removed, the private sector is unlikely to plan for the expansion of investment, output and exports which the situation requires.

25. A first priority, therefore, for an incoming Government must be to restore confidence in the private sector.

26. Even when the Government's most far-reaching proposals for the extension of public ownership have been implemented, a very large part of economic activity will remain in the private sector. For the foreseeable future, we shall be living in a mixed private/public sector economy. It will be quite impractical in the near future for selective Government intervention to make up for loss of confidence and inadequate finance in the private sector as a whole. This means that—
   a. that part of the economy which is to remain in the private sector must be given the certainty that it will in fact remain in the private sector, and be given assurances that it can operate effectively, within—if need be—defined guidelines;
   b. such assurances will need to include explicit commitments to allow the private sector to earn an adequate rate of profit, to have access to sufficient funds for new investment—whether through undistributed profits, or access to capital markets—and a self-denying commitment by the Government to refrain from arbitrary acts of intervention or policy changes which disrupt sensible corporate planning;
c. so far as those parts of the private sector which will be taken into public ownership are concerned, the present managements must be sufficiently clear about the Government's intentions, to ensure that uncertainties do not inhibit decisions about investment, production and marketing strategies.

VI - INDUSTRIAL POLICY: PUBLIC SECTOR

27. If nothing is done, the situation of the nationalised industries will be well-nigh hopeless. Since 1971, at least, Ministers have been interfering with the nationalised industries' wages and salaries and prices, and with their decisions on investment, location and choice of technique. They have done so mainly in the hope of buying time. But the effect has been -

a. to introduce large distortions into the price structure, particularly for energy and transport;
b. to lead to a large-scale misallocation of resources, and to remove the basis for rational investment decision-taking by the industries concerned;
c. to remove the basis for any sensible wage-bargaining: the notion that "the State will pay" any subsidies that are necessary to maintain output and employment is incompatible with rational wage negotiation - and the irrationality involved quickly spreads round the economy as a whole;
d. to destroy the concept of managerial responsibility for the conduct of the affairs of the nationalised industries: the morale of nationalised industries' management is, in consequence, lower than it has ever been; the chances of getting sensible management decisions from or attracting good new recruits to boards of existing nationalised industries have been seriously prejudiced; and the prospects for the industries which the Government proposes to bring into public ownership are similarly in doubt.
28. In particular, the Government needs—
a. to work out a strategy for energy prices which bears some relation to the realities of the situation: at present, in order to keep down domestic fuel costs for the poor they are obliging nationalised industries to pay disproportionately large subsidies to the rich (who consume much more electricity and gas than the poor);
b. to work out a strategy for transport which does not involve arbitrary subsidies for haphazardly selected sectors of the rail and bus networks.

29. In the longer term, the Government will need to frame new guidelines for the nationalised industries (both those now nationalised, and those to be taken into public ownership) which will enable those industries to conduct their operations on commercial lines consistent with sensible principles of resource allocation, while taking account of the strategic objectives of Government policy.

VII - PUBLIC EXPENDITURE

30. The constraints on resources have already been described in paragraphs 11-13. The need for exports, investment, and a minimum increase in private consumption to avert an uncontrollable pay explosion all indicate that public expenditure should not be allowed to increase over the next five years by more than 2½ per cent a year in terms of direct demand on resources.

31. Even after the Defence Review, the scope for increases in public expenditure will thus be very small, and Ministers will find it extremely difficult to get their existing programmes within the overall total. This means that Ministers can only take on new commitments involving significant amounts of public expenditure over the next five years if they are able to find compensating savings on existing programmes, whether by cutting out existing activities, or by slowing down rates of investment and projected improvements in services. The manpower increases proposed for the social services are incompatible
with our near-static labour force. The constraints are such as to require not merely a major re-appraisal of priorities across the board; they also constitute a major obstacle to the achievement of aspirations for social improvement which are shared by Ministers and a large body of public opinion. The public have come to believe that what is desirable is possible. To convince them that this is not so will require a major effort in education and persuasion, directed not merely at the public at large, but at pressure groups lobbying for particular interests, and at the professions — eg in architecture, health and education — whose views about standards are unrelated to the facts of the economic situation.

32. Local authorities pose special difficulties for public expenditure control. The Central Government has reasonably good control of the majority of their capital programmes, but control of their current expenditures is very imperfect. Unless means can be found to rectify this, Ministers are likely to find that their objectives and priorities are being frustrated by decisions of local authorities.

33. Short-term increases in public expenditure may be suggested as a means of dealing with rising unemployment next year. Most increases in public expenditure are so irreversible that to go any distance down this road would be very dangerous. All the evidence suggests that attempts to use public expenditure as a means of dealing with short-term unemployment almost invariably backfire, and exacerbate the difficulties of public expenditure control in the medium term.

VIII - HOUSING POLICY

34. Housing is one of the most politically sensitive areas of policy, and, in social terms, one of the most important. In all its various forms, public expenditure on housing is running at some £3,000 million a year, or 50 per cent more than two years ago.
35. No post-war Government has found it easy to work out or implement an effective housing policy. Given the general economic situation, the recent disproportionately rapid inflation in building costs, and the potential open-endedness of the commitments for better and more heavily subsidised housing, Ministers now need to work out a new strategy for housing which, recognising the importance of housing objectives in social policy, makes expenditure as effective as possible. In this, four questions are relevant, both for the public and the private sector:

a. what can the Government do to ensure that effort is concentrated on those areas and those types of dwellings where shortages are worst?

b. can further steps be taken to ensure a steady output of houses at reasonable prices despite the difficulties now facing the building industry? This will involve both greater collaboration between the Government and the building societies, and the development of the "positive planning" element of the land nationalisation proposals;

c. can financial assistance be concentrated on those who genuinely need it? A sizeable percentage of those enjoying the benefits (eg of the holding down of mortgage rates, the rents freeze, and improvement grants) can probably afford to do without;

d. can the ever-increasing polarisation of the housing market between public sector and owner-occupied dwellings be reversed by, for instance, reactivating, or developing substitutes for, the private sector rental market?

IX - BRITAIN AND THE EXTERNAL WORLD

36. Domestic policies have to be developed in the light of the constraints imposed by the external situation.

The Middle East and the Oil Situation

37. If the Arab/Israel dispute is not settled, there is a continuing risk that the Arabs will restrict or cut off supplies of Middle East oil, and there is little the industrial countries can do to stop them. The Americans clearly wish to put pressure on OPEC to reduce
oil prices. But this could provoke hostile reactions from the Arabs, and hence prejudice the prospect for any Arab/Israel settlement. The United States is less vulnerable to cuts in oil supplies than other industrial countries, so that there is a risk that the adverse consequence of any failure of United States policies will fall hardest on Western Europe and Japan. All this suggests that we should continue to give maximum support to United States efforts to promote a Middle East settlement, but should do our best to prevent any immediate moves to excessive pressure on the oil producers. This need not prevent us going ahead with those aspects of the International Energy Programme which are advantageous to us.

The British Defence Review and European Security

38. We shall be carrying through our own Defence Review at a time when Soviet superiority over NATO forces, at least in conventional weapons, is increasing steadily and when the Alliance itself is already under severe strain, with Greece opting out, Portugal uncertain and other European countries as anxious as ourselves to cut their defence spending. It is in our interest that the European Security Conference and the East/West negotiations on force levels in Europe should succeed and that the French should be given every encouragement to co-operate more closely in European defence. Against this background the timing and the manner in which we negotiate our own reductions in defence spending could be of crucial importance in limiting adverse repercussions on the cohesion of NATO.

European Community

39. Renegotiation is taking place against a very different economic and political background from the earlier negotiations for entry. Moreover, the recent row over the CAP has greatly improved the prospect for a successful renegotiation in this crucial area. If we can succeed in obtaining both changes in the CAP and an acceptable response to our (entirely reasonable) request for putting our budget contribution on a more equitable basis, it should prove possible to achieve improved terms of membership which the Government can recommend the country to accept.
The "Third" and "Fourth" Worlds

40. The very rapid rise in oil and other commodity prices has created a gulf between those newly rich countries of the "Third World", which are well endowed with oil or other valuable commodities, and the "Fourth World" of the poorer developing countries for whom the rise in oil import prices spells catastrophe. Countries such as India and Bangladesh now face apparently insuperable difficulties in financing future development plans. While there is a clear limit to what we can do on our own to help these countries, some of which are members of the Commonwealth, we can go on putting our weight behind international efforts to find ways of easing their problems, eg offering "matching aid" to prise out OPEC aid to non-moslem "Fourth World" countries.

The Spread of Nuclear Weapons

41. This represents a danger to the world as great or perhaps greater than the more immediate economic problems which confront us. It may already be too late to prevent the acquisition of nuclear weapons by a number of small and medium powers. But Britain, as one of the original signatories of the Test Ban Treaty, has a special responsibility in this field and it should therefore remain high on the list of her international priorities.

X - DISUNITY

42. The great majority are tired of confrontations. But a large number of groups have come to the conclusion that the only way to further, or protect, their interest is by the adoption of abrasive and militant tactics. Indeed, some may be drawing the worrying conclusion not only that militancy pays, but that in practice increased militancy may be more rewarding than increased effort. There is a widespread and growing sense of disunity and a major unresolved dilemma of how to avoid confrontations without giving in to pressures which are clearly inconsistent with the public interest. Unless this growing sense of disunity, fragmentation and lack of respect for the public interest can be reversed, the Government will find it impossible to get the support it needs to make its policies effective. A first
step is to try, wherever possible, to mobilise the sensible majority of public opinion in such a way as to isolate and expose extremists, of whatever complexion. But, in a wider context, a new concept of the public interest, appropriate to the circumstances and aspirations of the 1970s needs to be established. This will be relevant for both the content and the presentation of the Government’s policies.

43. In this context, proposals for devolution need to be considered very carefully. The experience of Germany, Australia and Canada, and other federal states shows that it is possible to combine effective central government with considerable devolution and local autonomy. On the other hand, it is possible, if things went wrong, or policies were inadequately thought through, that the pressures from Scottish and Welsh Nationalists for devolution could exacerbate the disunity of the country in ways which could impair the capacity of the United Kingdom Government to pursue effective policies.

44. It is also likely that devolution to Scotland and Wales will, in a fairly short time, provoke demands for devolution to one or more English regions. The Government needs to think out its attitude to such demands in detail in advance, so that it does not find itself merely responding to pressures.

XI - CONCLUSIONS AND RECOMMENDATIONS

45. The foregoing analysis is intended to provide a basis for an across-the-board review of Government strategy and priorities. This final section sets out the main issues which we think Ministers need to consider.

(1) **Longer-Term Objectives: Economic Growth**

Improvements in growth performance require:
- active long-term manpower policies;
- active policies to promote investment, productivity and exports;
- joint action by Government and both sides of industry.

Existing policies and institutions seem unlikely to prove adequate. How can they be reinforced, by NEDC arrangements, Planning Agreements, or other means?
(2) **Inflation**

Inflation is not just a temporary short-run problem: if nothing effective is done, the price level could easily double in the next four or five years. We therefore recommend that Ministers should:

a. accept that the problem is too large and on too long a timescale for subsidies to have much contribution to make - prices should be allowed to reflect costs;

b. find means of developing and strengthening the social contract on a much longer-term basis.

(3) **Economic Management**

The whole industrial world is in an economic downswing, and it will not be possible for the United Kingdom in 1975 totally to insulate itself from this and expand at a rate compatible with full employment. But -

a. any short-term measures to alleviate stagnant output and rising unemployment next year must not run counter to the need to expand investment and exports in the longer term; in particular, there is practically no scope for increasing public expenditure to reduce unemployment in the short term;

b. immediate monetary and fiscal action, and a loosening of the price code is required to improve the profitability and cash flow of the private sector;

c. the present and forecast deterioration in the United Kingdom's international competitiveness means that further depreciation of the exchange rate is almost inevitable: we should try and do this as smoothly as we can, but a smooth adjustment may be very difficult to manage;

(4) **Policies for Private Industry**

Confidence in the private sector will not be restored unless the candidates for public ownership are precisely defined, so that the rest of the private sector can be explicitly relieved of uncertainty, and encouraged to plan ahead for expansion: the role of profits in a mixed economy must be accepted. How can Ministers most effectively do this?
(5) Policies for Nationalised Industries
A strategy is needed which will –

a. bring prices back into proper relation with costs, and restore adequate surpluses wherever possible;

b. rethink pricing and investment policies for energy and transport in the light of the new situation;

c. redefine the relationship between Government and nationalised industries in such a way that Boards and management have the incentives and degree of independence necessary to run their industries efficiently.

(6) Public Expenditure
The whole strategy for economic recovery and containing inflation will almost certainly break down unless the growth of public expenditure is kept within the limits already agreed by Ministers. This will require –

a. collective assent by Ministers to difficult decisions in social priorities;

b. a major and continuing effort in persuasion and education to get these priorities generally accepted;

c. special attention to the problem of controlling local authority expenditure, particularly current expenditure.

(7) Housing
The housing situation is so tangled, and so politically charged, that a major re-examination is required which will identify the Government’s principal social objectives in the housing field, and work out how they can be achieved cost-effectively.

(8) Britain and the External World
a. it is strongly in our interest to do all we can to promote an early settlement of the Arab/Israel dispute: at the same time we must try to avoid confrontation with Arab oil-producers, in order to minimise the risks of disruption to our oil supplies: we, and the other industrial countries, may need to press this view on the Americans;
b. the results of our defence review will need to be presented to our allies in such a way as to minimise repercussions on the cohesion of NATO;

c. We should continue to seek acceptable terms—particularly in relation to reform of the CAP and revision of budgetary contribution—for continued membership of the EEC;

d. national and international effort will be needed to prevent breakdown and catastrophe in the poorer and developing countries;

e. preventing the spread of nuclear weapons is a high international priority for Britain.

(9) Getting the Policies Across

Much has been said, in the course of the election campaign of the difficult situation ahead. Public opinion is coming to accept this, but has little real appreciation of the scale and character of the problem. It needs to be told much more clearly and in much more detail. Moreover, there remains a widespread belief in the omnipotence of Governments to provide quick and relatively painless solutions for the symptoms of what is in fact a deep-seated and intractable malaise. At the same time, there is a loss of confidence in the ability of accepted democratic political procedures to respond to specific needs. In consequence there is a spate of demands that the Government must act immediately to solve this or that problem; and, at the same time a feeling that the only way to get Governments (or other institutions) to act is by abrasive and aggressive kinds of direct action and confrontation. In consequence, the Government will fail to get its policies accepted unless—

a. it takes explicit action to explain to the public the facts of the situation, and the constraints on its room to manoeuvre: a good deal of the present malaise is the result of political parties (of all complexions) promising to solve problems when they lacked the means or instruments to solve them.

b. it can find means either to channel sources of grievance and discontent back into existing democratic institutions; or, where existing institutions are inadequate, to develop new democratic institutions which can provide an acceptable forum for considering and redressing them; and, if they cannot be redressed, convincing those who are aggrieved that they will have to wait;
c. in the industrial field, it can develop a working system of industrial democracy which will get workers to accept the need for industrial training to promote industrial change, and make it possible to satisfy workers’ aspirations and grievances without confrontations about pay: at present almost the only way in which workers feel they can express their dissatisfaction with the way their employers behave is by bloody-mindedness in pay negotiations — and the inflationary consequences of this are, in national terms, unacceptable;

d. it can convince the great majority of public opinion that the new Capital Transfer Tax and its proposals for a Wealth Tax are an effective answer to the problem of the unfair distribution of wealth and (in addition to what can be done under c. above) of economic power in society;

e. it can reconcile the aspirations of Scotland, Wales and the English regions for more devolution with the need for decisive and effective decision-taking by a central United Kingdom Government.

Many of the problems discussed in this paper require not merely action by the Government, but changes in the attitudes, expectation and behaviour on the part of a very large number of people of very diverse opinions. We therefore recommend that Ministers consider not merely what they can or should do, but also how to present their policies in such a way as to create and maintain the kind of consensus in which their policies can be effectively implemented. This implies a major campaign of political and social education which will explain to the public not merely the objectives of policies, but the constraints and limitations on the Government’s ability to act. The efforts and social responsibilities of individuals are no less important than the actions of Government.

14 October 1974
1. Before we settle the terms of The Queen's Speech for the 1974-75 Session we need to be clear about the size and content of the legislative programme for the Session. The Queen's Speech and Future Legislation Committee was appointed to consider this and our proposals are as follows.

2. The position is that apart from two major Finance Bills, Departmental Ministers have proposed a total of well over 100 Bills for this Session's programme, the great majority of which are held to be highly desirable and of high priority. This is impossible. It is also, in our view, ill-judged to attempt to fulfil virtually all of the programme on which we fought the General Election in one Session. What we have done, therefore, is to group the Bills into three priority categories:

**Category I.** This comprises Top Priority Bills from the main programme of Bills, including the nine major Bills which were being prepared during the last Session, the eight lost on Dissolution, and some others which are already prepared and which could usefully be brought in early in the Session. It also includes Essential Bills (in the technical sense that powers or money will run out if they are not passed this Session); and Contingent Bills (which, if they become necessary also become Essential). We would expect to be able to complete all these Category I Bills (assuming that Departments have them ready in time) during the Session.

**Category II.** This comprises the Priority Bills in the main programme on which work should proceed so that if and when progress on Category I allows, they could be brought into the programme for the Session.

**Category III.** This comprises No-Priority Bills which we would not expect to be able to complete this Session.
3. There are in addition special categories of Scottish Grand Committee Bills, Second Reading Committee Bills, and Bills suitable for Members successful in the Ballot, progress on which will not generally be dependent on progress on the Category I and II Bills, except that we must not allow them to pre-empt the time of the Parliamentary draftsmen needed for higher priority Bills.

4. The Annex to this memorandum sets out all the Departmental bids for Bills under these categories, as a programme for this Session. All Departmental Ministers proposing Bills were invited to put to the Committee their views about the priority afforded to their Bills in the Annex and these have been taken into account as far as possible but it is, of course, inevitable that some must be disappointed. We concluded that the lists in the Annex now provide a realistic basis for the programme except in one respect which my colleagues will need to consider immediately, both for the purposes of the programme and of the Opening Speech. The top priority category (Category I) is at present overloaded. The Committee considered it unlikely that it would be possible in the time available to get all of these measures through both Houses, and doubted the political wisdom of making the attempt.

5. I invite my colleagues -

a. To consider whether we should attempt to get all the Top Priority (Category I) Bills through to Royal Assent in the first Session; and

b. subject to their conclusions on a., to agree that we should prepare and manage the legislative programme for the coming Session on the basis of the priorities set out in the Annex, and to take account of this in considering the Opening Speech.

E S

Privy Council Office

18 October 1974
<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Theatre</td>
<td>To increase the grant to the National Theatre Board.</td>
<td>DES</td>
<td>2</td>
</tr>
<tr>
<td>Coal Mining Development</td>
<td>To widen NCB's powers relating to opencast coalmining; to amend the law relating to copyhold interest and surface support; and to compensate for pneumoconiosis.</td>
<td>Dept of Energy</td>
<td>12</td>
</tr>
<tr>
<td>New Towns</td>
<td>To increase existing limits on advances to New Towns.</td>
<td>DOE</td>
<td>8</td>
</tr>
<tr>
<td>Channel Tunnel</td>
<td>To provide powers for the construction of the Tunnel and to set up the British operating authority.</td>
<td>DOE</td>
<td>44</td>
</tr>
<tr>
<td>Pensioners Payments, and Social Security Amendment</td>
<td>To provide for the Christmas bonus. To establish the rates of national insurance contributions from April 1975.</td>
<td>DHSS</td>
<td>12</td>
</tr>
<tr>
<td>National Insurance (Pensions)</td>
<td>To increase national insurance benefits, provide disablement allowances and effect changes in supplementary benefits.</td>
<td>DHSS</td>
<td>10-12</td>
</tr>
<tr>
<td>Prices (Food Subsidies)</td>
<td>To amend the Prices Act to provide for the continuation of milk and butter subsidies and to raise the financial limits on food subsidies.</td>
<td>Dept of Prices and Consumer Protection</td>
<td>3</td>
</tr>
<tr>
<td>Export Guarantees and Payments</td>
<td>To extend the 1970 Export Guarantees Act.</td>
<td>Dept of Trade</td>
<td>3</td>
</tr>
<tr>
<td>Statutory Corporations (Financial Provisions)</td>
<td>To extend current powers to compensate nationalised industries for price restraint to other deficit industries.</td>
<td>Treasury</td>
<td>2-3</td>
</tr>
</tbody>
</table>

Bills ready for introduction now.
## I. B - CONTINGENT BILLS

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clause</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>To wind up the Sugar Board and to repeal and continue parts of the 1956 Sugar Act.</td>
<td>MAFF</td>
<td>6</td>
</tr>
<tr>
<td>Nuclear Power Stations (Financial Arrangements)</td>
<td>To share the additional costs of initial nuclear power stations and other reactor types</td>
<td>Dept of Energy</td>
<td>3</td>
</tr>
<tr>
<td>United Nations Voluntary Safeguards Under Non-Proliferation Treaty</td>
<td>To implement UK/IAEA/EURATOM Safeguards Agreement.</td>
<td>Dept of Energy</td>
<td>Short</td>
</tr>
<tr>
<td>Rhodesia</td>
<td>To make the necessary provisions in the event of an acceptable settlement.</td>
<td>FCO</td>
<td>Fairly M</td>
</tr>
<tr>
<td>Trinidad and Tobago Republic</td>
<td>To make the necessary provisions in the event of an acceptable settlement.</td>
<td>FCO</td>
<td>2-3</td>
</tr>
<tr>
<td>Seychelles Independence</td>
<td>To provide for the independence of the Seychelles.</td>
<td>FCO</td>
<td>5-6</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>To increase the limits on BSC's borrowing and receipts from public dividend capital.</td>
<td>Dept of Industry</td>
<td>2-6</td>
</tr>
<tr>
<td>Terrorism</td>
<td>To deal with terrorism and to protect civil liberties.</td>
<td>Northern Ireland Office</td>
<td>10-15 or 30-50</td>
</tr>
<tr>
<td>Bill</td>
<td>Purpose</td>
<td>Department</td>
<td>Length of Clauses</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Regional Employment Premium</td>
<td>To amend the existing REP arrangements.</td>
<td>Treasury</td>
<td>Up to 10</td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>To increase the United Kingdom's IMF quota.</td>
<td>Treasury</td>
<td>1-2</td>
</tr>
<tr>
<td>European Economic Community</td>
<td>To provide for consultation of the people on United Kingdom membership of the European Communities.</td>
<td>-</td>
<td>Short</td>
</tr>
</tbody>
</table>
## LEGISLATIVE PROGRAMME 1974-75

### I. C - MAIN PROGRAMME: TOP PRIORITY

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Education (Awards and Grants)</em></td>
<td>To make awards to Diploma of higher Education students mandatory; and to increase the rate of grant to voluntary schools.</td>
<td>DES</td>
<td>5</td>
</tr>
<tr>
<td><strong>EMPLOYMENT PROTECTION</strong></td>
<td>To provide additional rights for individual workers and trade unions.</td>
<td>DE</td>
<td>50+</td>
</tr>
<tr>
<td>Trade Union and Labour Relations Act Amendment</td>
<td>To remedy Opposition amendments to the 1974 Act.</td>
<td>DE</td>
<td>Short</td>
</tr>
<tr>
<td><strong>PETROLEUM</strong></td>
<td>To regulate the exploitation of domestic oil and gas, to modify existing licences and to establish the British National Oil Corporation.</td>
<td>Dept of Energy</td>
<td>100+</td>
</tr>
<tr>
<td><strong>PETROLEUM TAXES</strong></td>
<td>Additional taxes on North Sea oil.</td>
<td>Treasury</td>
<td>Long</td>
</tr>
<tr>
<td><em>HOUSING RENTS AND SUBSIDIES</em></td>
<td>To repeal parts of the 1972 Housing Finance Act to make new provision for housing rents and subsidies.</td>
<td>DOE</td>
<td>10</td>
</tr>
<tr>
<td><strong>COMMUNITY LAND OWNERSHIP</strong> and <strong>DEVELOPMENT LAND TAX</strong></td>
<td>To provide for public acquisition of development land and of empty offices.</td>
<td>DOE</td>
<td>50-60</td>
</tr>
<tr>
<td><strong>Rating</strong></td>
<td>To postpone the 1976 rating revaluation.</td>
<td>DOE</td>
<td>2</td>
</tr>
<tr>
<td>Housing (Late Implementation)</td>
<td>To deal with matters arising from late implementation of the Housing Finance Act 1972.</td>
<td>DOE</td>
<td>Short</td>
</tr>
<tr>
<td><em>CHILD ALLOWANCES</em></td>
<td>To introduce a family endowment scheme.</td>
<td>DHSS</td>
<td>20</td>
</tr>
</tbody>
</table>

* Bills ready for introduction now.
<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONAL SUPERANNATION</td>
<td>To make provision for a long-term pension scheme.</td>
<td>DHSS</td>
<td>40</td>
</tr>
<tr>
<td>CHILDREN</td>
<td>To implement the accepted recommendations of the Houghton Committee concerning adoption, guardianship and fostering of children.</td>
<td>DHSS</td>
<td>70</td>
</tr>
<tr>
<td>SEX DISCRIMINATION</td>
<td>To prohibit sex discrimination in employment, training and other fields.</td>
<td>Home Office</td>
<td>40</td>
</tr>
<tr>
<td>Safety of Sports Grounds</td>
<td>To provide for the safety of the public at sports grounds.</td>
<td>Home Office</td>
<td>18</td>
</tr>
<tr>
<td>INDUSTRY 1 and INDUSTRY 2</td>
<td>To implement the Planning Agreements system and to establish a National Enterprise Board.</td>
<td>Dept of Industry</td>
<td>20-30</td>
</tr>
<tr>
<td>Acquisition of Oil Sites</td>
<td>To provide for the public acquisition and control of sites for oil platform construction.</td>
<td>Scottish Office</td>
<td>12</td>
</tr>
<tr>
<td>Scottish Development Agency</td>
<td>To create a Scottish Development Agency to deal with industrial development and environmental improvement.</td>
<td>Scottish Office</td>
<td>15-20</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>To require insurance companies to contribute to a guarantee fund.</td>
<td>Dept of Trade</td>
<td>10</td>
</tr>
<tr>
<td>Tourist Reserve Fund</td>
<td>To establish a reserve fund for holidaymakers who lose money or holidays.</td>
<td>Dept of Trade</td>
<td>20-25</td>
</tr>
<tr>
<td>Welsh Development Agency</td>
<td>To establish a Welsh Development Agency with powers in the fields of industrial development and environmental improvement.</td>
<td>Welsh Office</td>
<td>15-20</td>
</tr>
</tbody>
</table>

Bills ready for introduction now.
## II. MAIN PROGRAMME: PRIORITY BILLS

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Lending Right</td>
<td>To establish public lending rights to provide the necessary funds for authors</td>
<td>DES</td>
<td>10-15</td>
</tr>
<tr>
<td>Seat Belts</td>
<td>To empower the Secretary of State to make regulations requiring the wearing of seat belts.</td>
<td>DOE</td>
<td>2</td>
</tr>
<tr>
<td>Maplin Development Authority Dissolution</td>
<td>To dissolve the MDA and to withdraw planning permissions for an airport and seaport.</td>
<td>DOE</td>
<td>6</td>
</tr>
<tr>
<td>Landlord and Tenant</td>
<td>To correct anomalies in legislation concerning leasehold reform and service charges.</td>
<td>DOE</td>
<td>3-4</td>
</tr>
<tr>
<td>Lettings to Students (Rent Act Exemption)</td>
<td>To exclude lettings to students from Rent Act protection.</td>
<td>DOE</td>
<td>5</td>
</tr>
<tr>
<td>Construction Industry Contracts</td>
<td>To introduce financial penalties for the use of the lump.</td>
<td>DOE</td>
<td>16</td>
</tr>
<tr>
<td>Mobility Allowance</td>
<td>To introduce a mobility allowance for the disabled.</td>
<td>DHSS</td>
<td>Short</td>
</tr>
<tr>
<td>Supplementary Benefit Act 1966 (Amendment)</td>
<td>To amend qualifications to supplementary benefit entitlement.</td>
<td>DHSS</td>
<td>12-20</td>
</tr>
<tr>
<td>Private Practice and National Health Service</td>
<td>To separate private practice from the NHS.</td>
<td>DHSS</td>
<td>Short</td>
</tr>
<tr>
<td>Police Complaints Procedure</td>
<td>To establish a Commission with powers over action in pursuance of complaints.</td>
<td>Home Office</td>
<td>6</td>
</tr>
<tr>
<td>Local Lotteries</td>
<td>To extend the scope for and control of local lotteries.</td>
<td>Home Office</td>
<td>12</td>
</tr>
<tr>
<td>*Hare Coursing Abolition</td>
<td>To abolish competitive hare coursing.</td>
<td>Home Office</td>
<td>1</td>
</tr>
</tbody>
</table>

*Bills ready for introduction now.
<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept of Industry</td>
<td>To write off losses and to convert part of Giro's debt to public dividend capital.</td>
<td>Dept of Industry</td>
<td>3-4</td>
</tr>
<tr>
<td>Lord Chancellor</td>
<td>To amend limitations on actions for personal injury.</td>
<td>Lord Chancellor</td>
<td>Short</td>
</tr>
<tr>
<td>Lord Chancellor</td>
<td>To amend the law relating to pre-natal injuries.</td>
<td>Lord Chancellor</td>
<td>Short</td>
</tr>
<tr>
<td>Lord Chancellor</td>
<td>To reform law relating to enforcement of judgements.</td>
<td>Lord Chancellor</td>
<td>Short</td>
</tr>
<tr>
<td>Northern Ireland Office</td>
<td>To implement the Law Enforcement Commission's recommendations relating to fugitive offenders.</td>
<td>Northern Ireland Office</td>
<td>9</td>
</tr>
<tr>
<td>Welsh Office</td>
<td>To establish a Board to promote co-ordinated development of rural Wales.</td>
<td>Welsh Office</td>
<td>15-20</td>
</tr>
</tbody>
</table>
### III. MAIN PROGRAMME: NO PRIORITY BILLS

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clause</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture (Miscellaneous Provisions)</td>
<td>To introduce provisions relating to agricultural marketing, forestry, animal and plant health and other matters.</td>
<td>NAFF</td>
<td>35</td>
</tr>
<tr>
<td>Services for the Disabled</td>
<td>To extend provisions for the employment of disabled people.</td>
<td>DE</td>
<td>?</td>
</tr>
<tr>
<td>Docks</td>
<td>To revise legislation relating to dockwork and to extend the Dock Labour Scheme.</td>
<td>DE</td>
<td>?</td>
</tr>
<tr>
<td>Industrial Democracy</td>
<td>To provide for worker participation etc.</td>
<td>DE</td>
<td>?</td>
</tr>
<tr>
<td>Road Traffic</td>
<td>To amend the law relating to road traffic.</td>
<td>DOE</td>
<td>60-65</td>
</tr>
<tr>
<td>Ancient Monuments</td>
<td>To strengthen existing Ancient Monuments legislation and to prepare for its consolidation.</td>
<td>DOE</td>
<td>25-30</td>
</tr>
<tr>
<td>New Towns (Miscellaneous Provisions)</td>
<td>To amend the powers of the Commission for New Towns.</td>
<td>DOE</td>
<td>16</td>
</tr>
<tr>
<td>Nurses, Midwives and Health Visitors</td>
<td>To implement recommendations of the Briggs Committee on Nursing.</td>
<td>DHSS</td>
<td>60</td>
</tr>
<tr>
<td>Regulation of Medical Profession</td>
<td>To amend the 1956 Medical Act following the Morrison Committee on Regulation of the Medical Profession.</td>
<td>DHSS</td>
<td>?</td>
</tr>
<tr>
<td>Pharmaceutical Industry</td>
<td>To improve Government control of the pharmaceutical industry.</td>
<td>DHSS</td>
<td>?</td>
</tr>
<tr>
<td>Statistics of Trade</td>
<td>To amend the Statistics of Trade Act.</td>
<td>Dept of Industry</td>
<td>6-10</td>
</tr>
<tr>
<td><strong>courts</strong></td>
<td>To alter the organisation and jurisdiction of all Northern Ireland Courts.</td>
<td>Northern Ireland Office</td>
<td>long</td>
</tr>
<tr>
<td>Supervision of the Securities Market</td>
<td>To strengthen the arrangements for supervising the securities market.</td>
<td>Dept of Trade</td>
<td>?</td>
</tr>
</tbody>
</table>

*Possibly for legislation by Order in Council*
<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Courts (Scotland)</td>
<td>To provide for the work of the lay courts following local government reorganisation.</td>
<td></td>
<td>40-50</td>
</tr>
<tr>
<td>Local Government (Scotland)</td>
<td>To amend the law relating to valuation, rating and grants to local authorities, and to set up a Local Commissioner.</td>
<td></td>
<td>30-40</td>
</tr>
<tr>
<td>Housing Financial Provisions (Scotland)</td>
<td>To change the basis of local authority housing subsidies and rents.</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Crofting Reform</td>
<td>To reform the crofting tenure system.</td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Freshwater Fisheries</td>
<td>To improve and control public trout-fishing rights.</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Fatal Accidents and Sudden Death Inquiry</td>
<td>To amend the Fatal Accidents Etc. Acts of 1895 and 1906.</td>
<td></td>
<td>10-12</td>
</tr>
<tr>
<td>Damage for Injuries</td>
<td>To amend existing legislation on the basis of the Law Commission Report.</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Marriage (Scotland)</td>
<td>To modernise the law of marriage in Scotland.</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Solicitors (Scotland)</td>
<td>To provide for lay representation on disciplinary tribunals and other reforms.</td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>
V. Bills Suitable for Second Reading Committee

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diseases of Animals (Importation)</td>
<td>To amend the law relating to the import of animals.</td>
<td>MAPI</td>
<td>6</td>
</tr>
<tr>
<td>Gun Barrel Proof</td>
<td>To amend the Gun Barrel Proof Act 1868.</td>
<td>MOD</td>
<td>6</td>
</tr>
<tr>
<td>Endangered Species</td>
<td>To consolidate existing law and to ratify the March 1973 Convention on International Trade.</td>
<td>DOE</td>
<td>10-15</td>
</tr>
<tr>
<td>*Reservoirs</td>
<td>To amend the law relating to reservoir safety and the design of large reservoirs.</td>
<td>DOE</td>
<td>30</td>
</tr>
<tr>
<td>Local Government (General Powers)</td>
<td>To incorporate certain Local Act clauses in general legislation.</td>
<td>DOE</td>
<td>35</td>
</tr>
<tr>
<td>Caravan Sites</td>
<td>To widen local authorities' powers over caravan sites.</td>
<td>DOE</td>
<td>2-3</td>
</tr>
<tr>
<td>Countryside Commission</td>
<td>To make the Countryside Commission a separate grant-aided body.</td>
<td>DOE</td>
<td>2-3</td>
</tr>
<tr>
<td>Property Services Agency Powers</td>
<td>To amend and extend the HSA's property management powers, including powers to acquire land for the service of international organisations.</td>
<td>DOE</td>
<td>6+</td>
</tr>
<tr>
<td>Transport of Perishable Foodstuffs</td>
<td>To ratify the Convention on the transport of perishable foodstuffs.</td>
<td>DOE</td>
<td>5-10</td>
</tr>
<tr>
<td>Burial</td>
<td>To provide machinery for maintaining and managing non-local authority cemeteries.</td>
<td>DOE</td>
<td>10-15</td>
</tr>
<tr>
<td>Gas Act (Amendment)</td>
<td>To modify the industry's obligation to supply gas.</td>
<td>Dept of Energy</td>
<td>Short</td>
</tr>
<tr>
<td>State Immunity</td>
<td>To amend the law relating to state immunity.</td>
<td>FCO</td>
<td>?</td>
</tr>
<tr>
<td>Bill</td>
<td>Purpose</td>
<td>Department</td>
<td>Length of Clauses</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Colonial Stock Act</td>
<td>To amend obsolescent provisions of the Colonial Stock Act 1877.</td>
<td>FCO</td>
<td>2</td>
</tr>
<tr>
<td>Diplomatic Privileges (Special Missions)</td>
<td>To implement the 1969 United Nations Convention on status of special missions.</td>
<td>FCO</td>
<td>6</td>
</tr>
<tr>
<td>Foreign Compensation</td>
<td>To take over and distribute Tsarist assets in the United Kingdom.</td>
<td>FCO</td>
<td>5</td>
</tr>
<tr>
<td>Crimes Against Internationally Protected Persons</td>
<td>To ratify the Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons.</td>
<td>FCO</td>
<td>5</td>
</tr>
<tr>
<td>Mental Health</td>
<td>To amend the Mental Health Act 1959 in relation to the detention of potentially dangerous patients.</td>
<td>DHSS</td>
<td>2-3</td>
</tr>
<tr>
<td>Biological Standards</td>
<td>To establish a National Biological Standard Board.</td>
<td>DHSS</td>
<td>9</td>
</tr>
<tr>
<td>Births and Deaths Registration (Amendment)</td>
<td>To implement the recommendations of the Committee on Death Certification and Coroners.</td>
<td>DHSS</td>
<td>20</td>
</tr>
<tr>
<td>Bail</td>
<td>To implement proposals of the Working Party on Bail.</td>
<td>Home Office</td>
<td>10</td>
</tr>
<tr>
<td>Matrimonial Proceedings in Magistrates Courts</td>
<td>To align the law relating to matrimonial proceedings in magistrates courts with that in higher courts.</td>
<td>Home Office</td>
<td>30</td>
</tr>
<tr>
<td>Family Provision</td>
<td>To implement the Law Commission's Report on survivors and dependants' share of family estates.</td>
<td>Lord Chancellor</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Bills ready for introduction now.
## Bills Suitable for Second Reading Committee (cont'd)

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Local Land Charges</td>
<td>To implement the Law Commission's Report on local land charges.</td>
<td>Lord Chancellor</td>
<td>Medium</td>
</tr>
<tr>
<td>*Arbitration</td>
<td>To implement the United Nations Convention on Recognition and Enforcement of Arbitral Awards.</td>
<td>Dept of Trade</td>
<td>8</td>
</tr>
<tr>
<td>Insolvency</td>
<td>To amend the law relating to bankruptcy.</td>
<td>Dept of Trade</td>
<td>30</td>
</tr>
<tr>
<td>Companies Registration</td>
<td>To improve the law relating to the registration of companies.</td>
<td>Dept of Trade</td>
<td>25</td>
</tr>
<tr>
<td>Merchant Shipping</td>
<td>To ratify the International Convention on Liability for Carriage by Sea, and to deal with other merchant shipping matters.</td>
<td>Dept of Trade</td>
<td>20+</td>
</tr>
<tr>
<td>Pilotage</td>
<td>To reorganise marine pilotage.</td>
<td>Dept of Trade</td>
<td>50</td>
</tr>
<tr>
<td>Trustee Savings Bank</td>
<td>To regulate the conduct of Trustee Savings Banks.</td>
<td>Treasury</td>
<td>40</td>
</tr>
</tbody>
</table>

*Bills ready for introduction now.*
## Bills Suitable for a Private Member

<table>
<thead>
<tr>
<th>Bill</th>
<th>Purpose</th>
<th>Department</th>
<th>Length of Clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence for Proceedings Abroad</td>
<td>To ratify The Hague Convention on taking evidence abroad.</td>
<td>Lord Chancellor</td>
<td>Short</td>
</tr>
<tr>
<td>Obligations of Landlord and Tenant</td>
<td>To implement the Law Commission's Report on landlord and tenant obligations.</td>
<td>Lord Chancellor</td>
<td>Short</td>
</tr>
<tr>
<td>Rights and Measures (containers)</td>
<td>To provide for the prescription of container dimensions etc.</td>
<td>Dept of Prices and Consumer Protection</td>
<td>3</td>
</tr>
<tr>
<td>Unsolicited Goods and Services Act 1971 (Amendment)</td>
<td>To remedy certain abuses relating to trade directories etc.</td>
<td>Dept of Prices and Consumer Protection</td>
<td>5</td>
</tr>
<tr>
<td>Films (Amendment)</td>
<td>To extend the purposes for which revenue may be used.</td>
<td>Dept of Trade</td>
<td>Short</td>
</tr>
<tr>
<td>Industrial and Provident Societies</td>
<td>To increase the limit on members' shareholding.</td>
<td>Treasury</td>
<td>3</td>
</tr>
</tbody>
</table>

*Bills ready for introduction now.

19 October 1974
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Lord President of the Council

The attached draft of The Queen's Speech, which has been prepared by The Queen's Speech and Future Legislation Committee, is circulated for consideration by my colleagues.

ES

Privy Council Office

21 October 1974
MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I look forward with pleasure to our visits to Mexico, Japan, Barbados and Bermuda, and to the meeting of Commonwealth heads of government in Jamaica.

2. My Government will give their full support to international efforts to solve the world-wide problem of inflation and will play a full part in international discussions to solve the problems created by higher oil prices. They will continue the policy of strengthening the United Nations, its agencies and other international institutions dedicated to the peaceful settlement of disputes, the promotion of human rights, the rule of law and the improvement of the quality of life. In the effort needed to deal with world problems, they attach high importance to the Commonwealth association.

3. My Government will energetically continue their renegotiation of the terms of the United Kingdom's membership of the European Economic Community. Within twelve months the British people will be given the opportunity to decide whether, in the light of the outcome of the negotiations, this country should retain its membership.
4. My Government recognise the economic problems confronting developing countries, and will seek to increase the provision of aid. They will promote international efforts to establish a more liberal pattern of trade.

5. My Ministers will continue to support the search for a just and lasting peace in the Middle East and to work for a satisfactory solution to the problems of Cyprus.

6. My Government will oppose racial discrimination at home and abroad. In Rhodesia, they will agree to no settlement which is not supported by the African people of that country.

7. My Government will continue to give full support to the maintenance of the North Atlantic Alliance. They will regard the North Atlantic Treaty Organisation as an instrument of detente as well as of defence. In consultation with their allies and in the light of a searching review of our defence commitments and forces they will ensure the maintenance of a modern and effective defence system while reducing its cost as a proportion of our national resources.
8. My Ministers will support the policy of detente between East and West. They will continue to play a full part in international efforts to achieve general disarmament and to prevent the spread of nuclear weapons. They will participate fully in the negotiations for force reductions in Central Europe and in the Conference on European Security and Co-operation.

9. My Ministers will continue to work for a political solution in Northern Ireland providing for power sharing and participation by both communities in the direction of their affairs. They will continue to attach particular importance to co-operation with the Government of the Republic of Ireland in the field of security and in other matters of mutual interest.

MEMBERS OF THE HOUSE OF COMMONS

10. Estimates for the public service will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

11. At home, My Government, conscious of the gravity of the current economic situation, will give priority to implementing the social contract. This is an essential element in their strategy for curbing inflation, reducing the balance of payments deficit, encouraging industrial investment, maintaining employment, particularly in the older industrial areas, and promoting social and economic justice.
12. The use of subsidies to keep down prices of certain foods will be continued. Further measures for the protection of consumers will be brought forward.

13. My Ministers will pursue their aim of achieving a major redistribution of income and wealth. A measure will be brought before you for the introduction of a tax on capital transfers. My Ministers will propose the establishment of a Select Committee to examine the form which a wealth tax might take.

14. Measures will be placed before you to amend the Trade Union and Labour Relations Act 1974; and to establish the Conciliation and Arbitration Service on a statutory basis and to protect and improve working conditions generally. Proposals will be brought forward to deal with abuses of labour-only contracting.

15. My Government attach major importance to a general improvement in social security benefits in the interests of social justice. Legislation will be introduced to give help to disabled people outside the National Insurance Scheme; to introduce a new scheme of child credits; and to set up a new earnings related pension scheme. Measures will also be introduced to increase existing social security benefits and to provide for the payment next Christmas of the special bonus to a wider range of beneficiaries.
16. Within available resources My Government will seek to improve and expand health and education services, especially in areas of greatest need. They will continue to give particular attention to the development of a fully comprehensive system of secondary education and to nursery education.

17. My Ministers will energetically pursue their policies for encouraging local authorities and housing associations to provide more homes to rent and to develop their programmes for improving existing homes, particularly in the areas of greatest stress. They will bring forward proposals for securing a stable and adequate flow of mortgages. A Bill will be laid before you to reform the law relating to rents and housing subsidies.

18. Legislation will be introduced to enable land required for development to be taken into community ownership and to provide for transitional arrangements to tax development value.

19. My Ministers recognise the value to the nation of expanding domestic food production economically and efficiently, and will continue their discussions with the farming industry to this end.
20. My Government will continue to pursue a comprehensive energy policy. Legislation will be introduced to control oil exploration and development and to enable My Government to exercise participation rights in oil licences. Measures will be proposed to ensure that the community receives a fair share of the profits from offshore oil.

21. My Ministers wish to encourage vigour and profitability in both the private and the public sectors of industry. In order to encourage co-operation between My Government and the private sector, legislation will be introduced to provide for a system of planning agreements between the Government and industrial companies. Legislation will also be introduced for setting up a National Enterprise Board. [Measures will be laid before you to enable the shipbuilding and aircraft industries to be taken into public ownership.]

22. My Government will urgently prepare for the implementation of the decision to set up directly elected assemblies in Scotland and Wales.

23. Legislation will be introduced to provide for the acquisition of oil sites in Scotland and for the establishment of Development Agencies in
Scotland and Wales. Other proposals relating to Scotland will include measures on housing rents and subsidies, local government, summary jurisdiction, crofting and freshwater fisheries.

24. Legislation will be brought before you with the aim of ending sex discrimination.

25. A Bill will be introduced to reform the law relating to the adoption, guardianship and fostering of children.

26. Measures will be introduced to make further reforms in the law and improvements in the administration of justice.

27. An early opportunity will be given for you to consider whether your proceedings should be broadcast.

28. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

29. I pray that the blessing of Almighty God may rest upon your counsels.

18 October 1974
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Lord President of the Council

The attached draft of The Queen's Speech on the Opening of Parliament, revised in the light of the Cabinet's discussion on Tuesday 22 October, is circulated for consideration by my colleagues.

E S

Privy Council Office
23 October 1974
DRAFT OF QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I look forward with pleasure to our visits to Bermuda, Barbados, Bahamas, Mexico, Hong Kong, Japan; and to the meeting of Commonwealth heads of government in Jamaica.

2. My Government will give their full support to international efforts to solve the world-wide problem of inflation and will play a full part in international discussions to solve the problems created by higher oil prices. They will continue the policy of strengthening the United Nations, its agencies and other international institutions dedicated to the peaceful settlement of disputes, the promotion of human rights, the rule of law and the improvement of the quality of life. In the effort needed to deal with world problems, they attach high importance to the Commonwealth association.

3. My Government will energetically continue their renegotiation of the terms of the United Kingdom's membership of the European Economic Community. Within twelve months the British people will be given the opportunity to decide whether, in the light of the outcome of the negotiations, this country should retain its membership.
4. My Government recognise the economic problems confronting developing countries, and will seek to increase the provision of aid. They will promote international efforts to establish a more liberal pattern of trade.

5. My Ministers will continue to support the search for a just and lasting peace in the Middle East and to work for a satisfactory solution to the problems of Cyprus.

6. My Government will oppose racial discrimination at home and abroad. In Rhodesia, they will agree to no settlement which is not supported by the African people of that country.

7. My Government will continue to give full support to the maintenance of the North Atlantic Alliance. They will regard the North Atlantic Treaty Organisation as an instrument of detente as well as of defence. In consultation with their allies and in the light of a searching review of our defence commitments and forces they will ensure the maintenance of a modern and effective defence system while reducing its cost as a proportion of our national resources.
8. My Ministers will support the policy of detente between East and West. They will continue to play a full part in international efforts to achieve general disarmament and to prevent the spread of nuclear weapons. They will participate fully in the negotiations for force reductions in Central Europe and in the Conference on European Security and Co-operation.

9. My Ministers will continue to work for a political solution in Northern Ireland. The proposed Constitutional Convention will provide a means by which those elected to it can consider what provision for the government of Northern Ireland is likely to command the most widespread acceptance throughout the community; any solution must, if it is to work, provide for genuine power-sharing and participation by both communities in the direction of affairs in Northern Ireland. My Ministers will continue to attach particular importance to co-operation with the Government of the Republic of Ireland in the field of security and in other matters of mutual interest.

MEMBERS OF THE HOUSE OF COMMONS

10. Estimates for the public service will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

11. At home, My Government, in view of the gravity of the economic situation, will as its most urgent task seek the fulfilment of the social contract. This
is essential for curbing inflation, reducing the balance of payments deficit, encouraging industrial investment, maintaining employment, particularly in the older industrial areas, and promoting social and economic justice.

12. The use of subsidies to keep down prices of certain foods will be continued. Further measures for the protection of consumers will be brought forward.

13. My Ministers will pursue their aim of achieving a fairer redistribution of income and wealth. A measure will be brought before you for the introduction of a tax on capital transfers. My Ministers will propose the establishment of a Select Committee to examine the form which a wealth tax might take.

14. Measures will be placed before you to amend the Trade Union and Labour Relations Act 1974; and to establish the Conciliation and Arbitration Service on a statutory basis and to protect and improve working conditions generally. Proposals will be brought forward to tackle the abuses of the lump as a step towards creating a stable workforce in the construction industry.

15. My Government attach major importance to a general improvement in social security benefits in the interest of social justice. Legislation will be introduced to provide for a special payment to pensioners before Christmas; for additional provision for the disabled; for increasing existing social
security benefits [including family allowances]; and for amending the rates of national insurance contributions. Measures will also be introduced to establish [a new system of child allowances] and a national scheme providing better pensions related to earnings.

16. Within available resources My Government will seek to improve and expand health and education services, especially in areas of greatest need. They will continue to give particular attention to the development of a fully comprehensive system of secondary education and to nursery education.

17. My Ministers will energetically pursue their policies for encouraging local authorities and housing associations to provide more homes to rent and to develop their programmes for improving existing homes, particularly in the areas of greatest stress. They will take action to secure a stable and adequate flow of mortgages. Bills will be laid before you to reform the law relating to rents and housing subsidies in England and Wales and in Scotland.

18. Legislation will be introduced to enable land required for development to be taken into community ownership and to tax realisations of development value.

19. My Ministers recognise the value to the nation of expanding domestic food production economically and efficiently, and will continue their discussions with the farming industry to this end.
20. My Government will continue to pursue a comprehensive energy policy which makes the fullest economic use of United Kingdom coal, oil and natural gas and experience in nuclear technology, and to encourage energy conservation. Legislation will be introduced to regulate further the development of off-shore petroleum; to establish a British National Oil Corporation with rights to participate in this development; to ensure that the community receives a fair share of the profits; and to provide for the acquisition of oil sites in Scotland.

21. My Ministers wish to encourage industrial investment and expansion within vigorous and profitable public and private sectors of industry. For this purpose, legislation will be introduced to provide for the establishment of planning agreements and a National Enterprise Board; and to enable the shipbuilding and aircraft industries to be taken into public ownership.

22. Legislation will be introduced to provide additional protection for policyholders of insurance companies, and for holidaymakers booking overseas who suffer loss as a result of the failure of travel organisers.

23. My Government will urgently prepare for the implementation of the decision to set up directly elected assemblies in Scotland and Wales.
24. Bills will be introduced to provide for the establishment of Development Agencies in Scotland and in Wales. Other proposals relating to Scotland will include measures on local government and summary jurisdiction.

25. Legislation will be brought before you with the aim of ending sex discrimination.

26. A Bill will be introduced to reform the law relating to the adoption, guardianship and fostering of children.

27. Measures will be introduced to improve the law and the administration of justice.

28. An early opportunity will be given for you to consider whether your proceedings should be broadcast.

29. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

30. I pray that the blessing of Almighty God may rest upon your counsels.

23 October 1974
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet a copy of The Queen's Speech on the Opening of Parliament in the form in which it has been submitted to The Queen.

Signed JOHN HUNT

Cabinet Office

24 October 1974
MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I look forward with pleasure to our visits to Bermuda, Barbados, Bahamas, Mexico, Hong Kong, Japan; and to the meeting of Commonwealth heads of government in Jamaica.

2. My Government will give their full support to international efforts to solve the world-wide problem of inflation and will play a full part in international discussions to solve the problems created by higher oil prices. They will continue the policy of strengthening the United Nations, its agencies and other international institutions dedicated to the peaceful settlement of disputes, the promotion of human rights, the rule of law and the improvement of the quality of life. In the effort needed to deal with world problems, they attach high importance to the Commonwealth association.

3. My Government will energetically continue their renegotiation of the terms of the United Kingdom's membership of the European Economic Community. Within twelve months the British people will be given the opportunity to decide whether, in the light of the outcome of the negotiations, this country should retain its membership.
4. My Government recognise the economic problems confronting developing countries, and will seek to increase the provision of aid. They will promote international efforts to establish a more liberal pattern of trade.

5. My Ministers will continue to support the search for a just and lasting peace in the Middle East and to work for a satisfactory solution to the problems of Cyprus.

6. My Government will oppose racial discrimination at home and abroad. In Rhodesia, they will agree to no settlement which is not supported by the African people of that country.

7. My Government will continue to give full support to the maintenance of the North Atlantic Alliance. They will regard the North Atlantic Treaty Organisation as an instrument of detente as well as of defence. In consultation with their allies and in the light of a searching review of our defence commitments and forces they will ensure the maintenance of a modern and effective defence system while reducing its cost as a proportion of our national resources.
introduced to increase existing social security benefits, including family allowances; to make additional provision for the disabled; to pay a Christmas bonus; and to set up a new earnings-related pension scheme.

16. Within available resources, My Government will continue to maintain and improve the National Health Service and, following consultations, will introduce proposals on democracy in the Service.

17. My Government's education policy will continue to give priority to areas of greatest need and to children with special difficulties. Particular attention will be given to the development of a fully comprehensive system of secondary education and to nursery education. A Bill will be introduced to provide Public Lending Rights for authors.

18. My Ministers will energetically pursue their policies for encouraging local authorities and housing associations to provide more homes to rent and to develop their programmes for improving existing homes, particularly in the areas of greatest stress. They will take action to secure a stable and adequate flow of mortgages. Bills will be laid before you to reform the law relating to rents and housing subsidies in England and Wales and in Scotland.

19. Legislation will be introduced to enable land required for development to be taken into community ownership and to tax realisations of development value.
20. My Ministers recognise the value to the nation of expanding domestic food production economically and efficiently, and will continue their discussions with the farming industry to this end.

21. My Government will continue to pursue a comprehensive energy policy which makes the fullest economic use of United Kingdom coal, oil and natural gas and experience in nuclear technology, and to encourage energy conservation. Legislation will be introduced to regulate further the development of off-shore petroleum; to establish a British National Oil Corporation with rights to participate in this development; to ensure that the community receives a fair share of the profits; and to provide for the acquisition of oil sites in Scotland.

22. My Ministers wish to encourage industrial investment and expansion within vigorous and profitable public and private sectors of industry. For this purpose, legislation will be introduced to provide for the establishment of planning agreements and a National Enterprise Board; and to enable the shipbuilding and aircraft industries to be taken into public ownership.

23. Legislation will be introduced to provide additional protection for policyholders of insurance companies, and for holidaymakers and others booking overseas who suffer loss as a result of the failure of travel organisers.
8. My Ministers will support the policy of detente between East and West. They will continue to play a full part in international efforts to achieve general disarmament and to prevent the spread of nuclear weapons. They will participate fully in the negotiations for force reductions in Central Europe and in the Conference on Security and Co-operation in Europe.

9. My Ministers will continue to work for a political solution in Northern Ireland. The proposed Constitutional Convention will provide a means by which those elected to it can consider what provision for the government of Northern Ireland is likely to command the most widespread acceptance throughout the community; any solution must, if it is to work, provide for some form of genuine power-sharing and participation by both communities in the direction of affairs in Northern Ireland. My Ministers will continue to act decisively against terrorism and lawlessness. They attach particular importance to co-operation with the Government of the Republic of Ireland in the field of security and in other matters of mutual interest.

MEMBERS OF THE HOUSE OF COMMONS

10. Estimates for the public service will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

11. At home, My Government, in view of the gravity of the economic situation, will as its most urgent task seek the fulfilment of the social contract as an
essential element in its strategy for curbing inflation, reducing the balance of payments deficit, encouraging industrial investment, maintaining employment, particularly in the older industrial areas, and promoting social and economic justice.

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13. My Ministers will pursue their aim of achieving a fair redistribution of income and wealth. A measure will be brought before you for the introduction of a tax on capital transfers. My Ministers will propose the establishment of a Select Committee to examine the form which a wealth tax might take.

14. Measures will be placed before you to amend the Trade Union and Labour Relations Act 1974; and to establish the Conciliation and Arbitration Service on a statutory basis and to protect and improve working conditions generally. Proposals will be brought forward to tackle the abuses of the lump as a step towards creating a stable workforce in the construction industry. My Ministers will publish proposals to ensure comprehensive safeguards for employment in the docks.

15. My Government attach major importance to a general improvement in social security benefits in the interests of social justice. Measures will be
24. My Government will urgently prepare for the implementation of the decision to set up directly elected assemblies in Scotland and Wales.

25. Bills will be introduced to provide for the establishment of Development Agencies in Scotland and in Wales. Other proposals relating to Scotland will include measures on local government and summary jurisdiction.

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29. An early opportunity will be given for you to consider whether your proceedings should be broadcast.

30. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

31. I pray that the blessing of Almighty God may rest upon your counsels.

24 October 1974
CABINET

INTERNATIONAL PROPERTY DEVELOPMENT (INDUSTRIAL) LTD

Memorandum by the Chancellor of the Exchequer

1. The Secretary of State for Industry proposes to make a grant of £3.9 million to enable the convenors of International Property Development (Industrial) Ltd (IPD) to acquire the business from the Receiver and run it as a workers' co-operative.

2. When the Ministerial Committee on Industrial Development considered the matter, they were informed that officials had estimated the minimum needed as £4.8 million, i.e., the convenors' bid for £3.9 million plus £0.85 million for extra working capital and adds to this perhaps £2 million to purchase the factory, and a near certainty of further substantial amounts of capital for future investment and modernisation. The chances of the enterprise succeeding then are still rated as slim, even if the convenors were also to reduce the present 50 per cent overmanning, cut out the unprofitable part of the business, and acquire suitable management – none of which, it seems, they are at present prepared, or able, to do. Failure would apparently mean pressure by creditors on the Government to pay all outstanding debts, after realisation of the assets.

3. The Secretary of State rejects his officials' appraisal on grounds that the business will be a workers' co-operative where the workers have the will to succeed. I am in favour of workers' co-operatives, but this is not one in the proper sense, which requires workers to put up a substantial part of the equity capital themselves. I applaud their will to succeed, but we shall do the cause which the Secretary of State for Industry seeks to promote no service at all by supporting projects which are not based on sound economics. I recognise that male unemployment in the area stands at 9 per cent; but I am much perturbed at the precedent that support of an unviable enterprise on these grounds alone would establish in our present economic circumstances. The cost per job criterion, which we apply to assistance for job creation in the regions, is met solely because the company is overmanned.
4. If we agree to support IPD Industrial, there can be no limit to the demands we should face for public aid to insolvent companies, and logically there would be no economic criteria that we could ever again apply in assessing them. Industry will draw the lesson that the uneconomic need no longer fear the consequences of failure: there is a safety net ready to catch them as they fall. The view expressed by the Prime Minister this summer that "contrived state assistance could lead to a public scandal" seems to me to apply no less since the firm has gone into Receivership.

D H

Treasury Chambers

28 October 1974
Cabinet

Defence Review

Memorandum by the Prime Minister

1. The Defence and Oversea Policy Committee have completed their review of our defence commitments and capabilities, with the aim of determining the minimum essential level of our defences and the maximum savings on the defence budget.

2. In recent years the defence budget has been subjected to a number of unplanned cuts which have been damaging to the efficiency and morale of the armed forces and economically wasteful. Yet they have still left defence expenditure far too high in terms of what we can afford. A stringent approach to defence expenditure, enabling us to get the best value for the money we spend, requires a planned programme over a number of years: and the Committee have concluded that we should make major reductions over a period of 10 years.

3. In 1973-74 defence cost 5 3/4 per cent of GNP. Cuts of nearly £350 million (1974 prices) imposed by our predecessors or forced upon us in the aftermath of the three-day week have already brought the figure down to 5 1/4 per cent of GNP for 1974-75. Such cuts however are to some extent illusory since they have to be met partly by delaying rather than cancelling expenditure and thus build up problems for the future. They have in fact complicated our task of achieving reductions over the next two or three years.

4. The 1974 Long Term Costings show that to maintain and progressively re-equip forces of the present size would cost 6 per cent of GNP by 1978-79 and over 5 3/4 per cent of GNP by 1983-84: this is because successive generations of equipment necessary to match the greater sophistication of the equipment possessed by potential enemies inevitably cost more in real terms. Savings can therefore only be made by reducing commitments and capabilities. The Committee considered various models and have concluded that we can bring the figure down to 4 3/4 per cent of GNP by 1984, while maintaining a minimum essential level of defence. In view of the distortion introduced by the unplanned cuts of £350 million, it will not be possible to avoid a modest rise in constant price terms over the next two years, but thereafter the figures will level off as the savings from the reductions in our commitments begin to show.

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5. By comparison with the cost of the existing plans we would save £475 million a year by 1978-79 and some £750 million a year by 1983-84. This saving is fully consistent with our Manifesto. Given the pressures on public expenditure we naturally looked at the possibility of achieving even greater cuts; but in the overall judgment of the Committee a faster run down would jeopardise the efficiency and morale of the Services; dangerously undermine our ability to deal with the problem of Northern Ireland; seriously weaken the military capability of the North Atlantic Treaty Organisation (NATO) and the political cohesion of the West, and remove the incentive to the Russians to agree to mutual force reductions. The cuts in our armed forces at this level will be severe and are indicated below.

NON-NATO COMMITMENTS

6. The Committee have concluded that -

a. We should withdraw our forces from South East Asia except for a 5-man contribution to the integrated air defence system. If our partners in the Five Power Defence Agreement so wished we would maintain the commitment to consult with them in the event of aggression.

b. Our involvement in Oman would be ended and our withdrawal from Masirah effected as soon as this could be done without upsetting the delicate situation in the area which involves the interests of Saudi Arabia and Iran.

c. Our force declarations to the Central Treaty Organisation (CENTO) would be ended.

d. We would not renew the Defence Agreement with Malta when it expires in 1979 and would complete the withdrawal of our forces by that date.

e. In Cyprus our aim would be to withdraw our forces completely and give up our Sovereign Base Areas (SBAs). The timing of complete withdrawal must have regard to the efforts to achieve a peaceful settlement in the Island. If we withdrew at the right time this could contribute towards a settlement; if we acted prematurely we might cause further trouble between the two communities. But even if we have to remain in the SBAs for some time, there can be major reductions.

f. A garrison would remain in Hong Kong, but it would be reduced in strength and we should require the Hong Kong Government to meet a much larger share of the cost. We would withdraw our forces from Brunei.
g. We would withdraw our forces completely from Gan and Mauritius. To facilitate this we would however agree to the American request for a modest expansion of their facilities at Diego Garcia at their own expense, under the 1966 Anglo-United States Agreement. We would have the use of these facilities which will be helpful to us when we no longer have the use of Gan and Mauritius. Moreover the American use of the facilities in emergency would be subject to joint decision. We would seek their co-operation in working for a realistic scheme for arms limitation in the Indian Ocean.

h. So long as the Spanish regime continues its present attitude towards Gibraltar we must keep a garrison there and maintain the dockyard, which is critical for the Colony's economy.

i. We must continue to contribute to the defence and security of the Falkland Islands and Belize so long as they are subject to claims by their neighbours, but we should seek by diplomatic means to resolve these disputes and withdraw our forces.

NATO

7. The measures recommended by the Committee would enable us to reduce our frigates/destroyers by 13 per cent, our mine countermeasures vessels by 17 per cent, conventional submarines by 25 per cent and afloat support by one-third. The RAF Transport force would be cut by over 50 per cent, helicopters by 25 per cent, maritime patrol aircraft by 20 per cent, and the RAF Regiment Field Squadrons would be disbanded. There would be large cuts in the re-equipment plans for all three Services. For example, there would be a 25 per cent cut in planned new ship construction, all ship refitting would be transferred from commercial yards to the Royal Dockyards: there would be a cut of one-third in Army re-equipment, including up to 100 helicopters; 12-15 RAF stations in the United Kingdom would be closed. Taken together with the reduction in our non-NATO commitments these savings would lead to cuts of some 44,000 Servicemen and 30,000 directly employed civilians. Some compulsory redundancy could not be avoided. These savings would entail:

a. The complete abandonment of our air and naval contribution in the Mediterranean and our commitment to reinforce the Southern Flank of NATO.

b. Reducing our commitment to reinforce the Northern Flank by about two-thirds, leaving only a Marine Commando Group and one brigade.

c. Taking the maximum advantage of any NATO reductions in land forces negotiated in Mutual and Balanced Force Reductions (MBFR) (8,000 reduction planned in the establishment of British Army of the Rhine (BAOR)).
Reducing the home based Army by 3,000 men (the maximum cut consistent with our Northern Ireland commitment).

8. We would continue to contribute to NATO land and air forces in Germany and to naval and air forces in the Eastern Atlantic and Channel at a level consistent with NATO strategy. We would be able to maintain the minimum forces necessary in the United Kingdom for home defence, including Northern Ireland, and for the reinforcement of BAOR in war.

9. The Committee concluded that we should maintain our strategic nuclear deterrent. This is assigned to NATO and represents an insurance against the loss, temporarily or otherwise, of credibility of the United States strategic nuclear guarantee. It would also be available for national use in the event of a breakdown of NATO. If the force is to remain a credible deterrent in the face of advances in Russian anti-missile capability, some improvements need to be made to the missiles. This would not involve Multiple Independently-Targeted Re-entry Vehicles or a new generation of strategic weapons, and in no way would conflict with the United States/USSR discussions on strategic arms limitations. The cost of the Polaris force would be less than 2 per cent of the defence budget.

CONSULTATION

10. We have undertaken to consult our partners both in and outside NATO before reaching final decisions, and are indeed under formal obligation to do so in NATO. The attitude of the Americans and the Germans will be crucial both in our discussions in NATO and in wider senses, and the first step is therefore to hold very confidential bilateral discussions with them. We should like to begin these right away. We should then be ready in the third week of November to start the formal consultation process within NATO, and also to tell the non-NATO Governments affected. Immediately prior to this we should make a statement in Parliament of our general intentions and the magnitude of the reductions proposed. If we are to avoid arousing unnecessary hostility in NATO we must allow two months for the process of formal consultation. We should then be able to publish a Defence White Paper giving the full details.

RECOMMENDATION

11. The Cabinet is invited to agree that we should enter into confidential bilateral discussions with the Americans and Germans forthwith on the basis set out above, and that subject to any further Ministerial consideration which their reaction may make necessary, we should make a statement in Parliament before beginning the NATO consultations and informing the non-NATO countries concerned. The statement would of course be submitted to the Cabinet at the appropriate time.

10 Downing Street
23 October 1974
CABINET

SUGAR

Memorandum by the Minister of Agriculture, Fisheries and Food

1. In the annex to this paper I set out the basic facts of the sugar situation and the course of events which led to the decisions taken at last week's Council of Agriculture Ministers.

2. In my view the deal we have secured represents the best we could have achieved. The only alternative would have been to try to insist on Council endorsement for a Community deal with Australia instead of the Commission's scheme. But even if we had secured this outcome, our immediate situation would have been worse, not better. Australia might have had no sugar at all immediately available for us and the quantity would have been 200,000 tons at most. We should then have had to buy at least 400,000 tons more at the world price, at an extra cost of up to £100 million. We should probably have had to accept Australian terms which would have meant paying more than the full European Economic Community price for several years. We might well have prejudiced the chances of a good deal for the developing Commonwealth (the Community scheme on the other hand gives the Community an incentive to pay them a realistic price so as to save heavy subsidy costs). We should certainly have prejudiced the chance of securing an increase in our production quota. We should have found it very hard to explain to the British people why we had turned down the chance of a subsidy on the whole of our deficit in exchange for an inadequate (perhaps non-existent) quantity of Australian sugar at an apparently higher price.

3. These arguments would apply equally to any attempt to reopen the deal. I regarded the deal, moreover, as fully within the instructions I had been given. I therefore accepted it without reservation, and I do not feel that I can seek to reopen it.
4. I suggest that our task now is

i. to make sure that the Community scheme is operated effectively and that the great bulk of the subsidised sugar comes to United Kingdom refineries for refining;

ii. to secure agreement as soon as possible to acceptable long-term arrangements under Protocol 22 for the developing Commonwealth;

iii. to consider further with Australia what contribution they can make to our requirements, eg. by supplying sugar under the Community arrangement or, on a commercial basis, for re-export; and

iv. to consider the future structure of the refining industry, and the possibility of refining more beet sugar at the ports.

F P
Sugar Supplies

1. The United Kingdom normally consumes about 2.6 million tons of sugar annually. In the past, this has been met by 1.3 million tons (i.e., 1.4 million tons of raw sugar) from the developing Commonwealth under the Commonwealth Sugar Agreement (CSA); about 300,000 tons from Australia; and about 900,000 tons from home-produced beet sugar. Small quantities have been imported at the world price or from the EEC to make up any deficit.

2. In the next twelve months, these normal supplies will be greatly reduced. In 1974, the West Indies are sending us 300,000 tons less than their quota; their exports to us over the next twelve months, even following a satisfactory arrangement under Protocol 22, may well be no more than the 1974 level or even less. They prefer to sell to the US or elsewhere at the very high world price. Other developing Commonwealth countries will probably send us more than in the past; but their production seasons are in the second half of the year so this does not greatly help the supply situation over the next twelve months. Australia is due to send only the last 150,000 tons of CSA sugar in this period; they have no obligation to supply in 1975. Our home crop has been hit by bad weather and disease and at 600,000 tons is 350,000 tons below the first estimate. These three factors make up a shortfall of 800,000 tons. But in addition, our refiners have an obligation to pay back, by exports, 200,000 tons of sugar borrowed from the world market in 1974. So we need to import a million tons of sugar from somewhere. The most that other EEC member countries can be expected to have available for us is 400,000 tons, which will of course come to us at Community market prices. That leaves a deficit of at least 600,000 tons (worth £275 million at the current world price of over £400 a ton).

Australia

3. The Australian position has changed fundamentally since the negotiation of the Treaty of Accession. Then the world price was low, and the Australians wanted a three-year phasing out of their

CONFIDENTIAL

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sugar exports to the UK over 1975-77. Protocol 16 (which deals with damage to third country interests) might have allowed this if the world price had stayed low, and the previous Administration promised support for the Australian request. Now that the world price is very high, however, the Australians reject phasing out, which no longer has any attractions for them.

4. When I began talks with Australia in July about the possibility of a continuing supply of Australian sugar, they said that they would reserve for us until September an extra 200,000 tons from their 1974 crop (their 1975 crop could not begin to reach here till August 1975). But this was conditional on our making a new agreement, for not less than five years and for at least 500,000 tons a year, at a price which would start at the Australian dollar equivalent of £740 a ton f.o.b. (compared with EEC intervention and threshold prices equivalent respectively to £93 and £115 f.o.b.). Moreover they wanted this price to escalate automatically with increases in EEC prices so that it would stay above them. I did not settle for these terms, but in September I tried to get the necessary cover from the Council of Ministers to enable me to conclude a deal with Australia. This meant trying to get the Council to agree that the Australian sugar would never be subject to an import levy that would make it unsaleable.

The Commission's Proposals

5. When I put this to the Council, Mr Lardinois, the Agricultural Commissioner, pointed to the fact that a long-term government-to-government deal with Australia was inconsistent with Article 113 of the Treaty of Rome. He recognised our immediate difficulty over supplies, but argued that a short-term Community shortage should be met by short-term action. Whatever case we might make for access to Community markets for low-priced food from third countries, he thought it difficult for us to argue that long-term access should be secured for a foodstuff at well above Community prices. To meet our supply difficulty he put forward instead a proposal for the Community to subsidise imports from the world market. The scheme was not for a straight subsidy of the difference between world and EEC prices. The importer was to be allowed to export the same quantity of beet sugar from the 1975 Community crop. This would give
him a profit, which in turn should mean that he could operate with a smaller rate of import subsidy. The subsidy would be allocated to importers on the basis of competitive tendering, and the importer would have to sell at prices geared to the threshold price equivalent to about £115 a ton (f.o.b. raw sugar). Other member countries did not react to the proposal at that stage. I promised only to consider it.

Australian reactions

6. Soon after the September Council, Mr Patterson, Australian Minister for Northern Development, came to London to see Peter Shore and myself. He told us categorically that Australia was not interested in any deal with the UK which was not endorsed by the Community; indeed their preference was for a deal with the Community as such. He reluctantly agreed to try to go on reserving 200,000 tons of sugar until the next Council meeting on 21 October. But after consulting his industry he wrote to me to say that "because of its own growing problems Australia must retain its freedom to dispose of all or part of the sugar being reserved from the 1974 crop if subsequent events show that it is in our overriding interests to do so": in other words, it might be sold to Japan if Australian interests so dictated. After his return, Australian officials told mine that even without a Japanese deal they could no longer guarantee that 200,000 tons would be available, for their crop was turning out less well than had been forecast.

The Cabinet decision

7. It was against this background that first the EQ Committee and then the Cabinet considered the line I should take in the Council on 21 October. It was agreed that I should try to get the Council to approve both the Commission proposal and a long-term deal with Australia; that if the Council would not give an open-ended commitment to subsidise sugar imports I should insist on endorsement of an Australian deal; that in the last resort I should accept the Commission proposal without endorsement of an Australian deal, subject to the need to obtain the best possible assurance that a Community subsidy for our sugar supplies would not be limited to one year only; that I should seek the strongest assurances that the proposal would be
made to work effectively, without regard to cost; and that I should give no undertakings which would close the doors to further talks with Australia.

8. It was also agreed that I should seek a bigger production quota for the UK; that if necessary I could agree to the Community's seeking to raise production to the level of its consumption; and that I should try to get the Council to endorse a price of at least £140 for the developing Commonwealth under Protocol 22 (which we have always interpreted as requiring access for 1.4m tons at a fair price) in 1975, so as to maximise the quantity of sugar we could expect from them.

The Council of 21 October

9. At the Council I carried out these instructions. I pressed for both the Commission proposal and the Australian deal. Other member countries made it very clear, however, that they regarded the Commission proposal as making an Australian deal unnecessary, and that they would not agree to both. Indeed the difficulty was to get the Germans to agree to the Commission proposal without setting destructive limits to its cost. After the scheduled one-day meeting had gone through a second day, the Council at last agreed on the following decision:

"On the basis of Article 16 of Regulation 1009/67/EEC (the basic sugar regulation) the Council agrees to adopt the measures necessary to ensure an adequate supply of sugar throughout the Community for the 1974/1975 marketing year, at common prices, the costs being financed by the Community under the 1975 FEOGA budgetary provisions. The first stage is for the Council to adopt the appropriate Regulation proposed by the Commission for an amount of 200,000 metric tons. The Council will decide on further stages in the light of experience and depending on the effectiveness of this measure".

Thus the Council commitment is to cover the whole deficit. If the Commission's scheme does not work efficiently the Council is committed to adopting a better one.

10. In order to ensure that this commitment was indeed open-ended I insisted on two understandings, which are recorded in the Council
minutes: first that there should be no limit on the cost of the sugar import subsidy as such; secondly, that the subsidy should have exactly the same claim on FEOGA as any other item of expenditure. I did not succeed in getting a Council commitment to more than one year: the Community's practice is to reach decisions of this kind, within the context of a basic commodity regulation, separately for each marketing year. But the Commission accepted the need to cover any continuing Community deficits and said that they would want their scheme extended to cover 1975/6. I gave no undertaking that we would not continue to talk with Australia. I secured an increase of 140,000 tons in our basic quota. Under the arrangements for 1975 the full EEC price will apply to maximum as well as basic quota. As a result the full guarantee will apply to 1.5m tons - about 40% more than our maximum previous production. I had to agree to increase in quotas for others too, designed to increase the Community's sugar production. It was not possible in the circumstances of this meeting to secure the endorsement of a price of £140 for the developing Commonwealth, though such remarks as other member countries made were encouraging. I did get agreement, however, to press forward the consideration of the Protocol 22 sugar arrangements and, in the absence of a decision from the next Foreign Ministers' Council, to deal with them at the next Agricultural Council (18-19 November). We remain determined to get access for 1.4m tons at a price of not less than £140.

Public Reactions
11. Public reaction to the agreement has concentrated on the immediate questions of supplies and prices and has in general been markedly favourable.

The Port Refineries
12. There has however been criticism from the port refiners, their workers and the backbenchers who speak for them. They argue that the deal offers no long-term assurance of a supply of raw sugar for the port refineries; and they are doubtful about the extent to which our refiners will be able to bid competitively for the subsidised sugar since, it is argued, they may find it difficult to buy Community beet sugar forward from the 1975 crop.
13. It is true that the method of competitive tendering does not give an absolute assurance that our refiners will secure the great bulk of the subsidised imports. We shall need to work closely with them and the Commission so as to maximise their chances of securing the supply, and this may call for help in funding the operation, and for an approach to the British Sugar Corporation to sell them sugar from the 1975 crop. If in the event they do not secure the greater part of the first 200,000 tons we shall need to secure more effective arrangements for succeeding quantities. The main source of the refiners' raw sugar supplies, in both the short and long term, however must be the developing Commonwealth countries under Protocol 22. The refiners recognise this but would clearly have liked a long-term deal with Australia as well, and are reluctant to take a realistic view of the difficulties in the way of such an agreement. There are possibilities of securing a higher future level of port refining than would otherwise be the case by having additional beet sugar refined there. This raises the question of the future structure of the refining industry and I will be putting a paper on this to my colleagues shortly.

**Assessment**

14. In my view the deal we have secured represents the best we could have achieved. The only alternative would have been to try to insist on Council endorsement for a Community deal with Australia instead of the Commission's scheme. But even if we had secured this outcome, our immediate situation would have been worse, not better. Australia might have had no sugar at all immediately available for us and the quantity would have been 200,000 tons at most. We should then have had to buy at least 400,000 tons more at the world price, at an extra cost of up to £100m. We should probably have had to accept Australian terms which would have meant paying more than the full EEC price for several years. We might well have prejudiced the chances of a good deal for the developing Commonwealth (the Community scheme on the other hand gives the Community an incentive to pay them a realistic price so as to save heavy subsidy costs). We should certainly have prejudiced the chance of securing an increase in our production quota. We should have found it very hard to explain to the British people why we had turned down the chance of a subsidy on the whole of our deficit in exchange for an inadequate (perhaps non-existent) quantity of Australian sugar at an apparently higher price.
INTERNATIONAL PROPERTY DEVELOPMENT (INDUSTRIAL) LIMITED

Memorandum by the Secretary of State for Industry

1. The Convenors of the Shop Stewards of International Property Development (Industrial) Limited (IPD) have applied for a grant of £3.9 million to enable them to acquire the business from the Receiver and run it as a workers' Co-operative, employing 913.

2. This factory has had a most unhappy history; it was originally owned by Fisher and Ludlow and has changed hands frequently; it was the scene of a 'sit in' in January 1972, resolved only after the intervention of the Prime Minister. IPD took over the factory in 1972 and was offered financial assistance in 1973 by the previous Government, but the company were unable to fulfil the conditions of the offer and reapplied for assistance.

3. On my recommendation we agreed last June that assistance to that firm - IPD Industrial - should not be provided but agreed that proposals could be submitted to use the present factory and work force for a viable scheme. To this end I commissioned Consultants to prepare a feasibility study and their expertise was made available to the workers. When the company failed in July, I was also authorised to tell the Receiver that the Government was a potential buyer for the factory. The Consultants have helped the workers to prepare their present proposals, but they are not responsible for the assumptions on which the proposals were based.

4. The workers' proposals are based on a strategy of expanding the market to absorb the present production of IPD Industrial, particularly as regards contract engineering and night storage heaters. They intend to continue the present pattern of production for the time being, but will if necessary adjust it to make it profitable.
5. The Convenors propose to recruit professional management to run the factory with three worker directors. Decisions of major significance for the workers would be submitted for approval to the work force as a whole. A non-executive "implementation review group" would also be set up to involve the workers generally in a detailed review of progress.

6. The workers' application was considered by the Ministerial Committee on Industrial Development. The Committee were, on balance, in favour of support for the proposed workers' Co-operative. The Receiver has since agreed to keep the business going for a further week, i.e. until 4 November, on the terms previously agreed whereby the Government is making a grant towards his losses, but he has made it clear that there can be no further extension.

7. The arguments for assisting the Co-operative are as follows -

a. Male unemployment in Merseyside exceeds 9.5 per cent and in Kirby it is still higher. If assistance is refused, the Receiver will close the factory after the end of this week and throw the men out of work. There is no real prospect of alternative employment for them, and they will not understand or accept our decision.

b. These are determined people who, having experienced redundancy before, are intent on making the Co-operative a commercial success. Sales have continued at a high level even during the period of receivership, and on the basis of enquiries coming in the workers are confident that orders will come in at an even higher level once the present long period of uncertainty is over. They have emphasised their willingness to make whatever changes - including a reduction of the labour force - appear necessary in the light of experience to ensure the survival of the Co-operative. The financing proposals include a contingency of £500,000 which the workers are confident will be enough.

c. The assistance proposed represents a cost per job of some £4,300. This is well within the normal cost per job maximum for selective assistance projects of £5,000. Even if the Government
were to acquire the factory, for up to £2 million, this acquisition would represent an addition to the stock of factories in the assisted areas already owned by my Department; the factory would be leased to the Co-operative at an economic rent. Thus, the cost of the acquisition, if that should prove necessary, would not count against the project cost - any more than it does in other cases where the Government is the landlord.

d. The Co-operative represents an important experiment in worker participation in management which could be very significant for industry generally.

8. In the light of the foregoing arguments, I invite the Cabinet to agree to the proposal endorsed by the majority of members of the Ministerial Committee on Industrial Development, namely, that -

i. Assistance of up to £3.9 million, less any money provided by the workers, should be provided to enable the workers to acquire the business of IPD Industrial from the Receiver and run it as a workers' Co-operative. Government assistance would be given on a once for all basis.

ii. The Government should if necessary, take steps to ensure security of tenure for the Co-operative by acquiring the factory at a cost in the region of £2 million.

A W B

Department of Industry
29 October 1974
CABINET

THE SIMONSTOWN AGREEMENT

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

THE SIMONSTOWN AGREEMENT

1. We have recognised and stated publicly that the Defence Review might have implications for the Simonstown Agreement. In my speech at Cardiff at the weekend I said that if there were an important British security interest in maintaining the Agreement then we must do so but that if we were maintaining an Agreement that was politically damaging (as it is) but only militarily marginally useful it should be brought to an end or allowed to wither. I added specifically that we would be looking at the Agreement.

2. We are about to make decisions on the Defence Review affecting deployment East of Suez which will mean that the Simonstown facilities are much less important to us, certainly in peace time, than they have been hitherto. On the assumption that we do so decide, the way is open for us to make an early decision about the future of the Simonstown Agreement.

THE PRESENT POSITION

3. The Simonstown Agreement, which consists of letters and memoranda exchanged between the British and South African Governments in 1955, remains in force "until such time as the two Governments decide otherwise by mutual agreement". Relevant extracts bearing on our obligations to undertake joint training and to provide courses and certain other facilities are attached at Annex. We have said in Parliament that the South Africans would be consulted if the Agreement were to be affected by the Defence Review.
4. The issue is I think now fairly straightforward. Our Party programme in 1973 said we should "withdraw from all relationships resulting from the Simonstown "Agreements" and all military exchanges, visits and technical arrangements will be terminated". We did not enter into any specific commitments in our manifestos of February and September this year but in the February manifesto we undertook "a disengagement from Britain's unhealthy involvement with apartheid". Reaction to the recent visits and the measure of naval co-operation that went with them, however explicable on grounds of operational necessity, merely stressed the trouble this Agreement has caused us for what looks like being a marginal benefit.

ALTERNATIVE COURSES

5. One course of action would be to make an announcement as soon as possible that we intend to abrogate the Agreement. The Agreement itself however does not provide for unilateral abrogation and, as supporters of the rule of law and of respect for treaties, we do not want to appear to act illegally. A unilateral gesture would also add to the antagonism of the South Africans and we would risk jeopardising our trade and other material interests. We know from their aide memoire earlier this summer the importance that South Africa attaches to the Agreement. It was at that time that we had evidence that any failure to continue to meet our obligations under Simonstown could affect the prospects for British firms competing in the public sector.

6. The alternative is to enter into negotiations with the South Africans with a view to ending the Agreement in an orderly way. That of course would minimise the risk to our relations but there is no guarantee that the South Africans would agree and at the end of the day we might face the prospect of having to announce that having attempted in good faith but unsuccessfully to negotiate the termination of the Agreement we felt bound to regard the Agreement as at an end. This would lead to acrimony and disadvantage in the commercial and other fields, but may be unavoidable.

7. A possible further course if the Agreement is still thought to have some military value for us, eg. in wartime, would be simply to allow the Agreement to wither by reducing, in consultation and agreement with the South African Government, the extent to which we make use of the facilities. That in itself would bring us little political advantage but we could at least announce publicly that we should not allow any further extensive exercises though we might have to accept some degree of joint training on some occasions in order to keep within our legal obligations under the Agreement.
TIMING

8. In about ten days' time we shall be embarking upon consultations with the Americans about the Defence Review. We know they attach importance to our contribution to the Western presence in the Indian Ocean area, modest though it is, and to pre-empt our consultations by announcing shortly beforehand a decision to withdraw from the Simonstown Agreement would make the rest of our task more difficult.

CONCLUSION

9. I favour the course set out in paragraph 6, namely to end the Agreement in an orderly way. But we cannot reach a final conclusion until we have had a military assessment from the Secretary of State for Defence. I recommend we proceed as follows:

   a. Ask for the view of the Secretary of State for Defence on the military consequences of closing Simonstown and the alternative facilities that will be required.

   b. Consider with the Ambassador at Capetown the best way of reducing the risk of South African retaliation.

   c. Have talks with the United States.

   d. Announce our conclusions in the context of the statement that will be made on the Defence Review, or when a statement on the completion of the Review of policy towards Southern Africa is made.

LJC

Foreign and Commonwealth Office

29 October 1974
Annex

THE SIMONSTOWN AGREEMENT

Extracts from letters and memoranda dated 30 June 1955 exchanged between the Governments of the United Kingdom and South Africa.

Agreement on Defence of the Sea Routes round Southern Africa.

4. After the control and administration of the Simonstown Naval Base are handed over to the Union Government in accordance with the provisions of the Agreement relating to that subject, the Royal Naval Commander-in-Chief, South Atlantic, will continue to fly the flag to which he is entitled by Royal Naval regulations in the Cape area outside Simonstown and to exercise command over any Royal Naval units in the Union. [Post is now that of CinC Fleet.]

5. He will also be designated for purposes of planning and operational command in war as Commander-in-Chief of a maritime strategic zone, the boundaries of which will approximate to those of the Royal Naval South Atlantic Station, and will include the Mozambique Channel.

9. In peacetime the Commander-in-Chief will be directly responsible only to the United Kingdom Government and will have no executive authority over South African forces, establishments, or services. He will, however, have as one of his primary functions the guiding of maritime war planning in the strategic zone, and will be free to confer on these matters, in consultation with the South African Naval Chief of Staff, with the Union Minister of Defence.

10. A joint maritime war planning committee will be set up, containing representatives of the Royal Navy and the South African Navy, one of whose functions will be to co-ordinate the use of all maritime facilities in British and South African territories in the strategic zone. [Replaced by periodic staff talks.]

12. Since on the transfer of the control of the Simonstown Naval Base in accordance with the provisions of the Agreement relating to that subject, Admiralty House and the adjacent offices and residences will be transferred to the Union Government, the Union Government will in agreement with the United Kingdom Government provide headquarters in the Cape area, but outside Simonstown, with requisite communications and operational facilities, for use by the Commander-in-Chief in peace and war.
14. It is agreed in principle that exchanges of officers and ratings between the two navies would be of advantage to both navies and should take place whenever practicable. Such exchanges will be effected by mutual agreement between the two Governments.

15. It is agreed that the South African Navy will introduce a definite programme for the recruitment, as well as the subsequent training in the United Kingdom, of Engineering and Electrical Officers in accordance with existing practice.

Annex to the same letter.

In Peace.

2. The Commander-in-Chief will be responsible for:-

   (a) the development of plans and the necessary preparations for the execution of his wartime tasks

   (b) the organisation for and conduct of combined training of such national units as are assigned or earmarked for assignment to his command in war - and which can be made available - so as to ensure that they can operate as an effective and integrated force

   (c) the establishment of an efficient organisation which will be the nucleus for expansion in war for the control of the strategic zone.

3. To fulfil his peacetime functions the Commander-in-Chief will be authorised:

   (a) to co-ordinate combined training of national maritime forces of the United Kingdom and of the Union earmarked for assignment to the zone in war

   (b) to call for reports based on inspections, carried out by national authorities, concerned with the state of readiness and efficiency of forces earmarked for his command, but not under his control in peacetime.

Agreement Relating to the Transfer of the Simonstown Naval Base

ANNEX A

Replacement of United Kingdom Personnel by South African Personnel

1. The replacement of personnel from the United Kingdom employed in the base by South African personnel must, it is agreed, be governed by the need to ensure that the efficiency of the base is maintained. Initially, and until South African personnel have acquired sufficient knowledge and experience, most of the posts at present filled by United Kingdom non-industrial or industrial staff will have to continue to be so filled.
CABINET

PUBLIC EXPENDITURE PRIORITIES

Memorandum by the Chancellor of the Exchequer

1. At our discussion of public expenditure on 12 September the Cabinet -
   
   a. Reaffirmed the need to limit the growth of public expenditure to an average annual rate of 2½ per cent in demand terms up to 1978-79,

   b. Asked me to consider priorities for public spending, to consult my colleagues mainly concerned, and to report back,

2. Since the summer, policy decisions and some major estimating changes, notably for housing, have raised total expenditure throughout the period above the Survey total, prepared on the basis we agreed. Some of my colleagues have also made additional claims. Even if the minimum allowance were made for these claims public expenditure would be exceeding the limit we set for 1978-79 by £300-£400 million in demand terms.

3. I attach a note by the Treasury which discusses priorities in relation to our policy objectives and the immediate needs of the economy, including the operation of the social contract and the improvement of our industrial base. Within this framework of priorities, the note puts forward an illustrative scheme for accommodating the programmes within our limit, taking account of my bilateral discussions.

4. Giving a high priority to particular programmes or services does not mean that spending on them may increase without any restraint. There is now a pressing need, for example, to phase out the very heavy subsidies at present paid to hold nationalised industry prices down, and more gradually to reduce the cost of food subsidies. The scope for improving less urgent social security benefits will be restricted in the next few years; and it is necessary to ensure that the costs of a larger housing programme are fairly shared between tenants and taxpayers or ratepayers.
These restraints on the higher priority programmes are already assumed in the Treasury note, as a basis for determining what is available for the programmes of less immediate priority. For the reasons explained above, these programmes have to be accommodated within a total for 1978-79 which will be £300-£400 million less, in demand terms, than the Survey programmes.

5. I believe this will be possible without reducing standards of service; on the contrary, in all cases these would continue to improve. But if we do not contain the claims of the public sector now, as I propose, we are likely to be faced in the near future with no choice but to make larger unplanned cuts in crisis conditions, for the reasons which I spelled out in my earlier paper relating public expenditure to the other claims on the nation's output.

6. Given a total allocation lower by £300-£400 million in demand terms, the programmes where I believe we must contain the rate at which standards improve fall largely in the field of local authorities; including education, personal social services, law and order, local environmental services and roads, and local transport including subsidies for fares. In these areas the estimates for this year's negotiations on the rate support grant already show a very rapid escalation in real expenditure, quite apart from inflation, and the plans for the future involve a heavy and continuing drain on the national manpower pool. It is urgently necessary to reduce this rate of expansion. Unless we succeed not only will there be unacceptable pressure on real resources but both the pressure on the rates and the level of support from central Government will also reach unacceptable levels.

7. We need to settle the figures for 1978-79, to fix the line of progress for the future, and the allocations for 1975-76 as the basis for next year's estimates. The tables attached to the note include figures for both years. But these figures will be meaningless unless we at once take the steps required to modify our policies, both for central government and local authorities, so as to ensure that measures are put in hand to bring about the reallocation of resources which is necessary over the period as a whole.

CONCLUSIONS

8. I ask the Cabinet -

a. To endorse the pattern of priorities proposed in my paper as a means of securing the total savings by 1978-79 which we need to keep within our agreed limit for the growth of public expenditure.

b. To note the corresponding programme estimates for 1975-76 and 1978-79, and to agree that we should proceed to frame the 1975-76 Estimates and the Public Expenditure White Paper accordingly.
c. To endorse the modifications of policies, affecting both central Government and local authorities, which we shall need to implement rapidly so as to secure these objectives.

D H

Treasury Chambers

30 October 1974
PUBLIC EXPENDITURE PRIORITIES

Note by the Treasury

The Cabinet's decision in July to limit the growth of expenditure to an average of 2½ per cent in demand terms over the period to 1978-79 allowed for no net increase in the programmes as costed in the Survey. Two developments have now to be taken into account:

(a) The cost of new policy decisions and of some major estimating increases since the summer.

(b) Some Ministers' requests for additional allocations.

After allowing for (a) but with no substantial concessions to (b) except for family support, the 1978-79 total would still exceed the Cabinet guideline by some £300-400 million in demand terms. This paper discusses the problem of matching the programmes to the guideline on the basis of a judgment of priorities.

The social contract: counter-inflation policy

2. The social contract is central to the Government's immediate policy to reduce cost inflation. A key element in the Government's contribution has been restraint of rents and prices, especially prices of essential foods by food subsidies, now running at over £500 million a year. In addition subsidies to the nationalised industries are now costing over £1000 million a year, about two-thirds for price restraint, more than double the provision in the March
budget. There is a serious conflict, particularly with regard to the nationalised industry subsidies, between the objective of price restraint and the need for economy in resource use and containment of a growing budgetary imbalance. Broadly, £100 million in food subsidies reduces the RPI by 0.27%; £100 million in subsidies to nationalised industry prices reduces the RPI by 0.21%. It should now be an object of policy to phase out subsidies for price support for the nationalised industries within the period, and to taper off those for food to say £300 million by 1978-79. If these results are not secured the rest of public expenditure would have to be constricted beyond the economies now proposed by many hundreds of millions of pounds.

**Housing**

3. Housing has been given unconstrained priority, both the building of homes and the provision of housing subsidies. These subsidies involve large and rising transfers to council tenants from taxpayers and to a lesser extent from ratepayers. Standard rents (before rebate) now represent only about half of the costs of council housing: this is another area where rapidly rising money costs to public authorities are not recouped from the consumer, and where selective rate and rent rebates are more cost-effective than general subsidies. The rent freeze is to be discontinued by the end of this year and it has been proposed that the rent increase in 1975-76 should be moderated by a special subsidy for one year only. If rents do not then rise at least as fast as the index of consumer prices, the subsidy bill will grow
faster than has been assumed, and by the end of the period the effect will be to intensify the squeeze on the rest of public expenditure. Given continued priority for new building by public authorities the need is to direct policy towards containment of other housing expenditure and its reduction where possible. This should be pursued in the full review of housing finance which is being put in hand and by any other means, including exploration of the possibility of a better distribution of new house-building, or of some economies in space or standards, or any better alternative which the Housing Departments can suggest.

Social Security

4. Maintaining or improving the real incomes of pensioners and other recipients of social security benefits is the other main element in the Government's social policy. But the 1974 pensions uprating and the pledge to uprate pensions in future in line with average earnings, together with immediate help for the disabled and publication of long term plans for a better pension scheme for all, have already expressed this handsomely. The present high rate of inflation makes two upratings in 1975 virtually unavoidable; and provision must be made to honour the Government's pledge to increase family allowances. The cost of social security improvements is, however, heavy and irreversible, and reacts on both the wage earner's take home pay and on industrial costs. The scope for further improvements beyond those already mentioned must, therefore, be strictly limited.
Industrial and manpower policies

5. The Government contributes through the productive investment of the nationalised industries, through regional and industrial support, and through manpower and training policies to the improvement of the industrial base, better utilisation of labour in the economy, and thus to future growth. Some of these policies, notably regional and manpower policies, are also directly relevant to the social contract. To seek savings in this area would therefore not accord with accepted priorities. Because some policies, notably those associated with the National Enterprise Board and nationalisation measures, have not yet been fully developed, specific provision in the survey programmes certainly understates future spending, which would be a call on the contingency reserve. Future projects for Government support in industry, technological or other, must be assessed on the need to secure an adequate return to the economy on the resources invested.

6. The shortfall on approved nationalised industry programmes has, however, continued in recent years to be greater than expected and the totals can be reduced on this account by £200 million. But high levels of subsidy will have tended to produce in some of the industries high demand and more expansive plans for investment than would be required if an economic pricing policy were in force. In particular, the CPRS have suggested questioning again the commercial case for much of the railways' modernisation programme.
Agriculture

7. Provision for agricultural support is always hard to estimate, and the difficulty is exacerbated by the EEC renegotiation and CAP review. But a high priority is assumed for a policy of continued support, in appropriate form, for efficient production.

Health

8. Since last winter there have been forceful representations that the health service is "under-financed". It is not clear how far the complaint will be found to extend beyond pay levels, which are in course of being reassessed, but the DHSS consider that there are serious inadequacies in the numbers of staff and in the NHS estate and equipment which will need to be remedied urgently. Further restriction of this programme is not therefore recommended.

Defence

9. To avoid prejudging the outcome of the defence review, the 1974-75 defence budget figure of a little over £3600 million was projected forward in the survey throughout the period, as a purely notional run of figures. If existing defence commitments and force levels were to be maintained, the defence budget would rise by some £700 million (1974 Survey prices) above the present figure by the end of the period, because of the increased sophistication and cost of weapons systems. Major cuts in our overseas commitments and in our home-based forces would therefore be needed even to scale down this increase. It will be essential to keep
to a minimum any addition required in future years to the notional Survey figures, but it seems doubtful whether a lower defence budget than, say, £3700 million in 1975-76 can be assumed.

Roads and transport
Other environmental services
Law, order and protective services
Education, libraries, science and arts
Personal social services

10. These remaining five major programmes together account for a quarter of the total of the specific programmes shown in the Survey for 1978-79, but for over half of the increase in that total between 1974-75 and 1978-79. Housing apart, they include practically all local authorities' expenditure. While local authorities' capital expenditure on these five programmes appears in the survey as only £70 million higher in 1978-79 than in 1974-75 (an average annual rise of 1 per cent), current expenditure rises by over £1000 million in the same period - an average annual rate of nearly 5 per cent. It has been 8 per cent in the past two years and will be even faster this year. The latest figures, for June 1969 to June 1973, show that local authority manpower has been rising at an average of around 80,000 a year. The survey figures imply that it would continue to rise over the next four years at much the same rate. This would be the equivalent to adding to the public sector every year a Government department of the size of the DHSS and thus absorbing virtually the whole prospective increase in the working population in that period. It therefore seems
essential to look to the current expenditure of local authorities in these five programmes for a large contribution to the necessary reduction in the growth of public expenditure on goods and services. Moreover the combination of high real rates of increase and rapid inflation will lead to such large increases in rates next year that a massive increase in the rate support grant, and thus in the borrowing requirement, will be unavoidable, notwithstanding the desirability of allowing rate increases to impose some brake on this expenditure. Proposals to implement this policy are being put separately to Ministers.

11. Following the analysis of priorities set out above the Annex to this note explains the implications for certain programmes of an illustrative scheme producing a reduced rate of increase in public expenditure compared with the programmes of the Survey. Table 1 shows the comparison between this scheme and the Survey. The average annual rate of increase in public expenditure in the period to 1978-79 under the illustrative scheme is 2.8 per cent in demand terms - just above the Cabinet's guideline of 2\(\frac{1}{2}\) per cent. Table 2 gives the totals for each programme under the illustrative scheme for the coming year and for the final year of the period. Table 3 lists the claims which are not accommodated within these totals, distinguishing certain claims for which Cabinet may feel there is a particularly pressing case. Table 4 lists prospective commitments not yet sufficiently firm and quantifiable for inclusion in the programmes; they do not involve, for the most part, significant additions to demand but they could have implications for monetary policy and budgetary management.
Conclusions

12. The main issues for the Government are:

(a) Do they accept the interpretation of priorities in this paper - with the implication that subsidies for the nationalised industries and, to a considerable extent, food will be cut back over the period, and housing subsidies and social security improvements contained?

(b) Do they accept that, assuming that defence expenditure is held as closely as possible to the notional projections in the Survey, savings will need to be made in current expenditure on goods and services in the remaining programmes - primarily those which make up the current expenditure of the local authorities?

(c) Do they accept that they should start to implement these policy changes immediately, for 1975-76 - keeping food subsidies flat, reducing price support subsidies to the nationalised industries, allowing some increase in council house rents, and obtaining a grip on local government current expenditure in next month's negotiations of rate support grant?

(d) Do they accept that local authorities must be warned of the need for a major re-adjustment in their present intentions, so that planned expansion of services can be reduced and staff numbers stabilised; and do they also accept that it will be necessary for the responsible Ministers to indicate to local authorities the services upon which the agreed reductions should be concentrated?
ILLUSTRATIVE REDUCTIONS WITHIN THE SCHEME OF PRIORITIES

The following illustrative scheme for securing the necessary reductions by 1978-79 shows where policies need to be modified. It is this new approach to policies, rather than the actual sums suggested, which is central.

Roads and transport: £115 million

2. Government subsidy to British Rail is running at over £250 million this year and will rise to well over £300 million by 1978-79. But another major transport subsidy has been added as, with reorganisation, a number of local authorities in England and Wales have used their wider powers to assist passenger transport undertakings so that they can avoid increases in fares: extra annual cost about £125 million by end 1978-79. This subsidy should be reduced to save £100 million net on this programme by 1978-79.

3. The network of new motorways and trunk roads contains only projects which are fully justified economically. But a squeeze on local authority current expenditure generally would extend to roads, including maintenance. At 1 per cent a year it would reduce roads expenditure by £15 million by 1978-79.

Local environmental services: £25 million

4. This programme includes manpower for the general administration of local authorities as well as the environmental services themselves (water and sewerage, refuse,
recreation and town planning). More than a quarter of a million people are involved, and the forecast real growth of 4 per cent a year to 1978-79 should be subject to restraint; for example, by tighter discipline on manpower.

**Housing: £75 million**

5. The CPRS have raised the question whether the greatly increased cost of building houses does not make it necessary to reconsider the standards to which they are built and the extent of garage provision. Particular forms of housing investment might be considered for lower priority: eg improvement of local authorities' houses. Such changes might save £75 million.

6. The Department now estimate that lending by local authorities for house purchase and the expenditure of the Housing Corporation will be £165 million more in 1978-79 than was thought when the Chancellor reported to Cabinet in September. The increase must raise the question of finding further offsetting savings.

**Law, order and protective services: £25 million**

7. Given the priority which police and probation manpower may command, reductions in this case might be concentrated on the capital expenditure plans. These envisage police capital spending growing by 40 per cent in the period to over £60 million; prisons by 55 per cent to nearly £45 million; and courts by nearly 147 per cent to nearly £45 million.
Education: £165 million

8. The total net reduction now suggested in 1978-79 of £165 million, for Great Britain, comprises mainly reductions on account of reduced demographic forecasts of the number of children entering education, and of a stringent reappraisal by the Departments of the numbers of students expected to stay at school after 16, and to seek higher education. The reduction suggested also includes about £29 million with a view to containing the subsidy on school meals to roughly its recent level, by increasing the charge for school meals by 3p in 1975 and in each subsequent year (instead of, as assumed in the Survey figures, by 3p in 1975 and 1p and 2p alternatively in subsequent years).

Within the net total, a reduction by about £48 million in 1978-79 in capital expenditure on higher education would be only partially offset by upward adjustments for special and further education and somewhat enlarged provision for replacement of old schools.
Personal social services: £25 million

9. Local authorities have been expanding their current expenditure on personal social services at a very high rate over the past four years, averaging nearly 11 per cent, with a particularly rapid unplanned escalation on concessionary fares. The Survey programmes imply that rapid expansion would continue, though at a rather lower rate, averaging rather more than 6 per cent over the next four years. A lower growth rate would still permit significant improvements in standards and relieve pressure on the long-stay sections of the health service, where growth rates have been much lower. At 1 per cent a year less than the survey assumed, the increase in the level between 1974-75 and 1978-79 would be reduced by about £25 million but would still exceed £100 million.

Overseas services and aid: £10 million

10. Many of the largest developing countries face severe threats to their living standards by the action of the Arab states in forcing up the price of oil. National programmes are dismayed by this problem, and the solution to it will have to be sought by other means. At the same time we ourselves face the problem of financing a huge continuing deficit on our balance of payments; and aid is more costly £ for £ to the balance of payments than most other forms of public expenditure. We have, however, subscribed to international aid. A balance would be struck by a programme of aid in the traditional form which would rise at a modest rate, provided that the path is drawn to secure the best...
presentational effect. A possible pattern would produce a level in 1978-79 £10 million lower than the Survey showed.

Nationalised industries' capital expenditure: £50 million

11. Mainly from railway modernisation.

12. All these illustrative reductions would amount to £490 million in expenditure terms for 1978-79. Allowing for offsets for family endowment and supplementary benefit disregards, the net effect is about £315 million in demand terms.
<table>
<thead>
<tr>
<th></th>
<th>Survey Scheme</th>
<th></th>
<th>Illustrative Scheme</th>
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<td>1974-75 as in</td>
<td>Increase by</td>
<td>Average annual increase</td>
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<td>Survey £m.</td>
<td>1978-79 £m.</td>
<td>1974-75 - 1978-79 £m.</td>
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<td></td>
<td></td>
<td>(a)</td>
<td>(b)</td>
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<tr>
<td>1.</td>
<td>Social Security</td>
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<td>2.</td>
<td>Housing</td>
<td>3,078</td>
<td>+553</td>
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<tr>
<td>3.</td>
<td>Nationalised Industries Capital Expenditure(5)</td>
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<td>+506</td>
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<td>4.</td>
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<td>7.</td>
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<td>Health</td>
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<td>+398(5)</td>
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<td>Roads and Transport</td>
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<td>1974-75 as in Survey £m.</td>
<td>Increase by 1978-79 £m.</td>
<td>Average annual percentage increase 1974-75 - 1978-79 (c)</td>
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<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
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<td>13. Personal Social Services</td>
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<td>19. Contingency Reserve</td>
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<td>20. Adjustment for 1974-75 price change(6)</td>
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<td>-345</td>
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<td>21. TOTAL</td>
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<tr>
<td>(i) In Expenditure Terms</td>
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<td>(ii) In Demand Terms</td>
<td>30,563</td>
<td>+3,838</td>
<td>+3.0</td>
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NOTES TO TABLE 1

(1) The figures in this column do not include any provision for outstanding claims as listed in Table 3.

(2) Assumes upratings in April and December 1975 and annual (December) upratings thereafter. Family Endowment is assumed to come in in 1977-78. For this only the net Exchequer cost (i.e. net cost of abolishing Family Allowances and most Child Tax Allowances and introducing Child Allowances) has been included.

(3) Before further adjustment for shortfall.

(4) These programmes show a decline between 1974-75 and 1978-79 only because it is not possible, given the nature of these expenditures, to forecast future policy decisions or foresee what projects will come forward for support. Both programmes are likely to make substantial calls on the Contingency Reserve — see Table 4, items 1 and 4.

(5) Includes £14 million for local health services transferred to central government.

(6) Includes an additional £125 million proposed but not agreed for local transport subsidies.

(7) Takes account of savings identified partly before and partly since the Cabinet discussion in September (CC(74)35th Conclusions, Minute 3).

(8) This line makes allowance for a more up-to-date view than was embodied in the programme figures in the Survey of estimated outturn prices in 1974-75.
### TABLE 2: ILLUSTRATIVE SCHEME 1974-75, 1975-76 and 1978-79

<table>
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<tr>
<th>Prioritv Programmes</th>
<th>Priority Programmes</th>
<th>1974-75</th>
<th>1975-76</th>
<th>1978-79</th>
</tr>
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<td>1. Social Security (2)</td>
<td>Social Security (2)</td>
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<td>6. Northern Ireland</td>
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<td>976</td>
<td>993</td>
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<td>7. Community Ownership of Land - Administration</td>
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<td>20</td>
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**Other Programmes**

<table>
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<th>Other Programmes</th>
<th>1974-75</th>
<th>1975-76</th>
<th>1978-79</th>
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<tr>
<td>8. Health</td>
<td>Health</td>
<td>3,225</td>
<td>3,345</td>
</tr>
<tr>
<td>9. Roads and Transport</td>
<td>Roads and Transport</td>
<td>1,602</td>
<td>1,697 (5)</td>
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<td>10. Other Environmental Services</td>
<td>Other Environmental Services</td>
<td>1,364</td>
<td>1,506 (5)</td>
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<tr>
<td>11. Law, Order and Protective Services</td>
<td>Law, Order and Protective Services</td>
<td>1,047</td>
<td>1,107 (5)</td>
</tr>
<tr>
<td>13. Personal Social Services</td>
<td>Personal Social Services</td>
<td>552</td>
<td>582 (5)</td>
</tr>
<tr>
<td>14. Defence</td>
<td>Defence</td>
<td>3,612</td>
<td>..</td>
</tr>
<tr>
<td>15. Overseas Services and Aid</td>
<td>Overseas Services and Aid</td>
<td>698</td>
<td>666</td>
</tr>
<tr>
<td>16. Other Public Services and Common Services</td>
<td>Other Public Services and Common Services</td>
<td>976</td>
<td>1,067</td>
</tr>
<tr>
<td>17. Debt Interest</td>
<td>Debt Interest</td>
<td>3,400</td>
<td>3,600</td>
</tr>
<tr>
<td>18. Shortfall</td>
<td>Shortfall</td>
<td>-400</td>
<td>-300</td>
</tr>
</tbody>
</table>

**Note:** Figures are in £ million at 1974 Survey prices.
<table>
<thead>
<tr>
<th></th>
<th>1974-76 Survey</th>
<th>1975-76</th>
<th>1978-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>19. Contingency Reserve</td>
<td>100</td>
<td>300</td>
<td>1,000</td>
</tr>
<tr>
<td>20. Adjustment for 1974-75 price change</td>
<td>345</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**TOTAL:**

(i) In Expenditure Terms

<table>
<thead>
<tr>
<th></th>
<th>1974-76 Survey</th>
<th>1975-76</th>
<th>1978-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) In Expenditure Terms</td>
<td>37,107</td>
<td>38,795</td>
<td>40,873</td>
</tr>
</tbody>
</table>

(ii) In Demand Terms

<table>
<thead>
<tr>
<th></th>
<th>1974-76 Survey</th>
<th>1975-76</th>
<th>1978-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii) In Demand Terms</td>
<td>30,563</td>
<td>32,020</td>
<td>34,086</td>
</tr>
</tbody>
</table>

**NOTES:**

1. These figures do **not** include any provision for outstanding claims as listed in Table 3.
2. The figures assume: (a) upratings in April and December and annual (December) upratings thereafter; (b) Family Allowances raised by 60/50p in April 1975 at a net Exchequer cost of £100 million which will be absorbed into (c) Child Allowances (CAs) introduced in April 1977 at a net Exchequer cost of £120 million; and (d) an increase in 1975 of Supplementary Benefit disregards. The figures in (c) are agreed for planning purposes, firm decisions on the initial rate of CAs being reserved at this stage.
3. Before further adjustment for shortfall.
4. Includes a net addition of 219 on account of increased cost of compensation for price restraint.
5. These figures do **not** include possible additions now being discussed (on the basis of keeping the totals down to the 1974-75 outturn plus inescapable additions) in the context of the Rate Support Grant negotiations. The figures under discussion are:

   - Roads and Transport: +74
   - Other Environmental Services: +37
   - Law, Order and Protective Services: +8
   - Education, etc.: -19
   - Personal Social Services: +49
   - Housing: -9

   **Total:** +140
TABLE 3: CLAIMS NOT ACCOMMODATED IN TABLE 2

[The figures below would be additions to the Survey scheme]

<table>
<thead>
<tr>
<th>£ million at 1974 Survey Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
</tr>
</tbody>
</table>

### A. CLAIMS DISTINGUISHED FOR SPECIAL CONSIDERATION

1. **Housing (England only)\(^{(1)}\)**
   - (a) Local authority' mortgages
     - 1975-76: 50
     - 1978-79: 100
   - (b) Housing Corporation - for programme of 30,000 approvals a year
     - 1975-76: 40
     - 1978-79: 65

2. **Health (Great Britain) - mainly towards reducing arrears of maintenance while the construction industry is lightly loaded.**
   - 1975-76: 35
   - 1978-79: -

3. **Education (Great Britain) - for the most urgent capital programmes for nursery and special education and non-advanced further education, while the construction industry is lightly loaded.**
   - 1975-76: 15
   - 1978-79: -

4. **Overseas Aid - to prevent a fall in the programme**
   - 1975-76: 9
   - 1978-79: -

### B. OTHER CLAIMS

5. **Social security (Great Britain) - further provision for Child Allowances beyond the planning assumption in Table 2 (See Table 2, note(2)).**
   - 1975-76: -
   - 1978-79: 115

6. **Health and personal social services (Great Britain) - for capital programmes and a wider margin for improvement, in revenue expenditure.**
   - 1975-76: 52
   - 1978-79: 114

7. **Aid - To increase the provision for aid in response to revised assessments of aid and to enable the UK to match international aid initiatives (see also item 4).**
   - 1975-76: 10
   - 1978-79: 23
8. Other - including Overseas
   Services, training & employment
   services, transport, land
   drainage, urban programme, flour
   stockpile, broadcasting, mid-term
   census(2), dispersal of Government
   offices

<table>
<thead>
<tr>
<th></th>
<th>1975-76</th>
<th>1978-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services, etc.</td>
<td>24</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td>235</td>
<td>456</td>
</tr>
</tbody>
</table>

NOTES: (1) If this claim were conceded there would be an addition for Wales. Proposals for further expenditure on the following items have been withdrawn:

- Subsidies (England) 14
- Municipalisation (England) 53

(2) Expenditure on the census is £2.5 million in 1975-76, leading to a further £17 million in later years.
The following Table summarises possible commitments in prospect for the period, with preliminary costings where these are known. All these estimates are very uncertain. Items with nil or negligible demand implications may nevertheless be significant for monetary policy and budgetary management.

£ million at 1974 Survey prices

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and food subsidies</td>
<td>UNKNOWN (1)</td>
</tr>
<tr>
<td>2. RB211-524 (Boeing application)</td>
<td>26</td>
</tr>
<tr>
<td>3. HS146 (further government support)</td>
<td>45</td>
</tr>
<tr>
<td>4. Selective assistance and other industrial support</td>
<td>say, 600</td>
</tr>
<tr>
<td>5. Nationalised industries' subsidies</td>
<td>UNKNOWN (2)</td>
</tr>
<tr>
<td>6. Scottish Development Agency</td>
<td>Up to 200</td>
</tr>
<tr>
<td>7. Welsh Development Agency</td>
<td>Up to 100</td>
</tr>
<tr>
<td>9. Compensation for pneumoconiosis</td>
<td>Up to 100</td>
</tr>
<tr>
<td>10. Contribution to miners' pensions</td>
<td>UNKNOWN</td>
</tr>
</tbody>
</table>
B. **Items with nil or negligible demand implications**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>Nationalisation&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Aircraft industry</td>
<td>60 - 90</td>
</tr>
<tr>
<td>(b)</td>
<td>Shipbuilding</td>
<td>50 - 100</td>
</tr>
<tr>
<td>(c)</td>
<td>Ports</td>
<td>150</td>
</tr>
<tr>
<td>12.</td>
<td>National Enterprise Board</td>
<td>300 - 500&lt;sup&gt;(4)&lt;/sup&gt;</td>
</tr>
<tr>
<td>13.</td>
<td>British National Oil Corporation: capital expenditure&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>2,000</td>
</tr>
<tr>
<td>14.</td>
<td>Community ownership of development land: purchase, sale etc.&lt;sup&gt;(6)&lt;/sup&gt;</td>
<td>315</td>
</tr>
</tbody>
</table>

**NOTES:**

1. Present figures assume phasing down to £300 million a year by 1978-79.
2. Present figures assume that price restraint compensation (other than for Coal and Rail) is phased out by the end of 1975-76.
3. The figures shown cover acquisition costs only. They do not provide for further investment.
4. This does not allow for a further £1,000 million proposed by the Secretary of State for Industry.
5. This estimate relates to oilfields only (not gas) and takes account of new discoveries. It assumes total success in negotiating participation in all North Sea fields.
6. Administrative costs have already been allowed for.
1 November 1974

CABINET

PUBLIC EXPENDITURE PRIORITIES:
THE OVERSEAS AID PROGRAMME

Memorandum by the Minister of Overseas Development

1. I fully appreciate the public expenditure problems outlined in the Chancellor's paper (C(74) 120); and I would like to acknowledge the considerate hearing I have had in my bilateral discussion with the Chief Secretary. Nevertheless, I must put to Cabinet the special case, even in our present difficult situation, for a meaningful increase in the aid programme, particularly for next year.

2. The PESC figures would lead to a decline in real terms from this year to next and I am grateful to the Chancellor for suggesting sympathetic consideration for an increase of £9 millions. However, this represents only a standstill in real terms, and will be clearly recognised as such. It is very difficult to estimate future scores against the international target of 0.7 per cent of GNP, but on the best forecast I can make this standstill would mean that we should stand next year, as last year, at 0.35 per cent. I must ask my colleagues to consider the need for an increase of £30 million in the aid programme for 1975-76, the year about which I am most concerned. This would be an important measure of our intent, and would represent a recognisable increase in the aid programme in real terms as well as bringing our score to 0.37 per cent. For later years I would accept the PESC figures, while resisting the proposed cut of £10 million in the final year.

3. There are compelling reasons for such an increase, which is modest enough in scale:

i. If we exclude defence and the administrative costs of the Foreign and Commonwealth Office, the aid programme is the only element of our public spending directly affecting and helping the outside world. In this sense aid expenditure should be measured against the total of our domestic spending, rather than against the spending of individual Departments. At the increased level I seek, it would represent only 0.9 per cent of total public expenditure.
ii. There is a profound moral case for a socialist Government to give a sincere priority to overseas aid, which I need not argue. It was fully expressed in our Manifesto. In the recent Cabinet discussion of the CPRS review of strategy and priorities (CC(74) 38th Conclusions) it was noted that the Manifesto commitment should be regarded as a moral imperative taking precedence over all others. The Queen's Speech said: "My Government recognise the economic problems confronting the developing countries and will seek to increase the provision of aid!", and this has been warmly welcomed by the voluntary organisations, who take it as an implicit commitment. To fail to fulfil it will present the Government with some political difficulties from a highly articulate and now very considerable group.

iii. There is now also a most important economic case for increased aid. The countries most severely affected by the crisis in oil and commodity prices, which include our major clients, face catastrophe, as the CPRS review clearly indicated. If their economies collapse, not only will they cease to be effective trading partners for Britain (and there is a trade spin-off of some 18 per cent of British exports to developing countries) but the danger of world recession affecting the industrialised countries will be intensified; and we acknowledge this to be even more serious than the risks involved in the inflationary situation. The economic crisis for the most seriously affected developing countries brings with it the danger of political instability, which would inevitably follow economic breakdown. Informed economic observers have reported to me in the last week their anxieties about what could happen in India and Bangladesh. It is clearly in our own direct interest to do whatever can be done to avoid this. There has never been a greater element of self-interest, on both these counts, for providing more economic assistance especially to those poorest and hardest hit countries to which the CPRS review (C(74) 110) gave emphasis.

iv. Our own aid effort has significant consequences in the "matching" by other countries, as has been evident in our recent insistence that the EEC should make available a first part of its contribution to the United Nations Emergency Measures. But a corollary of this is that our aid performance should not be measurably worse than the countries we seek to influence. The general aid prospects of donor countries are not good, because the United States, Germany and France seem unlikely to do particularly well next year. Even so, the Germans stressed last week in Paris at the meeting of Ministers of the Development Assistance Committee of OECD that they will have an aid increase of 9 per cent next year (against an
estimated current rate of inflation of 7 per cent), and the Americans hope for Congress approval of considerable increases in food aid. Other projections, some provided orally by Ministers of other countries and not in strictly comparable terms, are summarised below. They are expressed in cash, and therefore need to be measured against rates of inflation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Next year's % increase in aid</th>
<th>% Current Rate of inflation (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>Japan</td>
<td>35</td>
<td>23</td>
</tr>
<tr>
<td>Sweden</td>
<td>35</td>
<td>9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>75</td>
<td>1.0</td>
</tr>
<tr>
<td>Norway</td>
<td>40</td>
<td>9</td>
</tr>
</tbody>
</table>

The Netherlands aim to reach 1.2 per cent of GNP next year and Denmark expect to increase aid by 7 per cent against a general budget cut of 10 per cent.

4. For all these reasons, I am convinced that we must allow £30 million more for overseas aid next year. It is in our own considered interests to do so, and in the present condition of the third world, our own moral intent must now be underwritten by a positive financial response.

J H

Ministry of Overseas Development

1 November 1974
1. When we last discussed Public Expenditure in Cabinet, I was not alone in questioning whether we had sufficiently changed the expenditure plans which we had inherited to meet our Socialist priorities. If we are to make room for the expansion of programmes which we, as socialists, regard as essential, we will have to face up to the need to make severe cuts in other programmes which are desirable but of lower priority.

2. I share with my colleagues an acute awareness of the paramount need to improve the nation's economic performance. Top priority must be given to this. As regards the other programmes, I do not think that we have yet got the balance right. We must surely put ourselves in a position to claim in 3 or 4 years' time that our performance has been better than the Tories in those areas to which we attach the greatest importance. Looking at the figures now before us, I do not think that they indicate priorities which I would be willing to defend. We would be strongly criticised by many of our supporters if the implied priorities were published in their present form. We surely do not want to justify our record of office by claiming that we have built more roads, more courts and more prisons than ever before.

3. Our priorities in public expenditure must support the social contract insofar as this is possible. We agree that there is limited scope for increases in real wages. Indeed the real incomes of the higher paid will have to mark time or fall. It is therefore all the more important that public expenditure should add to the social wage in ways which can be clearly understood - in housing, education, pensions, child allowances, and in health and personal social services.
4. We have already given maximum priority to housing — 32.1 per cent extra in this current year. I am sure that this was right. What worries me is whether we are planning to switch enough to education, health and personal social services, pensions and family support over the PESG period.

5. After 10 years of slow and hesitant progress, we must surely make a real success of the comprehensive education programme in this period of office. We must also ensure that nursery education is extended and better provision is made for the neglected group of 16-18 year olds who cannot attend full-time academic courses and for late developers. We start with the advantage that child numbers are falling over the period.

6. Similarly, as I said in the memorandum I put to Cabinet for 12 September (C(74) 107), there is now widespread awareness that the National Health Service is seriously underfinanced and we start with the disadvantage that the number of the aged is rising steadily. It would be humiliating for all of us if our record of expenditure on the Health Service was worse than that of the last Conservative Government. Under the Conservatives the average annual compound rate of growth (capital and revenue) in real terms was 4.2 per cent (between 1970-71 and 1973-74). The corresponding planned expansion in the Chancellor’s Memorandum (C(74) 120) for the period 1974-75 to 1977-78 is only 2.8 per cent. On the capital side the picture for the two three-year periods is even worse. Under the Conservatives, Health capital rose by 28 per cent. Under us it will fall by 4 per cent.

7. I have also made it clear that I would consider it disastrous if we could do nothing for existing pensioners when our new scheme for future pensions is introduced. All we did last July was to restore the pension to about the same percentage of average earnings as in October 1967. The level of short term benefits was last July lower in relation to earnings than in almost all of the years of our 1964-70 Government. At some stage we must narrow the gap between short term and long term benefits. In the case of child support the figures in the papers assume that we will be spending less on child allowances and child tax allowances at the end of the PESC period than at the beginning and allow nothing for us to give extra help to one-parent families. How can we expect to hold the social contract, phase out food subsidies or raise fuel prices unless we look after families
with children by providing an improved level of child support and relate our new child allowances to earnings? The greater the help we give to families, the greater the cuts we can hope to make in food subsidies.

8. I appreciate that resources will be particularly tight next year. But we need to decide now to phase down some programmes so that by the end of the PESC period we have resources in hand to make major social advances. When we have decided which programmes should be cut and how much they should be cut, we can then turn to examine which social programmes should be increased for each of the PESC years. It is for this reason that I have been unwilling to reach any final agreement with the Chancellor on my budget – even for the year 1975–6.

9. I am disappointed by the figures proposed for defence. But this is not the only area where I think we should consider further cuts. The others are roads, law and order and protective services, and food and fuel subsidies.

ROADS AND TRANSPORT

10. The Chancellor proposes that expenditure on roads will throughout the PESC period be higher in real terms than during any period of the last Labour Government – despite the substantial capital investment in motorways over the last decade. Indeed the projected rate of growth (even excluding the possible £100 million local transport subsidy) – at 3.2 per cent – is higher than for health, at 2.8 per cent. What has caused us to change our priorities in the last 10 years? How strong is the economic case for further roads? There is in my view less general public demand for roads than in the past and more public resistance on environmental grounds. While an improved road network reduces costs for the freight industry, it takes traffic from the railways and encourages private motoring which the better-off can afford most of all. While part of the railways programme may help to attract traffic, part of it consists of amenity improvements, which, however desirable, could be postponed, to make way for new construction and renovation of places where people have to spend large parts of their lives – schools, hospitals and residential homes. How far is our whole transport programme consistent with the need to save fuel?
LAW ORDER AND PROTECTIVE SERVICES

11. The Chancellor's Memorandum proposes reductions in the capital programme for police, prisons and courts of about £25 million. But this would still leave a rate of capital growth on these programmes of almost 40 per cent. I regard the replacement of Victorian hospitals and Victorian schools as of higher priority than the replacement of Victorian prisons. Moreover, provision for young offenders should in my view take priority over provision for older offenders. As a result of the penal reform policy of the last Labour Government, the burden of looking after young offenders was transferred to the personal social services. But as the Home Secretary has said, the 1969 Children and Young Persons Act has never been properly implemented. The secure community homes needed to care for the rising number of juvenile offenders have not been provided on anything like the necessary scale. As a result our reform is under severe attack. We must find the money to put this right if we are to prove that our broad humanitarian policy was right, cut at the roots of criminal behaviour before they have sunk too deep and hopefully prevent the need for a vast programme of prison construction over the next decades.

FOOD AND FUEL SUBSIDIES

12. While food subsidies help to contain inflation, they do not discriminate according to social need. The subsidies which would remain even after the tapering off proposed, could be much better used in distributional terms in improved social security benefits.

13. I invite my colleagues to decide -

a. to make a major shift of resources in favour of education, health, personal social services and social security during the PESC period;

b. to make room for this expansion by further cuts in spending plans for roads and transport, law and order, and food subsidies.

BAC

Department of Health and Social Security
London SE1
1 November 1974

SECRET
CABINET

SOCIAL SERVICES EXPENDITURE

Memorandum by the Secretary of State for Social Services

1. We need to reach decisions now about the improvements to be made to social security benefits in 1975. My proposals which are set out below have been discussed with the Chancellor, whose paper on public expenditure priorities (C(74) 120) assumes that the cost in 1975-76 and subsequent years of the proposals on which I am seeking immediate decisions will be regarded as of the first priority.

2. With inflation at present rates we are bound to plan for two upratings of social security benefits in 1975. During our Cabinet discussions before the Election (C(74) 35th Conclusions, Item 3) we were considering the possibility of an uprating next March. This would no longer be practicable. But a decision now and an announcement in connection with the Budget would enable us to set 7 April 1975 as the operative date. I propose that we should then increase pensions and other long-term benefits from the present £10 single and £16 married to £11.60 and £18.50 respectively. Short-term benefits would be increased by £1.20 single and £2 married. The supplementary benefit scales would be increased correspondingly, with the long-term rate going up by the same amount as the contributory pension.

3. These increases will be judged in the light of our commitment to link increases in pensions with the rise in wages, and increases in short-term benefits with the rise in prices. The amounts have been assessed by reference to the known movement of earnings and prices over the latest period for which we have figures, corresponding in length to the period that will elapse between upratings. I have
reluctantly accepted adoption of this "historical" method of assessing the increases because of the difficulties and uncertainties of basing the increases on a forecast of earnings and price movements to the date of the uprating. The April uprating should restore the purchasing power of pensions to last July's level, but it is unlikely to restore the pension as a percentage of earnings at that date. No method, however, can assure a constant relationship between the level of pension and the level of earnings. The method I propose will mean that pensioners will do better under it as the rate of inflation abates.

4. The cost of the April uprating would be £780 million in a full year at 1974 Survey prices. Allowing for a second uprating in December similarly related to the movement of earnings and prices, the addition to my public expenditure programme in 1975-76, compared with a single uprating in July, would be about £200 million. There would be no significant effect in later years if we can get back to annual upratings. The Chancellor's paper (c(74) 120) allows for only one uprating in the late Autumn of each year after 1975. On this basis, because of the buoyant income from earnings-related contributions, no increase in the rates of contribution will be needed beyond those included in the Social Security Amendment Bill which fell at the dissolution and which I have now reintroduced.

5. In view of the restraints on public expenditure, I am proposing no change in the earnings rule this time, nor in maternity or death grants. But we are bound to move on the supplementary benefit disregards, which have not been raised since 1966. This is an essential first step in our pledge to give greater financial support to one-parent families. I propose that the disregards should be recast and roughly doubled in the course of next summer. The cost in the first full year is £13 million with consequential extra expenditure on rent rebates of £5 million. Some increase in heating allowances - of an amount to be decided later - will also be necessary.

6. I would also propose to include in the Bill provision to make subsequent upratings by the affirmative resolution procedure, on the model of our predecessors' 1973 legislation. We cannot decide yet on the amount of the second uprating in 1975, but I would see advantage in giving a
general indication of our intention as to timing, when the coming uprating is announced in connection with the Budget. The statement could be on the lines of the passage in the Annex. The Chancellor takes the view that this would also be the time to say that bringing the pension rates up-to-date towards the end of the year would obviate the need for a Christmas bonus; but I fear that to say this now, rather than on some suitable occasion later on, would mean forfeiting some of the goodwill we are gaining from the announcement of this year’s bonus, with its wider coverage than in previous years.

7. I propose that family allowances (FAM) should be increased from April 1975 by 60p for second children and 50p for third and subsequent children, the increases being subject to normal tax. This will give £1.50 per eligible child which will still be below the 1968 value for the non-taxpayer, and below the child credit figure proposed by the Tories. The cost to the Exchequer net of tax receipts (ie roughly the equivalent of the demand effect) will be about £100 million at 1974 Survey prices in 1975-76; the cost in public expenditure terms will be higher at about £150 million.

8. I attach the highest priority to this 60p-50p increase of FAM next year. It is because of this priority that, reluctantly, I have concurred in the postponement of the introduction of the full scheme of child allowances (CA), which includes the first child, until 1977; though my understanding is that accommodation problems would in any event have made it very difficult to implement a full child allowance scheme in 1976.

9. In his paper the Chancellor has allowed for CA to be introduced in 1977 at a net Exchequer cost of £120 million in 1977-78, ie £20 million more than the cost in 1975-76 after an increase in FAM. This implies an initial rate of CA of £2.16 in cash terms. I had myself proposed a higher rate but have accepted that the rate need not be settled now and that provision in the public expenditure survey should meanwhile be on the scale proposed by the Chancellor. My position is, however, reserved on the initial rate of CA and the provision for uprating in the future.
10. None of the above proposals will involve any increase in permanent staff beyond the complements already allowed for to enable my Department to discharge its commitments.

11. Conclusion. I invite my colleagues to approve the proposals I have set out above on uprating contributory benefits, family allowances and supplementary benefits; and for bringing up to date the supplementary benefit disregards; and to note where we stand on the introduction of the CA scheme.
DRAFT PASSAGE FOR PENSION STATEMENT

We increased pensions less than four months ago by almost 30 per cent, to their present level of £10 and £16. We are also proposing to pay a Christmas bonus of £10 this year. We are statutorily required to make a further general uprating not later than July 1975. But in the light of the present exceptionally high rate of inflation, we have decided to make the next uprating early in April 1975, whereby the rates for pensions and other long-term benefits will be increased by £1.60 and £2.50 to £11.60 and £18.50 for the single and married rates respectively, and short-term benefits by £1.20 single and £2 married. The cost at an annual rate of this uprating will be about £ million for National Insurance benefits and £ million in total.

2. We intend, however, to move once more to an annual cycle of upratings as inflation is brought under control. To this end and bearing in mind that the late autumn is generally accepted as the best time at which to uprate benefits, we are planning to make a further uprating in December 1975. On the foregoing basis it is not proposed to alter the rates of fully-earnings-related National Insurance contributions which the Social Security (Amendment) Bill now before Parliament proposes for introduction from April 1975.

SECRET
CABINET

LATE IMPLEMENTATION OF THE HOUSING FINANCE ACT

Note by the Secretary of State for the Environment

1. At a meeting of Ministers yesterday under the chairmanship of the Prime Minister the proposals made in the annexed paper were approved generally; and I was invited to circulate them for consideration by the Cabinet at the meeting on Tuesday. I will as necessary report more fully at that meeting.

2. On the issues affecting Clay Cross, it is necessary to modify what I said in my paper. I have reluctantly concluded that the disqualification incurred by the ex-councillors should, as recommended, be removed by the legislation, and not be made conditional on repayment of the surcharge. But we would not rescind the surcharge of £6985 already made and now forming the subject-matter of an order of the court. The payment of that sum properly falls to be dealt with in the manner indicated in the Prime Minister's statement to the House on 4 April, that is to say, by "those associated with the decisions taken at the relevant conferences". Interest and costs relating to the court actions are also outstanding; the relevant amounts have not yet been finally determined but it will be necessary for them also to be met. (There is in existence a modest Party fund to help with costs, but there is no Party or other fund available to pay the surcharge.)

3. I seek my colleagues' agreement:-

   a. to the proposals in the attached paper, as amended by paragraph 2 above;

   b. to may making a statement in the House on Wednesday 6 November; and

   c. to my proceeding with the drafting of the necessary Bill for introduction as quickly as possible.

A C

Department of the Environment

1 November 1974
1. At the last meeting of MISC 33 my colleagues:
   (a) approved the proposals in my paper MISC 33(74)1;
   (b) agreed that the matter should be considered again after the Election; but
   (c) asked me to look into one possibility, which I had to dismiss (letter of 9 August).

2. The process of audit has been continuing; and the Annex shows the local authorities where surcharge now seems likely, the amount, the number of councillors at risk, and the stage reached.

Present position at Clay Cross

3. I understand that the eleven ex-councillors of Clay Cross have told the District Auditor's legal advisers that they have no assets; and that the District Auditor has subsequently been considering, with his legal advisers, which of the courses open to him he should follow in enforcing the judgement order obtained in the High Court on 2 August in respect of the surcharge of £6985 plus interest from 5 October 1973 and costs. The audit of the Clay Cross Council's accounts for 1972/73 and 1973/74 has been continuing. In addition to the further probable surcharges of about £100,000 shown on the Annex I understand that the District Auditor is investigating a number of other items not relating to the Housing Finance Act.

Policy considerations

4. Our policy objectives, as stated by the Prime Minister on 4 April, are:

   (a) to remove or obviate the disqualification for membership of local authorities as a result of surcharges arising out of the Housing Finance Act;
   (b) to avoid any extra charge on public funds;
   (c) to resolve the problem with fairness to all concerned, including fairness to those who reluctantly implemented the
Act, and in a spirit which will diminish for the future the bitterness engendered.

The Prime Minister also said that the law of the land must be obeyed. We are committed to removing the sanction of disqualification. But in other respects we should seek a solution which upholds the rule of law.

The issue to be considered

5. The essential question is whether we want recovery of the lost rent income from the councillors to be attempted. As the figures in the Annex show, the sums involved are large, and it is virtually certain that only a small part could be brought in. Most of it would have to be written off as not recoverable; and would fall to be met by the local authority (with such support from central Government as was then appropriate under the relevant statutory provisions). Some of the lost rent could, however, be recovered from the councillors: attachment of earnings would yield periodical repayments; seizure of assets would yield something; enforced bankruptcies would yield something. Surcharges are joint as well as several, and where one of the councillors had a shop or other business, or even a house, an enforced bankruptcy might pay his share and that of several other councillors. If court orders for seizure of assets or attachment of earnings were made and not complied with, the councillors would risk prison.

6. If my colleagues consider that some attempt at recovery is necessary, the surcharges must proceed. If not, and since disqualification is to be lifted, the only two results of surcharge would be removed; and the process of surcharge becomes pointless.

7. The arguments for attempting recovery are: that law enforcement should not be interfered with; that the rates and/or rents should be relieved of any amount which can be recovered; that it will be salutary to remind people that group decisions carry personal responsibility. The arguments against attempting recovery are: that the processes are bound to drag on for a long time with continued publicity and controversy; and that it is necessary to avoid further bitterness. It could also be argued that the financial repercussions of failure to implement the Act, coming at a time of local government reorganisation, have produced a situation of such complexity that an ad hoc solution for dealing with losses would be justified and would not constitute a precedent in other circumstances. There is also the question whether the prospect of hundreds of councillors being subjected to the process of recovery (no matter how tactfully handled it may be by the District Auditors) when substantial public write-offs would be seen to be inevitable in the end might tend to diminish the respect for law which we want to encourage.

A possible alternative solution

8. We must recognise that there is no way of avoiding making good the lost rent income. If the councillors do not meet it the only available sources are future rents or rates. We must rule out central Government funds because of the Prime Minister's statement, but we could treat rates as not being "public funds" in that context. On that basis a possible solution would be to include in the proposed Bill provisions to authorise the relevant local authority to make
good the rent income lost, as a result of negligence or misconduct, out of future rents, beginning in 1975/76 and spread over a fairly long period, say five or seven years. This should not prove onerous, especially as local authorities will have freedom to fix their own "reasonable" rents once our Housing Rents and Subsidies Bill is passed. If, however, they chose not to make good the loss out of future rents, or to the extent that they did not choose to, we would provide for the amount to be met out of the rates, the sum involved not being counted, however, as relevant expenditure for rate support grant.

9. There is a further point which has policy implications. Owing to local government reorganisation, many of the late implementing authorities no longer exist, having become parts of new and larger authorities. Those communities now incorporated in the North-East Derbyshire District which, when independent authorities, implemented the Act on time, have already shown their resentiment of a possible requirement to contribute to make good the Clay Cross losses. This is a just objection which other communities similarly affected may also make, and to meet it we would need to give authorities power to charge differential rents, or levy a differential rate, so that, for example, the Clay Cross burden fell only on the tenants and/or ratepayers of the old Clay Cross area and not upon the whole body of tenants and/or ratepayers of the new North-East Derbyshire District.

Two special points affecting Clay Cross.

10. Another point is that if we now provide authorities with a means for making good the lost rent income we cannot justify not doing the same for Clay Cross. It would be necessary, therefore, to provide for the surcharge already made at Clay Cross to be rescinded. In order to avoid hybrid legislation a general provision would be necessary. But I would not think it right for tenants and/or ratepayers to be required to bear the legal costs etc for which the Clay Cross ex-councillors are liable, (these include their own costs and those of the District Auditor and of the Department in the legal actions). Any surcharges against the ex-councillors for the other items referred to in paragraph 3 would of course proceed in the usual way.

11. Finally, Clay Cross did not make the rate fund contributions they should have made towards their housing revenue expenditure. As a result the North-East Derbyshire District Council have inherited a deficit upon which they will probably wish to rate the Clay Cross Parish differentially. The sum has yet to be finally assessed, but it could be as much as £75,000, involving a 9p additional rate in the Parish and attracting rate support grant. I do not see how we could refuse this. Provision would probably be needed in the Bill.

Immediate action needed.

12. If we decide to adopt the solution outlined above it would be necessary to make an announcement in the House as soon as possible. When this had been done the District Auditors would not feel it necessary to proceed with any further Housing Finance Act surcharges (though they would still have to establish the amounts involved) pending a decision by Parliament on the Bill.
Conclusion

13. I invite my colleagues to agree

(i) that the balance of argument is against attempting to recover the very large sums (see Annex) from the councillors concerned and that we should;

(ii) include in the proposed Bill provisions enabling local authorities to make good the lost rent income out of future rents or, if they chose not to do so, requiring them to meet it out of rates (paragraph 8);

(iii) enable local authorities to charge differential rents or levy differential rates to make the old defaulting area bear the liability (paragraph 9);

(iv) rescind the surcharge made as a result of the extraordinary audit at Clay Cross but leave the ex-councillors to meet legal costs (paragraph 10);

(v) provide power for local authorities to levy differential rates where the old areas did not make the required rate fund contributions, as at Clay Cross (paragraph 11);

(vi) announce our decisions in the House as soon as possible (paragraph 12).

AC

Department of the Environment

2 Marsham Street

Sw1

28 October 1974
### Local Authority

<table>
<thead>
<tr>
<th></th>
<th>Potential Surcharge</th>
<th>Estimated number of members at risk</th>
<th>Present Position</th>
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<tbody>
<tr>
<td><strong>ENGLAND</strong></td>
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<tr>
<td>1972-3 ACCOUNTS</td>
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<tr>
<td>Barrow CB</td>
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<td>Long Eaton UD</td>
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<tr>
<td>Skelmaneale &amp; Holland UD</td>
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<td><strong>1973-4 ACCOUNTS</strong></td>
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<tr>
<td>Birmingham CB</td>
<td>539,000</td>
<td>about 100</td>
<td>formal opening of audit/on 11 Nov, 78</td>
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<tr>
<td>Clay Cross UD</td>
<td>80,000</td>
<td>(11 included, above)</td>
<td>1973-4 audit now in progress</td>
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### WALES

<p>| | | | |</p>
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<tr>
<td>1972-3 ACCOUNTS</td>
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<td>Northy Tydfil CB</td>
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<td>Bedwas &amp; Rachen UD</td>
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<tr>
<td>(also 1973-4)</td>
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<tr>
<td>Ystradgynlais RD</td>
<td>10,000</td>
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There may well be further cases involving the 1973-4 accounts; with departmental reorganisation the audits for that year are not sufficiently mature to be considered.
CABINET

RATES 1975/76: LEVEL OF GRANT

Memorandum by the Secretary of State for the Environment

1. We must reach decisions by the end of this month about the level and the basis of distribution of rate support grant for 1975/76 and about the allied question of the level of the increase order for 1974/75. We need to take decisions in principle during the course of next week, preliminary to the final round of consultations with the local authority associations and the GLC leading to the promulgation of our decisions on rate support grant at the end of November.

2. This paper is concerned exclusively with the level of grant on which the Prime Minister held a preliminary meeting with the Ministers immediately concerned. I shall be putting a further paper to Cabinet on the distribution of the grant for consideration at a subsequent meeting.

3. Last year the average increase in domestic rate demand was 30 per cent. This caused acute concern and in July we introduced a measure of relief for those whose rates had increased by over 20 per cent. During the summer I and some of my colleagues met the local authority associations and the GLC to consider the implications of the steep rise in rates in 1974/75 and the prospect of an even larger increase in 1975-76. I warned local authorities of the gravity of the economic background against which local authority expenditure and rates had to be considered, and obtained their agreement to study a number of expenditure options as the basis for our decisions for the coming year.

4. The key questions to which we have to address ourselves are —

   i. the acceptable level of local government expenditure for rate support grant purposes;

   ii. the tolerable level of rate increase;
iii. the split of grant between the increase order and next year's rate support grant;
iv. the measures open to us to contain local authority expenditure within the level agreed.

5. If we were to do nothing to increase the grant, average domestic rates would increase next year by about 70 per cent over this year's level as modified by the July relief. This would be intolerable politically and in relation to the social contract. At the meeting of MISC chaired by the Prime Minister we therefore decided to recommend the following line of action to the Cabinet -

i. local authorities should be asked to hold expenditure in 1975/76 to this year's actual level subject only to inescapable commitments. Even this would involve a growth of local authority expenditure in real terms of about 4 per cent as contrasted with a rate of growth of about 8 per cent in 1972/73 and 1973/74. It is however as far as we can go without major disruption of current programmes and policy.

ii. the level of grant would have to be increased to the extent required to restrict the average increase in domestic rates to a tolerable level. At the Prime Minister's meeting there was a difference of opinion on what this should be. In my judgement an average 25 per cent increase in domestic rates represents the maximum bearable; in the judgement of the Chancellor of the Exchequer we should be prepared to accept an increase on average of 35 per cent. If we go for the lower figure we shall moderate the political and social impact of a second successive major increase in rates; if we go for the higher figure we shall be exerting fiercer pressure on local authorities to contain expenditure, but at the risk of further endangering the chances of holding the social contract. With 25 per cent the additional Exchequer expenditure would be about £640 million, with 35 per cent about £471 million. Whichever figure we go for, there will be a wide range of increase around it.
iii. the additional support required from Government, whether rates are held at 25 per cent or 35 per cent, should be divided between the increase order and next year's grant, the object being to cover in the increase order the gross underestimation for inflation resulting from our predecessors' settlement for this year and to moderate the inevitable rate of increase in grant for next year.

iv. in negotiating a settlement on these lines with the local government associations we should put great pressure on them to undertake to hold employment of local government staffs broadly at present levels and to set up monitoring arrangements to achieve this. With labour counting for 60 per cent of local government expenditure on the relevant services, control of manpower is of special importance as evidenced by the very large increases in the last 2 years.

v. Finally, we must be prepared to issue detailed guidance to local authorities on the Government's priorities so that they know quite clearly which services we are prepared to see held at their present levels or even curtailed and what expansion we consider inescapable and therefore compatible with the settlement. This guidance would stop short of direction to local authorities about their expenditure patterns but it would make responsibility quite clear.

5. In the attached Annex I have shown the consequences of these proposals in terms of holding the increase in domestic rates next year at 25 per cent or 35 per cent on average. In broad terms a 25 per cent increase in the domestic rate represents about 0.75 per cent increase on the retail price index.

6. I invite the Cabinet -

   i. to approve this approach to the level of rates and rate support grant for 1975/76

   ii. to decide between 25 per cent and 35 per cent as the tolerable level of increase in domestic rates.

   A C

Department of the Environment

1 November 1974.
## DETAILS OF THE SUGGESTED RATE SUPPORT GRANT SETTLEMENT - ENGLAND AND WALES

### £ million November 1973 prices

<table>
<thead>
<tr>
<th>Proposal 1 (25% average domestic rate increase)</th>
<th>Proposal 2 (35% average domestic rate increase)</th>
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</thead>
<tbody>
<tr>
<td>Total local authority relevant expenditure</td>
<td>64.61</td>
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<tr>
<td>Grant on existing basis if no change made in rate of grant</td>
<td>3960</td>
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<tr>
<td>Grant percentage now suggested for 1975-76</td>
<td>66.1%</td>
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<tr>
<td>Total Exchequer grant in 1975-76</td>
<td>4295</td>
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<tr>
<td>Extra grant in the November 1974 increase order</td>
<td>306</td>
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<tr>
<td>Therefore increased Exchequer grant over existing basis</td>
<td>64.1</td>
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<td>Average domestic element</td>
<td>19p</td>
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<tr>
<td>Average increase in non-domestic rates</td>
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<td>Average increase in domestic rates</td>
<td>25%</td>
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<td>20%</td>
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<td></td>
<td>28%</td>
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<td>35%</td>
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