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8 April 1976

CABINET

OVERSEAS DEVELOPMENT

Note by the Minister for Overseas Development

1. I am circulating for the information of my colleagues an advance copy of the White Paper (Cmd 6445) on "The Future of the Crown Agents", which is due to be published on 13 April.
2. The first part of the paper deals with the history and present status of the Crown Agents and the circumstances leading up to the Crown Agents' financial difficulties in 1974 and the Government's grant of £85 million. The White Paper then goes on to set out the principal features of the legislation to give effect to the Government's decision to incorporate the Crown Agents as a public body.

R P

Ministry of Overseas Development

8 April 1976

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MINISTRY OF OVERSEAS DEVELOPMENT

Future of the Crown Agents

*Presented to Parliament by the Minister for Overseas Development
by Command of Her Majesty
April 1976*

LONDON
HER MAJESTY'S STATIONERY OFFICE
30p net

Cmd. 6445

FUTURE OF THE CROWN AGENTS

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FUTURE OF THE CROWN AGENTS

History and Constitution

1. From the time they were established in 1833, the Crown Agents have had no formal constitution. They exist under the Royal Prerogative. No statutory authority has governed them; their status and functions have never been closely defined nor has the extent and nature of Ministerial responsibility for them. They have never been a Department of the United Kingdom Government.

2. 1833 was the year in which two "Joint Agents General for Crown Colonies" were appointed to look after the financial and supply needs in London of thirteen British Colonies, which had up till then been met by separate agencies. Regulations made by the Secretary of State instructed Colonial Governments to use the services of the Crown Agents for all their business in London, and the costs of the office were met from the funds of those Governments; United Kingdom funds were not involved. For over a century the Crown Agents have charged fees for their services to the overseas Governments and public authorities who are their Principals.

3. The United Kingdom Government did however recognise a responsibility for supervising the operations of the Crown Agents. Until 1880 this responsibility was exercised by the Treasury, and from 1880 to 1961 by the Colonial Office. In 1961 it was transferred to the Department of Technical Co-operation, which was later absorbed into the Ministry of Overseas Development.

4. In 1863 the title was changed to "Crown Agents for the Colonies", and in 1880 the Secretary of State laid down that they should act only on behalf of dependent territories. This excluded Colonies which attained responsible government. With the single exception of Iraq (for special reasons) the Crown Agents did not act for any independent government until after the Second World War. At that time the 1880 ruling ceased to be applied, because many of the former dependent territories which were then securing their independence wished nevertheless to go on using the services of the Crown Agents. Their title was changed in 1954 to the present "Crown Agents for Oversea Governments and Administrations" and they now act for some 100 governments and 200 other public authorities, the great majority in independent countries; and also for a number of international organisations.

5. Despite the lack of a formal constitution, certain basic principles have been recognised as applying:

- (a) they exist to serve their overseas Principals;
- (b) they are financed by the charges they make in respect of their services to those Principals, and not by the United Kingdom Government;
- (c) although they are a Crown body, they are not a Department of the United Kingdom Government; and
- (d) they are subject to directions from the responsible Minister, and Parliament is entitled to review their operations.

6. In 1909 a Parliamentary Committee of Enquiry concluded that the Crown Agents were officers of the Crown, and more particularly of the Crown Colony Governments, and as such were bound to carry out the instructions of those Governments and of the Secretary of State for the Colonies; and that they were to be regarded as analogous to the then India Office, which was organised on the lines of the Home Civil Service but paid for from the funds of the Government of India.

7. During the period when the Crown Agents acted only on behalf of Colonial Governments, the Colonial Secretary exercised supervision in the light of his overall responsibility for those Governments. Now that most of the Principals are independent Governments or administrations, oversight has come to be exercised on a different and less detailed basis. The constitutional relationship between the responsible Minister and the Crown Agents remains the same; the Minister's power of direction, deriving from the Royal Prerogative, remains comprehensive, if undefined; he still appoints the Crown Agents themselves and receives their annual accounts. They in turn are generally responsible to the Minister. But in the light of the changed status of most of the Principals there has been a gradual relaxation of control over their activities, especially as regards their charges, and their taking on new Principals. The practice of non-intervention by United Kingdom Ministers in relations between the Crown Agents and their overseas Principals was re-affirmed by the then Minister of Overseas Development in statements to Parliament on 31 July 1974 and 18 December 1974.

Organisation

8. The number of Crown Agents has varied over the years from four down to one. From 1972 to 1974 there was only one, who was known as the Chairman of the Crown Agents. He was assisted by an informal Board, originally set up in 1965, on which were six "directors" who were senior members of the staff supervising one or more departments. On 1 October 1974 the present Chairman and Senior Crown Agent, Mr J G Cuckney, was appointed on a full-time basis. Since then six other Crown Agents have been appointed on a part-time basis, one of whom has been designated Deputy Chairman. All are remunerated from the Crown Agents' own funds. With the Chairman, they constitute the present Board of Crown Agents, and formulate policy within the bounds of such directives as may be issued by the Minister for Overseas Development. Below the main Board there is also an Executive Board of full-time officials, chaired by the Senior Crown Agent, which is responsible for the implementation of policy.

9. The permanent staff of the Crown Agents in Britain and in a number of offices overseas number some 2,000. They are Crown servants but not civil servants. In addition there are a substantial number of staff overseas on short-term contracts.

10. The Crown Agents have formed a number of wholly-owned companies to provide services which it was not possible for them to provide directly because of their unincorporated status. The directors and senior staff of these companies were for the most part seconded from the Crown Agents' office.

The companies are:

Four Millbank Nominees Ltd formed as a non-trading company in 1963 to provide a nominee service for the large number of stocks and shares which the Crown Agents hold on behalf of Principals. It was subsequently also used for transactions carried out on behalf of the Crown Agents themselves;

Four Millbank Holdings Ltd formed in 1971 to act as a holding company for the Crown Agents' wholly owned companies other than the nominee company;

Four Millbank Investments Ltd formed in 1963 as *Four Millbank Unit Trust Fund Managers Ltd* as a vehicle for investment management on behalf of Principals. In the event, the company was never used for this purpose but was renamed *Four Millbank Investments Ltd* in 1967 and used to hold Crown Agents own account equity investments. In August 1974 it transferred its medium to long term investments to a separate new subsidiary company, *Four Millbank Securities Ltd* retaining only its short term investments;

Millbank Technical Services Ltd formed in 1967 to enable the Crown Agents' organisation to offer a number of associated services outside their traditional agency role. Unlike the Crown Agents this company can enter into contracts in its own name for the supply of equipment, the provision of services, project management and related matters.

Functions

11. The Crown Agents provide financial, professional, technical and commercial services for their Principals in the public sector. The Principals comprise:

- (a) Governments of British dependencies and Associated States;
- (b) Governments of independent countries;
- (c) Intergovernmental organisations;
- (d) Public corporations and authorities overseas;
- (e) Departments of the United Kingdom Government;
- (f) Other public sector bodies, international or British; and
- (g) Charitable organisations.

They may not act for individuals or for private sector bodies other than charitable organisations.

12. The services provided include:

- (i) buying, shipping and insuring stores, materials, plant and equipment of all kinds; and their technical inspection;
- (ii) professional and technical advice and practical assistance particularly in connection with engineering matters including supervision and management of projects, and supply and materials management matters;
- (iii) managing investment funds for Principals;

- (iv) accepting funds in various currencies deposited by Principals;
- (v) making miscellaneous payments for Principals;
- (vi) where appropriate, financial facilities to Principals in connection with their use of the Crown Agents' other services;
- (vii) acting as Registrar for Principals' public sterling loans, and managing for them other loan raising and servicing operations;
- (viii) purchasing on behalf of Principals real property, and related property management and advisory services;
- (ix) negotiating on behalf of Principals contracts for the design, security printing and supply of currency notes and postage stamps, minting of coins, and sales of postage stamps and coins for collectors;
- (x) personnel services for Principals, such as recruitment of staff, booking sea and air passages, payment of salaries and pensions and management of pensions schemes and funds.

13. In addition, the Crown Agents themselves, or through Millbank Technical Services Ltd, provide such services as training facilities and consultancies for overseas Governments and administrations. The work which they do as agents on behalf of United Kingdom Departments is mainly for the Ministry of Overseas Development, and comprises certain functions concerning the administration of the British Aid Programme. Thus they act for the Ministry in scrutinising claims by overseas Governments in respect of expenditure chargeable to British aid loans and grants; and in making the appropriate payments. They purchase supplies on behalf of the Ministry and undertake recruitment and other personnel functions in respect of the Ministry's technical assistance appointments overseas. They administer a number of overseas pension schemes for which the Ministry is responsible, as well as others which are the responsibility of overseas Governments and other authorities. As well as these, and the functions performed on behalf of the Ministry of Overseas Development, they act for certain other United Kingdom Departments including, in the case of the sale of military equipment to overseas Governments, the Ministry of Defence.

Finance

14. The Crown Agents have been required by HM Government for over a hundred years to submit their own annual accounts for audit by the Comptroller and Auditor-General. These accounts have been published, and were up to 1920 presented to Parliament by the Colonial Secretary. Since 1971 the accounts of their wholly-owned companies have been consolidated into the Crown Agents' accounts which have been placed in the Libraries of both Houses of Parliament.

15. Up to the early 1960s the Crown Agents' financial relationship with their Principals was carefully regulated. Most of the Principals were still Colonial Governments; on the one hand they were expected to put their business into the hands of the Crown Agents, and on the other the fees which the Crown Agents could charge them were regulated by the Colonial Secretary. So were their loan-raising and investment activities, which were, apart from the investment of their authorised reserves, entirely on behalf of Principals.

16. Two important changes were induced during the late 1950s and early 1960s by the move to independence of many of the Principals. First it no longer seemed appropriate for a United Kingdom Minister to exercise close control over the Crown Agents' financial activities. Secondly, it came to be realised that they could no longer count on the level of business to which they had been accustomed, save to the extent that they could by their own efforts retain their former Principals against whatever competition there might be, or attract new ones. The responsible Minister at the time made it clear to them that they could not look to the United Kingdom Government for financial support, and that they must determine the scale of their organisation according to their success in attracting business.

Expansion of Services

17. The Crown Agents responded by offering a wider range of services, so that the scale and range of their activities were greatly increased. As the funds entrusted to the Crown Agents increased it led to an expansion in the Crown Agents' investment activities. At the same time, the waiver of a former restriction under which Colonial funds could be invested only in Treasury bills and gilt-edged stock widened the field of investment.

18. Against a background of growing administrative costs, negligible reserves in relation to the level of turnover, and the changed relationship to most of their overseas Principals who had become independent, the Crown Agents saw a need to build up reserves on a commercial basis. In 1967 the Board of Crown Agents set themselves a target of £7 million for these reserves, which was then 10 per cent of their procurement turnover, and aimed to achieve this within five years. Surpluses generated on their operations which in the past had been distributed to Principals, were now put towards reserves. Emphasis was placed less on the traditional fee paid services as a means of generating the surpluses required than on participation in merchant banks and other companies, the provision of finance house facilities and investment in property both in this country and abroad; and also on the activities of the new subsidiary, Millbank Technical Services Ltd.

19. The investment of the Crown Agents' reserves assumed greater importance as they increased. In addition, the Crown Agents were beginning to go beyond their former practice of employing only the deposits placed with them by their Principals; they decided that their financial operations would be facilitated by borrowing in the market as well as lending. The scale of such transactions increased substantially in the late 1960s and early 1970s.

20. The changes in the relationship of the Crown Agents with their Principals, and in the nature of their operations, led to reconsideration both on the part of the Crown Agents and HMG of the Crown Agents' status and legal position. While there were discussions on these questions between 1961 and 1966, these were inconclusive. In late 1969 and early 1970 the United Kingdom Government considered the implications of the changes in the scale of the Crown Agents' business, particularly their borrowing and lending on their own account, and the Government's ultimate responsibility for the Crown Agents' liabilities.

21. It was recognised that the Crown Agents were providing valuable services both to the remaining dependencies and newly independent countries, that they were handling substantial foreign funds and appeared to be strengthening their business without direct government assistance. Nevertheless, the increasing concern over the Crown Agents' position caused Ministers in 1971 to appoint a small advisory group to look into the status and financial operations of the Crown Agents.

The Stevenson Report

22. The Committee of Enquiry, under the chairmanship of Sir Matthew Stevenson, had the following terms of reference:

"To consider whether there is a need for any changes in the status, functions and financial operations of the Crown Agents, including particularly their relationship to Her Majesty's Government, having regard to developments which have taken place in recent years in the nature of their functions and in the constitutional status of their Principals; and to the United Kingdom's own interests including the needs of the remaining dependencies; and to make recommendations on the nature of any such changes."

23. The Stevenson Report has not been published. The then Minister for Overseas Development took the view in a statement to the House of Commons on 8 November 1971 that publication would not be appropriate since the Crown Agents work mainly for independent Governments. In a statement on 24 July 1972 the Minister said:

"... The Committee found that the Crown Agents are providing competent and economical services, of great value to their Principals overseas, and that their interests and those of Her Majesty's Government and the remaining British dependencies, are best served by the continuation of this full range of services. I welcome these findings, which reinforce my confidence in the Crown Agents' work for their overseas Principals.

The Committee, however, commented on the constitutional position of the Crown Agents, and the Government's undefined residual responsibility for them. The Committee recommended that there should be a clearly defined status, structure and responsibility for the Crown Agents, and made some suggestions for consideration. The Crown Agents, but not their subsidiary companies, have Crown exemption from taxation. The Committee recommended that they should bear an appropriate liability to it. I accept these recommendations and am considering how best they may be given effect. I will later make a further statement ..."

24. In the statement to the House of Commons on 21 November 1973 the Minister said:

"... In my statement last year, I said that I welcomed the findings of Sir Matthew Stevenson's Committee, that the interests of the Crown Agents' Principals and others would best be served by the continuation of the whole range of services which the Crown Agents provide.

The Crown Agents have adapted their organisation and structure over the years in order to meet . . . widening requirements and in particular have established certain of their services on the basis of fully-owned subsidiary companies staffed by Crown Agents' personnel. In the light of the Stevenson Report, I have agreed that this process should be extended by the establishment of further wholly-owned subsidiary companies to deal with the specialised financial services of the Crown Agents. The boards of management of those companies will include non-executive directors appointed after consultation with me, as well as executive directors drawn from the Crown Agents' staff. The Crown Agents intend that the investment policy pursued by these companies should be generally in accord with the trustee analogy and should be fully consistent with their name and standing. These subsidiary companies will be subject to taxation in the normal way, and arrangements are also being made to bring any profits which may be made by the headquarters organisation itself within the scope of normal taxation.

The Crown Agents will, as in the past, be appointed by the Secretary of State, or by myself acting on his behalf, for the purpose of carrying out the various services on behalf of the overseas Principals. They will thus remain answerable finally to Ministers, but it is neither my intention nor my desire to disturb the traditional practice under which the operations of the Crown Agents on behalf of their overseas Principals have been discharged on a basis of non-intervention by Ministers.

In the future as in the past, the scale and scope of the Crown Agents' operations will depend on the confidence which overseas governments and authorities repose in the organisation. That confidence is fully reflected in the present scale of operations, and I am particularly anxious that the arrangements I have mentioned, which are designed to produce a more readily comprehensible structure and to define the various functions more clearly, should in no way disturb that confidence. . . ."

A New Look

25. The General Election of February 1974 came before these arrangements had been put into effect. The incoming Government decided to take a new look at the future of the Crown Agents. On 31 July 1974, the Minister of Overseas Development announced new proposals which re-emphasised the ultimate responsibility of the Crown Agents to the United Kingdom Government. A Board with a full-time Chairman and up to seven part-time members was to be appointed. The Minister would continue the practice of not intervening in the activities of the Crown Agents on behalf of their overseas Principals, but would issue financial and investment directives which the Crown Agents would have to follow in their future business. These directives were formally issued in February 1975. They required the Crown Agents to apply the best standards of banking prudence to their own account business, not to engage in transactions which might embarrass the United Kingdom Government or conflict with the interests of overseas Principals, not to engage directly in the property market, except in respect of property for their own occupation or on behalf of Principals, and to carry out an orderly phased withdrawal from the sphere of secondary banking activities.

Financial Difficulties

26. The Crown Agents had invested in and lent heavily to the property and secondary banking sectors. Towards the end of 1973 and progressively in early 1974 these sectors encountered severe financial problems with the result that the Crown Agents' involvement became increasingly vulnerable. Certain companies to which the Crown Agents had funds committed went into liquidation or receivership; in addition the Crown Agents co-operated with the support operation organised by the Bank of England and avoided making precipitate withdrawals of funds. In the Autumn, the new Senior Crown Agent appointed Coopers and Lybrand as consulting accountants to review the Crown Agents' financial position and future financial requirements; and Morgan Grenfell and Company Ltd to advise on general banking matters.

27. In a statement to Parliament on 18 December 1974 the then Minister of Overseas Development said:

"... the Chairman... has reported to me that a decline in market value of some of the assets of the Crown Agents has led to an immediate problem of reserves and liquidity. He has made a formal request to the Government for financial assistance.

The requirement is related to the realistic writing down of assets values in the accounts, and to the need to ensure financial backing appropriate to operations involving some £600 million, excluding funds of some £200 million managed for Principals.

The Government have agreed to provide £85 million, subject to Parliamentary authority, which will be recoverable, by direction, from future earnings or appreciation of assets. Standby facilities of £50 million have also been arranged by the Bank of England.

These arrangements will demonstrate beyond all doubt that the Government stand behind the Crown Agents so that the position of all depositors is fully safeguarded; that the confidence of their overseas Principals is fully maintained; and that the important services provided to the Principals are continued... hon Members will clearly want to know how the circumstances necessitating this financial support have arisen. I have asked the Chairman of the Crown Agents to send me a full report on this, and I shall keep the House informed. Thereafter I shall consider whether any further action is necessary.

I have also asked to be informed in detail of outstanding longer-term commitments of the Crown Agents, including certain property investments in Australia, and of any suggestions which the new Board may have for the organisation and management of its financial business in the future. I have reserved the right to direct that monies now being advanced shall be repaid from Crown Agents' resources in the course of any reconstruction of the business...".

28. The Crown Agents had both a solvency and a liquidity problem. They needed the capital sum of £85 million in respect of realistic writing down of assets in the accounts and also the income deriving from the investment of the grant to offset the cost of borrowings which were not producing adequate

returns. The Government therefore decided that assistance should be in the form of a grant which would be recoverable by direction. The Crown Agents were also informed that since the assistance was in the form of a grant no interest would be payable.

29. In June 1975 the Crown Agents were given directions on the detailed arrangements for the management of the grant. These included the investment of the grant in short-dated gilts and local authority bonds; and requirements for the Crown Agents to submit monthly reports on the deployment of the grant, quarterly financial reports and an annual report on the overall financial situation and the prospects for repayment of the grant, together with audited annual accounts, not normally later than six months after the end of the financial year concerned.

30. In a statement on 23 April 1975, the Minister said:

"... Since December, overseas Principals have increased the scope and scale of their business with the Crown Agents. Confidence has increased, and it is right that this should be so, for the steady and gradual withdrawal from property investment and secondary banking, according to my directive, is restoring a fundamental financial soundness in their operations.

... The Chairman has provided me with his Board's views on the circumstances which led to the need for financial support, which have been assisted by the investigations carried out by Coopers and Lybrand, the consulting accountants. These are not yet complete. They have had to work on a very large number of transactions made over a long period of time.

The principal factors which the Board considers to have contributed to the problems are: first, the operation of a substantial banking business without an adequate capital base; second, over-dependence on the property and secondary banking sectors, and commitment of an unduly large proportion of the total banking resources to a small number of borrowers; third, inadequate controls and procedures for approving and monitoring loans to subsidiary and associated companies, for security for advances, and for the delegation of authority; fourth, lack of outside commercial banking experience among senior staff. These defects of the past are rapidly being remedied."

31. Remedial measures taken include the following:

- (i) the Crown Agents' own account borrowings have been reduced and they have made phased withdrawals wherever possible from secondary banking and property companies to which no further advances will be made except where there is already a prior commitment; depositories of Crown Agents' funds are limited to British Government obligations, banks, nationalised industries and local authorities, approved as to name and amount by the Board of Crown Agents acting on the advice of a Credit Committee;
- (ii) new staff with considerable commercial banking and investment experience in the United Kingdom and overseas have been recruited ie a Director of Finance, a Head and a Deputy Head of Banking;

and a Financial Controller seconded from the consulting accountants; and the consulting accountants, Coopers and Lybrand, are providing support in the field of control and management and Morgan Grenfell, on banking matters; a professionally qualified property surveyor has also been engaged to advise on property questions pending withdrawal from all property investment other than for the Crown Agents' own occupation or on behalf of Principals.

32. In the statement on 23 April the Minister also announced two other major conclusions. First both Ministers and the Board of Crown Agents believed that an independent enquiry into past events and their circumstances was needed. Judge E S Fay QC had therefore been appointed to head a Committee of Inquiry "to inquire into the circumstances which led to the Crown Agents receiving financial assistance from the Government". Secondly, the Government proposed to give further consideration to the relationship between the Crown Agents and the Government.

33. On 16 October 1975 the Minister for Overseas Development told the House of Commons:

"... I have now received the audited accounts for 1973 and 1974 and have placed copies in the Libraries of both Houses. The balance sheet as at 31 December 1974 shows that the Government grant of £85 million was not enough in the event to avoid a technical state of insolvency, with liabilities exceeding assets at that date by some £15 million. This was because a greater degree of writing down of asset values and provision for losses were found necessary for the period covered by the accounts.

I should emphasise that the Crown Agents have no immediate liquidity problems. They have still not needed to draw on the £85 million grant or on the standby facility ...

Nevertheless, without Government backing, the Crown Agents would at present be in a difficult position, which would affect the confidence of depositors and others. I have therefore thought it desirable formally to reaffirm the assurance given by my predecessor in December 1974, that Her Majesty's Government stand behind the Crown Agents ...".

34. The deficit of £15 million shown in the 1974 accounts is likely to increase because of the Crown Agents' continuing need to finance loans and investments which are at present yielding inadequate or no returns. The basis on which any further sum needed to eliminate the deficit, or for any other reason may be made available, will need to be decided at the time in the light of the Crown Agents' financial position.

The Future

35. The organisation and functions of the Crown Agents have grown over the years and been adapted to meet changing circumstances. But their constitution and the responsibilities of the Minister have remained undefined. Events in recent years have emphasised the necessity to establish the Crown Agents on a suitable legal basis, and to define more clearly their functions and powers, particularly in respect of non-agency activities, and their relationship with HMG. The extent of their financial operations must be carefully defined,

subjected to proper control and put on a sound basis. In the management of their business they must be able to operate on their own responsibility while subject to Ministerial direction in regard to general policy. With this end in view it is necessary to establish the Crown Agents' status and relationship with the Government in a manner readily understood by Parliament, the public and the overseas Principals and to retain their confidence in the Crown Agents.

36. A number of different forms of organisation were considered. The Government decided that the right course would be incorporation. The Minister indicated in the statement on 16 October 1975 that the Government intends to introduce legislation which will confer an independent legal personality on the Crown Agents by incorporating them. This legislation will define their functions for the future and provide specified powers of direction for Ministers. It will reflect the relationship which already exists between a number of bodies in the public sector and the Ministers responsible for them. It will clarify the responsibilities of Government in exercising broad oversight over the activities of the Crown Agents while leaving responsibility for its day to day affairs to the Board of Crown Agents. It is not intended to disturb the traditional relationship between the Crown Agents and their overseas Principals as it is essential that the customary standards of confidentiality should continue to be strictly observed in respect of the Crown Agents' transactions on their behalf.

37. The principal features of the proposed legislation are considered under the following heads:

- (i) the future scope of the Crown Agents' functions;
- (ii) the type of organisation best suited to performing such functions;
- (iii) the necessary financial provisions;
- (iv) the degree of Ministerial and Parliamentary control.

Scope and Functions

38. *Principals.* The Crown Agents will be empowered to act on behalf of the categories of Principals listed in paragraph 11 and will have the duty of continuing to provide services for the dependencies and Associated States.

39. *Functions.* The Crown Agents will be empowered to carry out professional, technical, commercial and financial services on behalf of authorised Principals whether directly or indirectly, and in so doing may act themselves or through subsidiary companies. It is not now intended to develop subsidiary companies to deal with the specialised financial services of the Crown Agents as earlier proposed (paragraph 24), nor is it intended to establish a banking subsidiary. The future scope and scale of the activities on the financial side of the Crown Agents themselves will however need to be clearly defined, in particular the extent to which they should continue to accept deposits from their Principals (managing the resultant funds in their own name). It is a natural and convenient adjunct to the Crown Agents' procurement and other services that their Principals should continue to be able to maintain accounts in sterling with the Crown Agents. The Government will however explore the possibility of some phased reduction in the level of Principals' deposits so as to

relate the scale of the Crown Agents' financial activities more closely to their other services to their Principals. This will need to take full account of the needs and wishes of Principals, who will be consulted throughout, and would in any case take place gradually over a period of years. The legislation will therefore need to confer full financial powers on the Crown Agents.

40. The proposed legislation will authorise the Crown Agents to carry out activities in the following fields:

I Professional technical and commercial services

- (a) procurement services, including buying, arranging insurance and shipping of stores, material, livestock, plant and equipment of all kinds (from any country);
- (b) technical inspection services all over the world;
- (c) professional advice on projects; feasibility studies; management of projects; and placing of contracts for projects;
- (d) consultancy and training services;
- (e) purchase of real property on behalf of Principals together with related property management and advisory services;
- (f) services in connection with the design and production of currency, postage stamps and other security documents; the sale of stamps and currency for collectors;
- (g) personnel services such as recruitment of staff for service overseas, booking passages, payment of salaries and pensions.

II Financial services

- (a) the management of individual investment funds in accordance with general or specific instructions from Principals;
- (b) the employment in the Crown Agents' own name of monies in sterling and foreign currencies deposited with them for investment or otherwise, by their Principals;
- (c) the making of such miscellaneous payments under standing or specific instructions as Principals may from time to time require;
- (d) the provision of overdraft or other credit facilities to Principals on commercial terms;
- (e) acting as Registrar for Principals' public sterling loans;
- (f) the management for Principals of other loan raising and servicing operations;
- (g) the administration and management of aid loans on behalf of the Ministry of Overseas Development, international organisations or recipient Governments;
- (h) acting as trustees.

III Such other functions within the general scope of the legislation as the Minister may from time to time authorise.

Future Organisation

41. *Title* It is intended that the present title "The Crown Agents for Oversea Governments and Administrations" should be retained. Not only is it well known, but it is an expression in general use in the legislation of a number of overseas countries.

42. *Status* The Crown Agents will be a statutory corporation with the powers and functions set out above and like other such corporations will not be a Crown body in the formal sense of that term. The Crown Agents at present enjoy certain immunities and privileges deriving from their Crown status. If any of these are to be maintained specific provision will have to be made in the legislation.

43. *Constitution* This will be based on the arrangements announced on 31 July 1974 (paragraph 25), namely the appointment by the Minister of a Board consisting of a Chairman and such other members as the Minister may consider appropriate. Appointments may be full-time or part-time. The Board will be responsible for the day to day management of the business while subject to the Minister's direction in respect of general policy and of those matters on which the legislation may provide that the Minister may give directions.

Financial Provisions

44. The Crown Agents will be incorporated with a capital structure and borrowing powers appropriate to their assets, liabilities and on-going activities.

The legislation *inter alia* will provide that they shall:

- (a) so conduct their business as to secure that their revenue is not less than sufficient, taking one year with another, for making provision for the meeting of charges properly chargeable to revenue;
- (b) adopt such further financial objectives as the Minister may from time to time prescribe;
- (c) not be exempt from taxation; and
- (d) dispose as the Minister may direct of some or all of any surpluses which may be earned.

45. The proposed legislation will provide for the Crown Agents to identify and account separately for the assets and commitments which are not to be retained in the longer term, including any further amounts payable in respect of these assets and commitments and the financing costs associated with them. These derive in general from the activities of the Crown Agents discussed in paragraphs 17-21 above, and were the principal cause of the difficulties leading to the need for the assistance from public funds described in paragraph 27. The Crown Agents will have a duty to realise these assets and commitments in accordance with the general guidelines which the Government will provide. Separate accounting for such realisations will mean that progress made with them and their financial implications will be clearly shown; at the same time they will not distort the accounting picture of the on-going business of the new corporation.

46. *Accounts and Reporting* The legislation will provide that the Crown Agents should keep proper accounts and other records and will prepare in respect of each accounting year a statement of account in such a form as the Minister may with the approval of the Treasury direct. These accounts will be audited by the Comptroller and Auditor-General who will lay a copy of them together with a copy of any report he makes on them before Parliament. The Crown Agents will be required to make a report to the Minister each year on the performance of their functions during the year and the Minister will lay a copy of this before Parliament. They will also be required to inform the Minister of any matters affecting or arising out of their functions in which there may be public or Parliamentary interest so that they may be discussed as necessary.

Powers of the Minister

47. It is the intention that the relationship between the Crown Agents and the Government should be generally comparable with that which exists between the Government and a number of bodies in the public sector, so that the Minister in consultation with such other of his colleagues as may be appropriate will remain broadly responsible to Parliament for the activities of the Crown Agents, but not answerable for their day to day business, except insofar as he gives specific directions as provided for in the legislation. The Minister will not intervene in particular transactions undertaken by the Crown Agents on an agency basis for their Principals. However power will be retained to direct the Crown Agents to continue to provide or to cease to provide specific services or to continue to act or to cease to act for specific Principals if the public interest so demands; and the provision of services which may involve the Crown Agents and through them the public funds in a measure of financial risk will be subject to Ministerial direction. The legislation will make provision for directions to be made, where appropriate, with the approval of the Treasury and, in particular areas, for example the Crown Agents banking operations, it may be appropriate for such powers to be exercised directly by the Treasury. (In the case of exchange control, the Crown Agents will need to secure Treasury permission in the normal way.)

48. In carrying out activities in accordance with the foregoing paragraphs, not specifically on account of a Principal, the Crown Agents will act in accordance with guidelines to be determined by the Minister from time to time. These guidelines may cover the nature of the assets in which the Crown Agents may invest and may require the Minister's specific approval in particular areas, notably any further involvement in property in accordance with the Minister's statement of 31 July 1974 and any acquisition by the Crown Agents of interests in corporate bodies. It should be noted that the Minister's directive of February 1975 (paragraph 25) precluding *inter alia* investment in the secondary banking field still remains in force.

49. Thus the Minister's powers of direction will be confined to:

- (a) those of a general character concerning the Crown Agents' activities in so far as they relate to matters appearing to the Minister to concern the public interest;

- (b) specific powers to exercise control in the areas already indicated above, including in particular those parts of the Crown Agents' activities which may give rise to substantial financial risk; and
- (c) other financial matters such as the establishment of financial targets, borrowings and disposal of capital and/or revenue surpluses.

50. *Provision of Information* The Minister will be empowered to seek such other reports and information from the Crown Agents as may be needed on matters of public or Parliamentary interest, and particularly in relation to sums advanced by the Government.

Conclusion

51. Subject to any modifications which may be desirable when the findings of the Fay Committee become available, these represent the Government's proposals for the future work of the Crown Agents. Their purpose is to enable the Crown Agents' operations to go forward within a framework of public control and accountability; and to reconcile the responsibility which United Kingdom Ministers must have towards them with the need to maintain the relationship of confidence which exists between the Crown Agents and their overseas Principals. Within this framework, the Government believe that the Crown Agents will be able in the future to continue and develop the valuable services which they have for so long provided for those Principals, and to the Government in its relations with overseas countries.

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CP(76) 2

COPY NO 81

8 April 1976

CABINET

CHILD BENEFIT

Memorandum by the Secretary of State for Social Services

1. The time has now come to fix the rate for our long-postponed child benefit scheme. Although the scheme does not start until April 1977 the publicity campaign and take on of claims begins this August, and for operational reasons we have to decide the rate now.
2. The memorandum by officials sets out the details of the various possible rates. They range from £2.45, with a premium to ensure that large and one-parent families do not actually lose, to £2.70.
3. There are compelling reasons for fixing as good a rate as we can afford, and certainly setting it above the level which merely makes no-one worse off. The Chancellor of the Exchequer has rightly pledged the Government as one of its two main contributions to the social contract to provide 'help for those who are least able to withstand the impact of inflation - above all pensioners and families with young children' (Hansard Tuesday 12 November 1974 Vol 881 col 272). Families with children have been getting substantially less support than the Tories provided in 1970, 1971 and 1972 and less than we provided in our years in office in the '60s. Even the increase we are making in Child Tax Allowances this year does little more than match the 1974 level of support which is still below the Conservative level of 1971 and this improvement will be worth much less by the time the new scheme starts next April. If we continue to let child support be eroded by inflation the whole scheme will be condemned as a trick to give children less, not more. In addition we cannot ignore the fact that we are phasing out food subsidies: even the Tories, when they did this in the '50s, gave compensation by a substantial increase in family allowances. At the same time school meal charges are to go up by 5p this autumn and another 5p next year adding 50p a week during term for each schoolchild not entitled to free meals. Nor can we comfortably defend ourselves against the charge of failing to make our pledged contribution to the social contract by arguing that families with young children should 'have

recourse to the humiliation of applying for the means-tested Family Income Supplement" (to quote our 1973 programme). This form of selectivity is intolerable to our supporters, while selecting families because they have children is not.

4. To restore a three-child family to the level of support it had under the Tories in 1971 would require a rate of £2.90. I recognise reluctantly that we cannot afford to match the Tory level of support. But we ought to secure a rate which would give a reasonable margin against inflation for all families. This suggests a rate of £2.85. If this cannot be afforded - and I recognise the concurrent claim on the contingency reserve of the concession for non-resident children - then in my judgment the minimum rate we could defend would be £2.70. This would give a noticeable cash improvement to all families; it would give the three-child family a cash improvement of 11 per cent over the level of child support provided this April so as roughly to compensate for the projected increase of the Retail Price Index (though with hardly any margin for any increases above this level); and it would restore nearly all families to at least the real level of support they had in 1974, between the two elections at which we pledged ourselves to reform the system of family support.

5. The lower rates of child benefit in the table require a special premium for large and one-parent families so that they do not lose. Any rate involving such a premium is open to a number of serious objections. First, it would presentationally make us a laughing stock. A large proportion of the families in the premium classes - at least a third and probably a good deal more - would not gain because they were on social security or other means-tested benefits; and we could not plead, as we can with Child Interim Benefit, that it was a makeshift arrangement ahead of the main scheme. And the premium classes do not correlate with poor families as a whole: among poor and hard-pressed working families there are considerably more small two-parent families than large and one-parent families put together. Moreover it is certain that we would be driven to having separate payment systems in at least some one-parent family cases, probably in all of them. Second, to operate such a device would need at least 150 extra manpower, perhaps twice as many, at a time when I am desperately searching for ways of reducing manpower as a result of our Public Expenditure Survey decisions. And it would severely complicate local office procedures, when again to save manpower I am desperately seeking simplification. Third, if the scheme is to start, contrary to what we said during the passage of the Bill, with two variants on top of the basic rate, we shall at least severely prejudice the options for later developments which we then held out to the House. In particular age relation, which is widely expected in due course, would be operationally extremely difficult with two other variants, quite apart from being just too complicated for ordinary public understanding.

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6. In the light of the foregoing I invite colleagues to agree that the starting rate of child benefit should be £2.70. The cost would be a charge against the contingency reserve of £141 million - well within the limits illustrated as a possible claim in the list circulated in C(76) 32.

D E

Department of Health and Social Security

8 April 1976

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CP(76) 3

9 April 1976

COPY NO 81

CABINET

CHILD BENEFIT: NON-RESIDENT CHILDREN

Memorandum by the Secretary of State for Social Services

INTRODUCTION

1. At their meeting on Wednesday 24 March, the Social Services Committee considered a paper (SS(76) 8) on the need for transitional arrangements in April 1977 to protect the position of some 200,000 families, mainly immigrants to this country, who are currently receiving Child Tax Allowances (CTAs), but not family allowances (FAM), for their children still resident abroad. Under existing policy, on which the child benefit (CB) costings have been based, these families would not qualify for CB when their CTAs are withdrawn and would be worse off, by some £2 a week for each child, if no special action were taken. In the debates on the CB Bill last year Ministers said that it was inappropriate to bring non-resident dependents within the CB scheme, but also, in response to Opposition pressure undertook to be fair and to look again and see if anything could be done.

2. The Committee agreed that there should be a transitional concession in respect of non-resident children for whom a CTA had been given in the tax year 1976-77, and that this should take the form of CTAs at the level obtaining when the CB scheme came into operation in April 1977. The families concerned would then suffer no loss of income in April 1977 having, in effect, a "reserved right" to their existing Child Tax Allowances.

3. I was invited to report this to Cabinet and to raise with colleagues two issues:-

- a. The public expenditure implications of the concession; and
- b. the implication for immigration policy, if the concession were linked to an assurance that the transitional period would enable families to bring the non-resident children concerned to this country.

THE COST OF THE CONCESSION

4. It is estimated that, at the rates of child tax allowances for 1976-77 the concession could cost £45 million at 1975 Survey prices in the first year. Unless off-setting savings are found or a compensating reduction is made in the CB rate, this will be an additional claim on the contingency reserve. The cost would decline steadily thereafter, for two reasons. First, so far as the children concerned came to join their parents in this country, they would then qualify for child benefit. Secondly, each year a proportion (at least 6 per cent) of those originally entitled but remaining in the country of origin would cease to be dependent, since the scheme would be a closed one applying only to children for whom the tax allowance was due in 1976-77. Whilst no firm estimate can be made of the rate of decline, the cost would certainly be several million pounds less in each succeeding year after 1977-78.

5. I accept that although in form the concession recommended by the Social Services Committee would be a tax allowance it will add to the net Exchequer cost of the CB scheme and must therefore be regarded as consequential upon the CB scheme reducing existing tax allowances.

6. There is no area of my programme from which I could find offsetting savings to match the additional cost of this concession. The cost of the Child Benefit Scheme itself, in so far as it exceeds the combined value of family allowances and the child tax allowances which are replaced will be a claim upon the contingency reserve. The likely call upon the contingency reserve for this purpose has been illustrated in C(76) 32 as lying between £100 million - £200 million. The child benefit rate itself is the subject of a separate submission and I propose therefore that in looking at the total calls upon the contingency reserve when deciding upon the cost of implementing the CB scheme we should have regard to the net Exchequer cost of the concession for non-resident children.

IMMIGRANT CHILDREN COMING TO THIS COUNTRY

7. The Social Services Committee felt a decision on the length of the transitional period for the tax concession should in part depend on the length of time it would take for families to bring their non-resident children into the United Kingdom and the rate at which they could be admitted. It would be desirable to say the concession was lasting long enough to enable all those who wished to bring their children for whom they had claimed in the tax year 1976-77 to this country to do so before the concession ended. Claims are made at present in respect of some half a million non-resident children of parents living in this country. A dependant child of parents settled in the United Kingdom is entitled under the Immigration Rules to come here to join his parents, provided entry clearance is first obtained. By no means all the half a million will be entitled, or if entitled will wish to come, to the United Kingdom for settlement. For those entitled who do wish to come the limiting factors are the rate and proportion of applications and the rate of grant of entry clearance.

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8. The change to Child Benefit may well encourage parents to bring entitled, non-resident children to the United Kingdom sooner, or in greater numbers than would otherwise have been the case. In 1975 some 11,000 children from the Indian sub-Continent, or as United Kingdom passport holders were accepted for settlement on arrival. The delay between initial application and grant of entry clearance is at present nearly 2 years in our most heavily loaded parts abroad. No precise forecast of the future can be made but it seems reasonable to assume that most parents who wish to bring to the United Kingdom non-resident children in respect of whom CTAs are claimed in 1976-77 will have been able to do so by 1982. A transitional period of 2 years from 1977 would therefore be too short to prevent the risk of substantial numbers being placed at a disadvantage because entry clearance could not be arranged in time. However, one of 5 years should be just about sufficient.

9. Ministers have told Parliament that any forecasts of future immigration are speculative and estimates have not been published. In justifying any transitional period we cannot promise that every entitled child, where application is made by the time CB is introduced, will be able to come within the period, but we must be able to give a reasonable reassurance for the majority.

CONCLUSION

10. I invite colleagues to endorse the decisions of the Social Services Committee and further to agree that:-

- a. the cost of the concession should be met from the "Contingency Reserve";
- b. the transitional period should last 5 years to ensure that queues for entry clearance for entitled child dependants can be cleared before children now qualifying for CTAs cease to be eligible.

D E

Department of Health and Social Security

9 April 1976

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CP(76) 4

COPY NO

8 April 1976

CABINET

CHILD BENEFIT RATES

Note by the Secretary of State for Social Services
and the Chief Secretary, Treasury

We attach a factual paper prepared by our officials setting out five possible rates of child benefit.

DE
JB

Department of Health and Social Security

8 April 1976

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CHILD BENEFIT (CB) RATE

Note by Treasury and DHSS

CB is a universal tax-free benefit to replace family allowance (FAM) and child tax allowances (CTA). Initially only the under-11 rate of CTA will be subsumed, with residual rates continuing for older children.

2. The attached Tables show the net Exchequer cost in 1977-78 (at 1975 Survey prices), and cash and percentage gains or losses for families of different compositions, at 5 possible CB rates. Brief comments on each rate are set out below. It should also be noted that:

(i) The Tables and comments on rates are concerned with families who pay tax - the great majority. Families with earnings below the tax threshold will gain up to the full value of CB for the first child and up to the difference between CB and FAM for each second and subsequent child. But families in receipt of social security benefits etc will not gain since the rates of these benefits will be adjusted. As a very rough estimate perhaps 200,000 families below the tax threshold will gain substantially from CB.

(ii) The figures for one parent families in the Tables show the position of those who pay tax, have CTAs and have claimed child interim benefit (CHIB). One-parent families who do not pay tax, or do not have CTAs (because the other partner has them) or have not claimed CHIB will gain more.

(iii) By net Exchequer cost is meant the gross public expenditure cost of child benefit less the cost of FAM and child interim benefit, of certain social security savings, and of the tax 'transfer' arising from the abolition of the 1976-77 child tax allowances for under-11s at the basic rate.

(iv) If, as SS Committee have recommended, there were a transitional tax concession for non-resident children, the net Exchequer cost of this would be some 2.5 million.

(v) The 1975 Survey took illustrative CB rates of £2.16 and £2.22 a week and estimated that, at the 1975-76 CTA of £240, the net Exchequer costs would be £16 million and £14.5 million respectively. More recent demographic projections require a revision of these figures to £85 million and £115 million respectively.

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(vi) In the context of CTCs raised by £50 a week which is available to 1.5 million of single working mothers £20 million a year (at 1975 survey rates). If the Government's proposal is followed by £30 as provisionally proposed, the net exchequer cost of such rate will be increased by some £5¹ million.

(vii) In real terms, the value of RAs and CTAs has been falling over many years. As the tax threshold has fallen this has affected more and more families: since the mid sixties families on average earnings have been paying tax at the standard rate. To return family support to the position in April 1974, between the two elections at which the Government pledged itself to introduce an improved system, would require rates of £2.48 and £2.58 for the two and three child families respectively.

The poor have, however, been partly protected by means-tested benefits which have become much more important in support for working families than they were a few years ago. Something like 400,000 out of 6.6 million working families are receiving such benefits (chiefly rent and rate rebates, free school meals and Family Income Supplements), though take-up varies ranging from about 25% for rent allowances for private tenants to 75% for FIS.

(viii) The premium shown in the Table would be paid for the fourth and subsequent children of two-parent families and for all children of one-parent families.

3. The following are brief comments on the rates in the Tables:-

Rate 1 (£1.75 + 50p premium - cost £39.5 million)

This rate, which is the lowest rounded rate which could in practice replace the present system of support at minimum cost, would give cash gains to all families, with gains of 31p a week to one-parent families for each of their children, and to two-parent families for each fourth and subsequent child.

Rate 2 (£2.50 + 50p premium - cost £64.9 million)

This rate, at the cost of a further £25 million, would make two-parent families with 1, 2 and 3 children 48p, 34p and 20p better off respectively; and would give an extra 36p to one-parent families for each of their children, and to two-parent families for each fourth and subsequent child.

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Rate 3 (£2.60 - cost £90.5 million)

A flat rate of £2.60 would ensure that no two-parent family of any likely size would be worse off. The two-parent family with 1 child would be 58p better off, and the gains would fall by only 4p for each child as the family size increased. One-parent families with CHIB would be 4p worse off for each child but when Cabinet agreed to the introduction of CHIB in January 1975, they recognised that one-parent families drawing CHIB might lose on transition to CB; they agreed that this should not be used as an argument for setting the rate for CB higher than the level envisaged during their recent discussions of public expenditure.

Rate 4 (£2.62 - cost £115.9 million)

This is the lowest rounded flat rate of CB that would ensure that no family was worse off. All two-parent families would gain about the same amount (63p for a family with one child) and one-parent families would break even. At the start of the scheme in 1977 two-parent families with 2 or 3 children would get 14% and 9% more than in 1976-77 in cash terms and in real terms 7% and 3% above the level in April 1974 (the budget date between the two elections when the Government pledged itself to introduce the new arrangements).

Rate 5 (£2.70 - cost £141.3 million)

This rate would contain an improvement element for everyone. At the cost of a further £25 million over Rate 4, it would make the two-parent family with 1 child 63p better off and give a further gain of 6p for each subsequent child. Similarly, without a premium, one-parent families would get an extra 6p for each child. Two-parent families with 2 or 3 children would get 16% and 11% more than in 1976-77 in cash terms and in real terms 9% and 5% above the level in April 1974.

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TABLE 1

COSTS OF VARIOUS RATES OF CHILD BENEFIT AND PREMIA
AGAINST A CTA OF £300

RATE OF CHILD BENEFIT £	COST £ million	PREMIUM FOR LARGE FAMILIES AND FOR ONE PARENT FAMILIES	COST OF PREMIA £ million	TOTAL COST OF RATE AND PREMIUM £ million
2.45	14.3	50p	25.2	39.5
2.50	39.7	50p	25.2	64.9
2.60	90.5	—	—	90.5
2.65	115.9	—	—	115.9
2.70	141.3	—	—	141.3

Notes :

1. Premia are paid for the first 3 children in 1 parent families and for all fourth and subsequent children.
2. As a rough guide, each increase of 1p on the basic CB rate costs about £5 million. Each 1p of premium costs about £0.5 million.

TABLE 2

THE EFFECT OF VARIOUS RATES OF CHILD BENEFIT AGAINST A LTA OF £500 IN
ABSOLUTE AMOUNTS

THE LEVEL OF CHILD BENEFIT £	SIZE OF FAMILY	1	2	3	4	5	6	AND FOR EVERY SUBSEQUENT CHILD
	NUMBERS OF FAMILIES IN GREAT BRITAIN IN 1977/78 (millions)	3.04	2.70	1.06	.36	.10	.03	.01
2.45 (+50p premium)	TWO PARENT FAMILIES	+43p	+24p	+5p	+36p	+67p	+98p	+3.1p
	ONE PARENT FAMILIES	+31p	+52p	+93p	+1.24p	+1.55p	+1.86p	+31p
2.50 (+50p premium)	TWO PARENT	+48p	+34p	+20p	+56p	+92p	+1.28p	+36p
	ONE PARENT	+36p	+72p	+1.08p	+1.44p	+1.80p	+2.16p	+36p
2.60	TWO PARENT	+58p	+54p	+50p	+46p	+42p	+38p	-4p
	ONE PARENT	-4p	-8p	-12p	-16p	-20p	-24p	-4p
2.65	TWO PARENT	+63p	+64p	+65p	+66p	+67p	+68p	+1p
	ONE PARENT	+1p	+2p	+3p	+4p	+5p	+6p	+1p
2.70	TWO PARENT	+68p	+74p	+80p	+86p	+92p	+98p	+6p
	ONE PARENT	-6p	+12p	+18p	+24p	+30p	+36p	+6p

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TABLE 3

THE EFFECT OF VARIOUS RATES OF CHILD BENEFIT AGAINST A CTA OF £300
IN PERCENTAGE TERMS

Percentages

THE LEVEL OF CHILD BENEFIT £	SIZE OF FAMILY	1	2	3	4	5	6
	NUMBER OF FAMILIES IN GREAT BRITAIN IN 1977/78 (millions)	3.04	2.70	1.06	.36	.10	.03
2.45 (+50p premium)	TWO PARENT FAMILIES	+21.3	+5.2	+0.7	+3.6	+5.3	+6.4
	ONE PARENT FAMILIES	+11.7	+11.7	+11.7	+11.7	+11.7	+11.7
2.50 (+50p premium)	TWO PARENT	+23.8	+7.3	+2.7	+5.6	+7.3	+8.4
	ONE PARENT	+13.6	+13.6	+13.6	+13.6	+13.6	+13.6
2.60	TWO PARENT	+28.7	+11.6	+6.8	+4.6	+3.3	+2.5
	ONE PARENT	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
2.65	TWO PARENT	+31.2	+13.7	+8.9	+6.6	+5.3	+4.5
	ONE PARENT	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4
2.70	TWO PARENT	+33.7	+15.9	+11.0	+8.6	+7.3	+6.4
	ONE PARENT	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3

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CP(76) 5

COPY NO

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8 April 1976

CABINET

CHILD BENEFIT RATE

Note by the Chancellor of the Exchequer

I attach a memorandum by the Chief Secretary, Treasury.

D W H

Treasury Chambers

8 April 1976

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CHILD BENEFIT RATE

Memorandum by the Chief Secretary, Treasury

Public Expenditure

The introduction of child benefit grants for all children will produce a major new public expenditure programme from 1977 onwards. Instead of the present £500 million or so on family allowances (at 1975 Survey prices), we shall have figures for child benefit of over £1,500 million. At the same time there will be a saving of some £850 million in tax allowances when under-11 child tax allowances are withdrawn in April 1977 - and the saving will be greater when the residual allowances are withdrawn later - in addition to certain social security benefit savings. Therefore the net cost to the Exchequer resulting from this change will be the gross amount of the programme less the present cost of family support and the tax allowance and other savings.

2. The net Exchequer cost would be kept to a minimum by fixing a child benefit rate which as nearly as possible replaced the existing allowances without making anyone better or worse off. The nearest approximation to this would be a grant of £2.43 for each child with a 21p premium for large or one-parent families. Even this would make 80% of families better off at a net cost of £16 million. This minimum net cost will be increased by any raising of the rate of benefit above this minimum level. It will be further increased if we forgo any of the tax savings. As stated in the Public Expenditure White Paper, the net cost will be treated as a charge on the Contingency Reserve.

Contingency Reserve

3. In my previous progress reports on the Contingency Reserve I have been primarily concerned with the position in the present year. But we must now consider the outlook for 1977-78. Of the reserve for that year of £900 million (at 1975 Survey prices) £260 million is already committed, including some £120 million on the improvements in pensions and social security benefits announced in the Budget. And there is already a queue of other claims which, together with agreed claims, could, if they all materialised, use up the whole of the Contingency Reserve. The fact that illustrative figures for the cost of the Secretary of State's likely proposals have been quoted in the past does not mean that a corresponding amount of the Contingency Reserve was hypothecated then or is available now.

Child Benefit Rate

4. The substitution of a weekly tax free cash payment to every mother for every child will itself be a major advance in the method of providing family support. It will replace the present farrago of a family allowance paid to the mother on which the father is taxable and a child tax allowance given to the father which is reduced by clawback;

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it will also extend benefit both to first children and to those families below the tax threshold who could not previously take advantage of tax allowances.

5. Nevertheless I do not press for the minimum figure referred to in paragraph 2 above. In practice, although there could be a wide range of possible options, these have been narrowed down to the following five which are set out in detail in CP(76)4

	<u>Rate</u>	<u>Net Exchequer Cost</u>
1.	£2.45 + 50p premium	£39.5m
2.	£2.50 + 50p "	£64.9m
3.	£2.60	£90.5m
4.	£2.65	£115.9m
5.	£2.70	£141.3m

I firmly believe that Option 1 - £2.45 with a 50p premium - is fully defensible. At a cost of some £40 million it would make all families better off; and the premium would ensure that special help went to 1-parent families and families with 4 or more children. I believe it would be much more cost-effective to use a premium - costing some £25 million - in this way than to incur a large further additional cost in order to move to the lowest flat rate needed to ensure that the generality of families was no worse off. Like the rate of £2.70 proposed by the Secretary of State - which would involve a claim of over £140 million on the Contingency Reserve - this expenditure would be unselective and thinly spread, much of it going to families who do not need it. I would remind the Cabinet that when we considered expenditure priorities last August there was considerable support for the view that we should concentrate policy on selective measures. I cannot believe that what the Secretary of State proposes is a cost-effective way of distributing scarce resources or helping the poor.

Non-Resident Children

6. I would, however, see a little more room for manoeuvre if the Cabinet rejected the proposals in CP(76)3 for a transitional concession for non-resident children. This concession would add very substantially - some £45 million - to the claims on the Contingency Reserve and mean forgoing large manpower savings (over 300 staff). Moreover, it would perpetuate the massive scale of fraud in claims for non-existent non-resident children which it is impossible to check satisfactorily. This concession, in conjunction with any but the cheapest of the options in paragraph 5 above, would entail a total charge against the Contingency Reserve ranging from £110 million to over £185 million. I therefore strongly urge that the existing policy of excluding non-resident children from the child benefit scheme without any "compensation" should be maintained.

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Conclusions

7. If the concession proposed for non-resident children is accepted, I should see great difficulty in agreeing to any additional claim on the Contingency Reserve in excess of the £40 million entailed by a child benefit rate of £2.45 with a 50p premium. Such a rate would benefit all families - the majority of whom will also have benefited in 1976-77 to the extent of £300 million, or 40p a week, from the Budget increases in child tax allowances - and itself represent a major improvement in the arrangements for family support. If, however, the concession for non-resident children is rejected, I suggest that we should agree to a rate of £2.50 with a 50p premium, and accept the cost of some £65 million as a charge on the Contingency Reserve.

JB

HM Treasury
8 April 1976

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CP(76) 6

26 April 1976

COPY NO 81

CABINET

PUBLIC EXPENDITURE PROGRESS REPORT

Note by the Chancellor of the Exchequer

I attach a memorandum by the Chief Secretary reporting the serious situation which is developing through the accumulation of claims for additional expenditure, and through proposals which would erode or reverse decisions announced in our recent public expenditure White Paper. I fully endorse his view that we must make the White Paper plan stick and the proposals in his concluding paragraph which are designed to help in securing this objective.

D W H

Treasury Chambers

26 April 1976

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PUBLIC EXPENDITURE - A PROGRESS REPORT
MEMORANDUM BY THE CHIEF SECRETARY TO THE TREASURY

I am extremely concerned at the rapid erosion of the contingency reserve and the growing volume of claims for still further additional expenditure. In my two previous progress reports on the contingency reserve I have concentrated on 1976-77; unless our White Paper plan is to be demonstrably invalidated almost from the outset our minimum objective must be to limit the claims on the reserve so that a credible balance is preserved until we can review the position more fundamentally in the summer on the basis of the report on the 1976 public expenditure survey. But the problem for 1977-78 and the later years is also becoming serious, particularly in view of various proposals which are now coming forward to relinquish some of the savings agreed and announced in the last White Paper.

2. In the enclosed tables I show once again the expenditure which we have already agreed to meet out of the contingency reserve; some minor proposals totalling £26 million in the current year which are now recommended for approval - details of these are set out in an Annex; and the further claims now known to the Treasury. The position for 1976-77 is set out in one table and for the whole run of years up to 1979-80 in another. The figures can be summarised in the following way:-

	£ million		
	1976-77		1977-78
	1975 Survey Prices	1976-77 Prices	1975 Survey Prices
1. White Paper contingency reserve	700	875	900
2. Already charged to the reserve or now recommended	359	403	266
3. Balance in the reserve	341	472	634
4. Child benefits	-	-	65-186
5. Other firm bids	278-323	330-380	248-348
6. Balance	18-63	92-142	100-321
7. Other claims not yet firm	548-693	637-802	677-754

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3. The main individual items involve large amounts for the nationalised industries to which I drew attention in my second progress report; and new problems concerning housing, food subsidies and education. In these cases the proposals for 1977-78 would erode or reverse decisions for which we took credit in the White Paper. If these reductions are foregone they will use up the contingency reserve and add to expenditure no less than new expenditure projects. Moreover the figures assume that the reduction in civil service staff costs which we have announced will be secured.

Nationalised industries and other industrial programmes

4. The most pressing proposals in the industrial field are further finance for the coal stockpile, support for the National Freight Corporation and additional capital for British Nuclear Fuels Limited, but we should not accept any commitment unless and until it is inevitable and even then it must be kept to a minimum. There are still further proposals for additional finance for the National Coal Board and British Steel Corporation but I believe that these will have to be resisted.

Housing

5. Expenditure on new housebuilding in England is now expected to be substantially larger than was planned in Cmd 6393 and, together with a higher level of subsidy payments than forecast, will cost an extra £200 million in 1976-77. While action to bring new housebuilding under control could ensure that the excess does not grow larger in 1976-77 (or in later years) - and I recommend that we should study how this might be done - only a severe cutback in new approvals could significantly reduce the prospective overspend. It would however be possible to offset the £200 million by savings in other housing expenditure such as municipalisation and local authority mortgage lending. I know that by itself this would be politically unwelcome, but it would be justified in order to make possible the increase in new housebuilding. I consider it imperative that this should be done.

6. There are also potential claims of £142 million in 1977-78 and £270 million in 1978-79 on subsidies to local authority houses. The bulk of these claims would not arise if legislation were introduced to achieve the reductions which we agreed in our recent review of public expenditure. The previous Secretary of State has questioned whether the necessary legislation should be taken in 1976-77 Session. But I am sure we cannot agree to an addition of this size to housing expenditure as a whole.

Food subsidies

7. The Secretary of State for Prices and Consumer Protection has proposed that, subject to a possible reduction in the butter subsidy, food subsidy rates should remain unchanged until the end of 1976-77. This would cost up to £100 million in 1976-77 and, subject to the way it was carried forward into 1977-78, up to say £200 million in that year over and above the provision in Cmd 6393.

Education

8. With Cabinet agreement Cmd 6393 assumed that fees for overseas students would be increased from about 10 per cent of average costs to about 45 per cent to secure savings of £42 million. Proposals which the Secretary of State for Education is now considering seem likely to achieve less than half these savings. It was also agreed that £15 million would be saved by ensuring that students are in future denied independent access to social security benefits. Legislation will be necessary, however, to secure this and a firm decision to go ahead with it must be made soon. In the absence of such legislation, not only will the £15 million not be saved but there would also be some £7 million expenditure, additional to Cmd 6393, due to much easier qualification conditions for unemployment benefit from January 1977.

Civil Service Numbers

9. We shall shortly be discussing ways of achieving the £140 million cut in ^{civil service costs in} 1978-79 which we announced - and took credit for - in the February public expenditure White Paper. Since then, however, other proposals for extra manpower have come forward, and it will clearly be difficult to offset these on top of finding the £140 million to which we are committed. If so, any net additional demands which are approved will be a claim on the contingency reserve. (At present a provisional estimate of those additional requirements is £60 million in 1978-79, but not all of this is yet reflected in the enclosed tables.) And if we did not succeed in identifying savings equal to the full £140 million, any shortfall on that amount would of course likewise be a claim on the reserve.

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Options

10. In this situation there are three options open to us:

- (i) allow the contingency reserve to be exhausted and total public expenditure to exceed the planned levels which we have published;
- (ii) keep within the contingency reserve by refusing all but the most essential items;
- (iii) seek to limit claims on the contingency reserve by obtaining offsetting savings.

The first of these courses would discredit our economic planning and it would do immense damage at home and overseas. It seems to me to be unthinkable.

11. I have therefore, with my officials, examined the claims in Table 1 item by item to assess the extent to which they will need to be accepted. Some are clearly very strong, but others are only contingent or could be deferred or rejected outright. I conclude that, by the most vigorous application of the second and third courses, set out in my previous paragraph, we could carry on within the existing contingency reserve until we are able to look again at the picture as a whole, for 1976-77 as well as the later years, when we have the report on the 1976 Survey.

Conclusions

12. To achieve this, and to prevent the plans which we have announced as recently as February from being discredited, we must limit any new claims to those of the very highest priority and even then obtain offsetting savings wherever possible. In particular, the positive steps which we need to take now are as follows, and I invite the Cabinet to approve them.

- (i) The Secretary of State for the Environment should be invited to bring forward, in consultation with me, specific measures designed to offset in full the prospective housing increases now reported for 1976-77 and to report back to the Cabinet.

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- (ii) The Secretary of State for the Environment should be invited to arrange for an urgent study, in consultation with the Treasury and with the other Housing Departments, of arrangements to bring expenditure on house-building under control and to bring proposals before Cabinet for decision.
- (iii) The Secretaries of State responsible for the nationalised industries and other industrial programmes to examine relevant items in the Tables critically with a view to limiting them to those of the highest priority, and to reducing the cost of these to the absolute minimum.
- (iv) The Secretary of State for Education should be invited to implement the agreed reductions in the education programme or to offer other savings to keep within the White Paper figures.
- (v) The Secretary of State for the Social Services should be invited to bring forward proposals for achieving the savings on the payment of social security benefits to students.
- (vi) We may need to look again later at the timetable for phasing out food subsidies, but meanwhile the White Paper programme should stand.
- (vii) The net cost of the child benefit scheme should be kept to £65 million, that is, the level which I have proposed in paragraph 7 of CP(76)5.

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THIRD PROGRESS REPORT ON THE CONTINGENCY RESERVE

TABLE 1 - CLAIMS ON THE 1976-77 RESERVE

ITEM	£ million	
	at 1975 Survey prices	1976-77 outturn prices
A1. <u>AGREED CLAIMS</u>		
1. Employment measures (12 Feb. announcement)	115	132
2. Family income supplement - July uprating	4	5
3. Welsh housing	30	35
4. Civil Aviation Authority grant-in-aid	3	4
5. Extension of the Coal Industry Act 1973	10	13
6. British Steel Corporation - stocks and work in progress	48	60
7. Increase in departmental staff costs	27	29
8. Police: increased numbers	6	8
9. Miscellaneous items	12	13
10. Budget measures (6 April):		
Temporary employment subsidy	60	60
Community industry	1	1
Social security benefits (excluding FIS at 2 above)	44	50
A2. <u>RECOMMENDED CLAIMS</u>		
11. Accommodation for Scottish and Welsh Assemblies	2	2
12. Arts Council, Museum of London and York. Carry forward of under-spent grant-in-aid from 1975-76	1	1

Table 1 (cont.d)

		<u>£ million</u>	
		at 1975 Survey Prices	1976-77 outturn prices
A2.	RECOMMENDED CLAIMS (contd)		
13.	Northern Ireland: Staffing for higher employment Unemployment package	1 1	1 1
14.	Civil Service Superannuation: Payment to CAA	13	13
15.	Department of Employment Staff (in addition to 7 above)	5	6
16.	Assistance to the film industry	2	2
17.	British Rail Pensions	- 11	- 15
18.	Inland Revenue	- 15	- 18
TOTAL		389	403

B. FIRM BIDS

1.	Purchase of further shares in National Nuclear Corporation	2	2
2.	Nuclear research and development	4	5
3.	Budget: Inland Revenue overtime	6	6
4.	Additional capital for Radiochemical Centre Ltd	3	4
5.	BBC Pension Scheme	1	1
6.	Grants under S.8 of Industry Act 1972 (Energy)	3	3
7.	Port of London authority	5	7
8.	Civil Aviation Authority grant-in-aid	3	4
9.	Additional capital for British Nuclear Fuels Ltd	34	46
10.	Iceland: fisheries protection	2	2
11.	Food subsidies	45-90	50-100
12.	Housing (England) New housebuilding Subsidies	111 59	130 70
TOTAL OF B		278-323	330-380

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TABLE 1 (contd)

	<u>£ million</u>	
	at 1975 Survey prices	1976-77 outturn prices
C. <u>OTHER CLAIMS NOT YET FIRM</u>		
1. Overseas aid rollover	10	13
2. Educational maintenance allowances	24	25
3. COI: Energy Saving Publicity	4	4
4. National newspapers	5	5
5. Northern Ireland: primacy of police	2	2
6. Fuel prices: protection for the poor	20-80	25-100
7. Extension of offshore interest relief grant scheme	- 2	- 2
8. Aircraft industry investment	3	4
9. CEGB participation in the development of a fast reactor powered generating station in France	5	7
10. Steel: counter-cyclical stockpile	35	42
11. National Coal Board: fixed assets	32	43
12. Additional capital for National Nuclear Corporation	10	12
13. Maritime Fruit carriers	20	20
14. Malta dockyard	10	10
15. Refinancing of fixed rate exports and shipbuilding credits	25	27

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TABLE 1 (contd)

		<u>£ million</u>	
		at 1975 Survey prices	1976-77 outturn prices
C.	<u>OTHER CLAIMS NOT YET FIRM</u>		
16.	Community for hydrocarbon exploration	5	5
17.	Accommodation of refugees from Rhodesia	70-140	70-140
18.	Shipbuilding industry: Investment Special assistance	25 25-40	30 30-50
19.	Coal stockpile (working capital aid grants)	80	100
20.	Local authority current expenditure	100	125
21.	National Freight Corporation	40	40
TOTAL OF C		748-645	637-802
Total claims on the 1976-77 reserve		1185-1375	1370-1585
Contingency reserve		700	875

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TABLE 1 (contd)

		<u>£ million</u>	
		at 1975 Survey prices	1976-77 outturn prices
C.	<u>OTHER CLAIMS NOT YET FIRM</u>		
16.	Community for hydrocarbon exploration	5	5
17.	Accommodation of refugees from Rhodesia	70-140	70-140
18.	Shipbuilding industry: Investment Special assistance	25 25-40	30 30-50
19.	Coal stockpile (working capital aid grants)	80	100
20.	Local authority current expenditure	100	125
21.	National Freight Corporation	40	40
TOTAL OF C		218-645	537-802
Total claims on the 1976-77 reserve		1185-1375	1370-1585
Contingency reserve		700	875

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TABLE 2 - CLAIMS ON THE RESERVE 1976-77 to 1979-80

£ million at 1975 Survey prices
1976-77 1977-78 1978-79 1979-80

A1. AGREED CLAIMS

1.	Employment measures (12 Feb. announcement)	115	59	24	-
2.	Child benefit scheme (provisional estimate of net Exchequer cost) (1)				
3.	Family income supplement - July uprating	4	6	6	6
4.	Welsh housing	30			
5.	Civil Aviation Authority grant-in-aid	3			
6.	Extension of the Coal Industry Act 1973	10	10	6	6
7.	British Steel Corporation - stocks and work in progress	48			
8.	Increases in departmental staff costs	27	2		
9.	Police : increased numbers	6	9	9	9
10.	Agricultural price review		11		
11.	Miscellaneous items	12	11	10	9
12.	Budget measures (6 April)				
	Temporary employment subsidy	60	35		
	Community industry	1	2	2	2
	Industry schemes		10	10	10
	Social security benefits (excluding FIS at 3 above)	44	114	114	114
13.	Small firms counselling service	-	1	1	1

(1) Cost would be £65m for the rate proposed by the Chief Secretary for resident children only. Cost would be £186m for the higher rate proposed by S of S for Social Services for both resident and non-resident children.

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TABLE 7 (contd....)

		£ million at 1975 Survey prices			
		1976-77	1977-78	1978-79	1979-80
A2.	<u>RECOMMENDED CLAIMS</u>				
14.	Accommodation for Scottish and Welsh Assemblies	2	2		
15.	Non-nuclear energy R & D	-	7	7	8
16.	Arts Council, Museums of London and York				
	Carry-forward of under-spent grant-in-aid from 1975-76	-	-	-	-
17.	Northern Ireland: Staffing for higher unemployment Unemployment package	- 7	- -	- -	- -
18.	Civil Service Superannuation: Payment to the CAA	13	-	-	-
19.	Department of Employment Staff (in addition to 8 above)	5	-	-	-
20.	Assistance to the Film Industry	2	5	5	5
21.	British Rail Pensions	+11	-2	-2	-2
22.	Inland Revenue	-15	-16	-16	-16
TOTAL OF A		359	266	176	152

B. FIRM BIDS

1.	Purchase of further shares in National Nuclear Corporation	2			
2.	Nuclear research and development	4	15	6	-
3.	Budget: Inland Revenue overtime	6	-	-	
4.	Additional capital for Radiochemical Centre Ltd	3	2		

TABLE 2 (contd....)

£ million at 1975 Survey prices

1970-77 1977-79 1979-81 1979-80

B. FIRM SIDS

5.	RAC Pension Scheme	1	-	-	-
6.	Grants under S.S. of Industry Act 1972 (Energy)	3	7	7	7
7.	Port of London authority	5	10	10	10
8.	Civil Aviation Authority grants-in-aid	3			
9.	Additional capital for British Nuclear Fuels Ltd	30	45	35	35
10.	Iceland: fisheries protection	2	-	-	-
11.	Food Subsidies	45-90	100-200	50-100	-
12.	Housing: England New Housebuilding Subsidies	111 59	63 -	-3 -	-20 -
13.	Arts programme			2	2
14.	Curator Joint Research Centre (JRC)		4	6	7
15.	Fuel efficiency loans scheme			2	2
16.	Department of Energy central and miscellaneous services		1	1	1
17.	Oil storages and pipeline		2	3	3
TOTAL OF B		278-323	248-348	123-173	50

C. OTHER CLAIMS NOT YET FIRM

1.	Overseas aid rollover	10			
2.	Educational Maintenance allowance ⁽¹⁾	24	35	39	39
3.	COI: Energy saving publicity	4	-	-	-
4.	National Newspapers	5	5-15		
5.	Northern Ireland: primacy of police	2	8	12	14
6.	Fuel prices: protection of the poor	20-80			

(1) Figures are at November 1975 prices.

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TABLE 2 (contd)

£ million at 1975 Survey prices

		1976-77	1977-78	1978-79	1979-80
C. <u>OTHER CLAIMS NOT YET FIRM</u>					
7.	Extension of offshore interest relief grant scheme	- 2	3	5	7
8.	Aircraft industry investment	3	6	18	28
9.	CEGB participation in the development of a fast reactor power generating station in France	5	10	15	20
10.	Steel counter-cyclical stockpile	35			
11.	National Coal Board - fixed assets	32	61	87	71
12.	Additional capital for National Nuclear Corporation	10			
13.	Maritime Fruit Carriers	20	-	-	-
14.	Malta dockyard	10			
15.	Refinancing of fixed rate export and shipbuilding credits	25	100	50	30
16.	Community support for hydrocarbon exploration	5	8	9	9
17.	Accommodation of refugees from Rhodesia	70-140			
18.	Shipbuilding industry				
	Investment	25	45	45	45
	Special assistance	25-40	35-50	10	
19.	Coal stockpile (working capital and grants)	80			
20.	Local authority current expenditure	100			

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TABLE 2 (contd...)

E million at 1975 Survey prices
1976-77 1977-78 1978-79 1979-80

C. OTHER CLAIMS NOT YET FIRM

21. National Freight Corporation	40	15	-	-
22. Crown Agents		50-75		
23. Extension of the Coal Industry Act 1973			10	14
24. Manpower Services Commission - collective funding of initial industrial training		30	40	40
25. Ports nationalisation		50	45	35
26. Contributions to the Community budget revised forecast of contributions		15	60	60
27. REP - uprating of women's rate		35	35	35
28. British Rail freight subsidy ⁽¹⁾		-	-	-
29. Devolution staff and accommodation		11	17	20
30. Banabans - settlement of outstanding issues		4		
31. Computer for national savings			2	
32. Direct elections to European Parliament			7	
33. United Nations Emergency Force		3	3	3
34. Offshore protection force		3	4	4
35. Financial assistance to small firms		3-30	3-30	3-30
36. Housing				
Subsidies		142	270	270
TOTAL OF C	548-693	677-754	786-813	742-774
Total claims on the contingency reserve	1185 -1375	1191 -1368	1085 -1162	949 -976
Contingency reserve	700	900	1200	1400

(1) The potential requirement for BR after 1976 remains to be quantified.

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ANNEX

PROPOSED CHARGES AGAINST THE CONTINGENCY RESERVE

Accommodation for Scottish and Welsh Assemblies (£2 million)

It was necessary to reach an urgent decision so that the Lord President could make a statement. DP Committee have agreed to this and I propose we approve it as a charge on the contingency reserve.

Arts Council etc (£1 million)

Money was voted last year to meet various statutory obligations in respect of the Arts Council and the Museums of London and York. The necessary work could not be completed in that year and money was withheld from the grant. The work will need to be carried out this year and I recommend that the expenditure should be agreed.

Northern Ireland (£2 million)

This is for additional staff expenditure arising from higher levels of unemployment and for additional resources for job creation and training schemes. The equivalent provision for Great Britain was included in the Second Progress Report and agreed by Cabinet.

Civil Service Superannuation (£13 million)

The Government Actuary has revised the payments in respect of the accrued pension rights of civil servants transferred to the Civil Aviation Authority. It has been necessary to make provision in Main Estimates accordingly and I propose the \$13 million be charged to the contingency reserve.

Department of Employment Staff (6 million)

It has been necessary for the Civil Service Department to amend the provisional estimate of additional expenditure included in my Second Report and referred to in correspondence between the Lord Privy Seal and the Prime Minister in February.

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Assistance to the film industry (£2 million)

This additional expenditure was agreed by MISC 123 and they recommended that it should be a charge on the contingency reserve.

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CP(76) 7

COPY NO 81

3 May 1976

CABINET

CHILD BENEFIT RATE

Memorandum by the Secretary of State for Social Services

1. I have reconsidered the proposals in CP(76) 2 in the light of my colleagues' clear wish to give priority to a transitional tax concession for immigrants with overseas children, and of competing claims on the Contingency Reserve (CP(76) 6) against a background of the unavoidable constraints on public expenditure.

2. We cannot brush aside the importance of family support either in the social or the economic context. I remain convinced that basic rates of either £2.45 or £2.50 are not ones which we could defend, on the following grounds.

1. Because of the forecast rate of inflation in the coming year such rates for a large proportion of families would be worth less when introduced in April 1977 than the current value of Family Allowances and Child Tax Allowances (CTAs). The £2.50 plus 50p premium rate would, on present forecasts of the Retail Price Index, mean that almost all two-parent families with more than one child (including, even taking account of the premium, most large families where there is often serious hardship) would be worse off in real terms than they are now. Just to maintain the present value we need the following rates:

<u>No of children in family</u>	<u>Rate needed*</u>
2	£2.52
3	£2.63
4	£2.69

These rates are well below the value of Tory family support from 1971 to 1973, and they allow no margin whatever for further erosion by inflation either before or after April 1977.

*These figures are based on the present Public Expenditure Survey assumption of an 8 per cent rise in prices between 1976-77 and 1977-78. Between April 1976 and April 1977 the rise may well be higher and higher rates would be needed to maintain the real value on a point to point comparison.

2. The £2.45 and £2.50 rates need premiums for one-parent families and for large families to avoid serious losses even in cash terms (let alone in real terms). As CP(76) 2 indicated these premiums are open to serious objections. To recapitulate briefly:

a. Many of those getting premiums would gain nothing from them: half the one-parent families are on supplementary benefit and would simply have that benefit reduced, whilst for all the rest we would be incurring the cost and odium of a cohabitation rule in respect of a trifling benefit. Other poor families, who are not in the premium classes would get less and in effect be subsidising the premium classes.

b. They prejudice the later introduction of age related child benefits which are not only the cheapest way of abolishing the residual CTAs, with substantial staff savings, but the development most widely expected, not least by our own supporters.

c. They make nonsense of any attempt to save manpower. I cannot guarantee that my own staff would operate the scheme with premiums, in view of the intense opposition which premiums, needing up to 300 extra staff, and bringing new complications, would provoke when drastic manpower cuts are being forced on them.

3. To spend less in real terms in 1977 on many families when a key reform of family support is introduced, would surely be regarded as a confidence trick by our own supporters as well as the Opposition, especially with the inevitable sharp fall in take home pay (see Annex 1).

3. I have considered whether the real value of the £2.45 and £2.50 rates makes them so unattractive as to raise the question whether the scheme should be postponed if we were driven to such rates. But there are overwhelming obstacles in practice:

1. We have had to print order books with notes referring to the new and different entitlement conditions child benefit would entail. It is too late to reprint and we would have to pay the old family allowance rate on the new books.

2. Postponement to 1978 would mean that the fall in take home pay coincided with the start of the higher contributions to the new pension scheme.

3. We would face serious accusations of bad faith at yet another postponement of the scheme. After the assurances we have given about the start of the scheme, postponement would raise doubts as to whether we had any serious intention of pursuing it; and a two-year postponement in particular would call in question the Government's good faith just when we might be facing another election.

4. I ask colleagues to accept that a rate requiring premiums for one-parent and large families is, for the reasons I have given, not a viable proposition. In terms of maintaining the real value of family support, £2.70 remains the lowest defensible rate, but in the very serious public expenditure situation in which we find ourselves I recognise that this figure is not attainable. £2.65 is the lowest rounded flat rate which will ensure that no family is worse off in cash terms. This rate would also ensure that the great majority of families were at least slightly better off in real terms. If forced back to £2.60 we could no longer say that no family was worse off even in cash terms. There would be a small cash loss (4p a child) for some one-parent families with Child Interim Benefit (CHIB). When Cabinet agreed to CHIB in January 1975 they recognised that some families might lose and agreed that this should not be used as an argument for a higher child benefit rate. We would have to justify the loss publicly on the grounds that these families have had an uncovenanted bonus for the past year and would in April 1977 be on a level with all other families, but nevertheless it would be bound to be strongly exploited by the pressure groups. The £2.60 rate would mean no real improvement for the three child or larger family on the Treasury forecast of inflation.

5. The cost of the £2.65 rate would be £116 million which with the £45 million for overseas children amounts to £161 million as against the higher of the two figures for the Child Benefit Scheme as whole of £186 million, the cost of my previous recommendation, in CP(76) 6. The cost of the £2.60 rate is £90.5 million, making £135.5 million with the overseas children.

6. I deal in Annex II with the effect of possible rates on eligibility for means tested benefits.

D E

Department of Health and Social Security

3 May 1976

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RATE OF CHILD BENEFIT £	ONE CHILD FAMILY				TWO CHILD FAMILY				THREE CHILD FAMILY				FOUR CHILD FAMILY			
	Fall in take-home pay to man £	Rise in cash allowance to wife £	Net cash gain by family £	Real gain or loss by family £	Fall in take-home pay to man £	Rise in cash allowance to wife £	Net cash gain by family £	Real gain or loss by family £	Fall in take-home pay to man £	Rise in cash allowance to wife £	Net cash gain by family £	Real gain or loss by family £	Fall in take-home pay to man £	Rise in cash allowance to wife £	Net cash gain by family £	Real gain or loss by family £
2.50 + Sop premium	-2.02	+2.50	+48	+32	-3.16	+3.50	+34	-4	-4.30	+4.50	+20	-39	-5.44	+6.00	+56	-26
2.60	-2.02	+2.60	+58	+42	-3.16	+3.70	+54	+16	-4.30	+4.80	+50	-9	-5.44	+5.90	+46	-36
2.65	-2.02	+2.65	+63	+47	-3.16	+3.80	+64	+26	-4.30	+4.95	+65	+6	-5.44	+6.10	+66	-16
2.70	-2.02	+2.70	+68	+52	-3.16	+3.90	+74	+36	-4.30	+5.10	+80	+21	-5.44	+6.30	+86	+4

Notes

1. These tables will apply to all 2 parent families paying tax at the standard rate. Very few working families of the sizes illustrated are below the tax threshold now: with 2 children a family starts paying tax at about $\frac{1}{3}$ of average earnings and with 4 children at about $\frac{2}{3}$ rds.
2. The figures of real gain are based on the present PRSC assumption of an 8% rise in prices between 1976/77 and 1977/78; between April 1976 and April 1977 the rise may well be higher on a point to point basis and real gains lower and losses larger.
3. The transfer problem does not have the same significance for 1 parent families since the same person receives both the pay and the cash benefit. Because of CHIB the fall in take-home pay is lower for a 1 parent family.
4. The fall in take-home pay shown in these tables for families with more than 1 child is less than that given in paragraph 1 of CP(76)3 for families with non-resident children. Because the latter do not get FAM they now receive the full value of CTAs for each child; for the FAM family the value of CTAs are reduced by tax on FAM and clawback.

ANNEX 1

EFFECT OF CHILD BENEFIT RATES ON ELIGIBILITY FOR MEANS-TESTED BENEFITS

1. Eligibility for means-tested benefits is affected by the extent to which extra income by way of Child Benefit is taken into account in assessing means. The costings of the CB scheme assume that the amount of the Child Benefit (or, for children with FAM or CHIB, the amount by which CB exceeds FAM or CHIB) will be deducted from social security dependency benefit for children, and will be taken into account for supplementary benefit and FIS (subject to any necessary restructuring of the FIS scheme).
2. It will be necessary to consider the effects of the Child Benefit scheme on all the main means tested benefits for families in work (FIS, rent and rate rebates, free school meals and free welfare milk) in the light of the rate actually decided. The means scales for these benefits have to be regularly reviewed and uprated in any event, in the light of all the relevant circumstances, so as to protect the groups for whom they are designed, but without, if possible worsening the poverty trap.
3. The Chief Secretary agrees with me that the relationship between the child benefit rates under consideration and the main means tested benefits for families in work is a separate and subsequent question, which does not affect the choice of Child Benefit rates now.

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CP(76) 8

COPY NO 81

3 May 1976

CABINET

CHILD BENEFIT RATE

Note by the Chancellor of the Exchequer

I attach a memorandum by the Chief Secretary to the Treasury.

D W H

Treasury Chambers

3 May 1976

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CHILD BENEFIT RATE

Memorandum by the Chief Secretary to the Treasury

In view of the further comments by the Secretary of State for Social Services in CP(76)7, I should like to stress the following brief but important points:-

- (1) As the agreed tables in CP(76)4 showed, a basic rate of £2.45 with a 50p premium would give cash gains to all families and real gains to families with one child and to one-parent families - nearly half of all families. It stands to reason that the gain to larger families would be less since, as both our 1974 Manifestos made clear, the main point of the reform is to extend support to the first child. There is no commitment to maintain the child benefit rate in line with inflation as seems to be implied by the Secretary of State for Social Services.
- (2) The essential test of a premium, which I cannot accept to be inoperable, is whether it is a more cost-effective way of using scarce resources than increasing the basic rate in order to benefit all families, tax free and unselectively, at 10 times the cost per penny on the rate. Each penny on the basic rate costs some £5 million; each penny of a premium costs only £500,000. Since only 7% of all families at present receiving FAM are poor or hard-pressed, it cannot be cost-effective to increase the basic rate for the benefit of all at such exorbitant additional cost.
- (3) We have always made it very clear publicly that the cost of the scheme must be accommodated within the total public expenditure we can afford from 1977-78 onwards. The fact is that, given the massive competing claims, we cannot afford the rate the Secretary of State recommends, particularly if a transitional concession is made for non-resident children.

2. I strongly urge, therefore, that, if the Cabinet decide to extend the transitional concession to non-resident children at a cost of £45 million to the contingency reserve, we should not go beyond an initial CB basic rate of £2.45 with a 50p premium. Even this would add another £40 million to the charge on the contingency reserve.

JB

HM Treasury
Parliament Street
SW1

3 May 1976

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CP(76) 9

COPY NO 81

5 May 1976

CABINET

CUTTING THE COST OF THE CIVIL SERVICE

Memorandum by the Lord Privy Seal

INTRODUCTION

1. In December last, during our discussions on public expenditure, we agreed to reduce the forecast size of the Civil Service in 1978-79 by 5 per cent, thus saving £140 million. I was invited to consider how this reduction might be brought about.
2. Subsequently the Ministry of Defence was excused from contributing to the £140 million because it is separately required to make broadly comparable staff savings. In consequence, the whole of the reduction falls on the staff and administration cost of civil Departments - a saving on the gross expenditure forecast in the Public Expenditure Survey (PES) not of 5 per cent but of 8 per cent.
3. Some of the expenditure of the Department of the Environment falls on the Defence Budget and some of the staff and related cost of various Departments are covered by fees and other receipts. Taking account of these points, a saving of £140 million in net expenditure amounts to about a 9 per cent cut.

THE APPROACH TO THE EXERCISE

4. Although everything possible must be done to improve efficiency, it is clear - as Cabinet accepted from the outset - that savings in the Civil Service of the order now required can be achieved only by cutting down the work to be done - by dropping certain policies and by accepting a measure of rougher justice. Moreover, cuts in the work must take account of relative priorities amongst Government policies; it would not make sense to apply an arbitrary, across-the-board percentage cut. Apart from its inherent unsoundness, such an arbitrary cut would lead to serious difficulties with the National Staff Side, who have stressed, and been given repeated assurances, that the Civil Service must be adequately staffed to do its work.

5. I therefore invited my colleagues to identify the consequences for them of a range of cuts - 5 per cent, 10 per cent and 15 per cent - in their forecast 1978-79 expenditure so that we could consider collectively the available options and decide on a package of cuts which would do least damage overall to our policies.

6. In view of the current review of overseas representation, I accepted the Foreign and Commonwealth Secretary's suggestion that his Department should not take part in this 'options exercise'. The Foreign and Commonwealth Office is not, however, excluded from contributing to the £140 million saving and for that Department an average share would be £7 million. I propose that we should therefore seek savings of £133 million from the net expenditure of the remaining civil Departments. It is only fair to add that, since the outcome of the review is unlikely to be known until at least the end of 1976, there might be practical problems for the Foreign and Commonwealth Office in securing the whole of any savings recommended by 1978-79.

UNEVEN EFFECTS OF THE PROPOSED CUT

7. In the course of PES 1975 forecast staff expenditure for 1978-79 in some Departments had already been reduced by 10 per cent (the 'formula cuts'). These Departments (indicated in annexes A, B and C) have found it particularly difficult to make additional cuts for that year to contribute to the £140 million saving. On the other hand, revenue Departments and other Departments whose work is largely demand-related and who were on that account exempted from the formula cuts still find themselves with little room for manoeuvre. For them, the work-load is increasing inexorably because of the economic situation, and if the basic economic assumptions underlying PES 1975 prove to be wrong, then their staffing needs will also change. A particular problem for the revenue Departments is that staff reductions in many areas tend to reduce the revenue collected.

WHAT IS PRACTICABLE?

8. Ministers have in general accepted my suggestion that they should seek to make a contribution to the required £140 million by saving 2 per cent of their staff and administrative costs between now and 1978 as a result of improving productivity - for example by making more effective use of staff inspection and other management services. Beyond that they have identified policy changes or measures of rougher justice, but they have not found it easy to put forward options which they find acceptable. Expenditure on manpower is only one element in their public expenditure programmes and for most Ministers large reductions in manpower would involve wide-ranging implications for their policies, which have only recently been thoroughly reviewed during our discussions leading up to the Public Expenditure White Paper (Cmd 6393). In general, therefore, the options put forward consist of a large number of individually small reductions, all of which, if implemented, would involve disadvantages, some of them serious. There is certainly no painless way of making the savings we want.

9. The options described by Ministers are given in Annexes A, B and C, which represent my assessment, based on the views of colleagues, of how the cuts divided, Department by Department and Minister by Minister, into three broad categories of acceptability. I have in general, of course, accepted the ordering which my colleagues gave of their options and their views on what is totally unacceptable, but the annexes do not purport to strike an even balance of acceptability between Departments. Any adjustments in that direction must emerge from our collective discussion of this paper.

THE NEED FOR CONSULTATION

10. Because the cuts have disadvantages - sometimes for other Departments than the one which put forward the option - they plainly need to be explored in depth before final decisions on implementation are taken and there may need to be consultation with groups outside as well as inside Government. For example, the Secretary of State for Social Services must consult the Supplementary Benefits Commission. The Secretary of State for Employment is in a position of peculiar difficulty as executive responsibility in most of his field has been delegated to the Manpower Services Commission, the Advisory, Conciliation and Arbitration Services Council and the Health and Safety Commission. He is committed to consult these bodies, on which the Trades Union Congress (TUC) has the dominant voice, before reductions in their programmes could be agreed upon. Strong opposition can be expected from them all. Departmental Staff Sides have been told about the 'options exercise' and, after we have decisions in principle, detailed consultation will be necessary with them. For all these reasons, I cannot ask my colleagues at this stage to agree to the precise details of the package of cuts which is necessary. I hope, however, that we can agree on the distribution of the £133 million amongst Departments and the general areas for reduction within Departments, leaving Ministers free to adjust the final details of how they achieve their allotted saving taking account of the further consultations and investigations they plan to make. What follows is based on this assumption.

MY PROPOSALS

11. In Annex A I have listed possible savings which I consider, based on my reading of colleagues' letters, would not have unacceptably damaging consequences for our policies. In total these savings amount to £70½ million or roughly 21,000 staff. I invite my colleagues to accept these.

12. In Annex B I set out proposals, drawn from my colleagues' replies, which would save a further £54½ million and 17,000 staff. Ministers individually see serious objections to all these options and in some cases also see difficulties for colleagues. But collectively I consider that we must accept them, painful though they undoubtedly are, if we are to achieve our target. They include the abolition of Vehicle Excise Duty (VED) which has already been the subject of much discussion and which represents the largest single saving identified in my colleagues' replies. If any of these options are not

acceptable, we shall need to substitute proposals from Annex C, which lists the remaining options - those which appear likely to be most damaging to our policies and which in general Ministers regard as completely unacceptable. There is very little room for manoeuvre, and I am sorry that I can offer no more palatable choices. I therefore invite my colleagues to accept the savings listed in Annex B; this will bring the total to about £125 million which, together with the savings of £4.6 million on Post Office agency charges consequent on abolishing VED, will bring us to within just over £3 million of the savings necessary to meet our target, a gap which should be filled, at least in part, by small consequential savings, for example on accommodation and other Treasury controlled expenditure.

13. I must again stress that acceptance of this package of cuts will inevitably bring problems. Some legislation will be needed and it will not all be non-controversial. The measures of rougher justice will also bring adverse criticism from the public and from Parliament - perhaps from the Parliamentary Commissioner for Administration. There will also be difficulties with both the National and Departmental Staff Sides. Redundancy on a large scale is unlikely but it is quite likely that there will be problems on particular grades in particular areas.

14. Once we have decided on measures to achieve the £133 million, it is clear that there will be very little scope for further acceptable savings in staff and related expenditure during 1978-79; few Departments will be able to contribute anything under this head towards a further 5 per cent cut in expenditure as part of PES 1976. I hope my colleagues will accept this, notwithstanding the further difficulties described below.

NEW REQUIREMENTS SINCE PES 1975

15. Since PES 1975 was compiled, large new manpower requirements have arisen, partly from new policy commitments and partly from changed assumptions about the demands of existing work. For example, the Chancellor of the Exchequer no longer considers it feasible for the Inland Revenue to maintain the assumption used in preparing PES 1975 that tax thresholds will be fully 'revalorised' and this could mean up to an extra 10,000 staff in Inland Revenue in 1978-79. New policy commitments in the Department of Employment and its agencies could require some 2,300 more staff, and devolution might well result in at least 3,000 extra posts, a figure which greatly exceeds the numbers that can be saved in the Scottish and Welsh Offices by the reductions in Annexes A and B. Moreover, the Secretary of State for Employment and the Secretary of State for Social Services point out that a higher unemployment forecast for 1978-79 than the 825,000 underlying PES 1975, which is already being assumed as the basis for PES 1976, would significantly increase their numbers.

16. New commitments already amount to an additional £60 million and an increase of about 16,000 staff - which would keep the Civil Service near its present size of roughly 750,000 rather than the 730,000 we have told Parliament we would achieve by 1978-79. If we introduce further new policies which call for extra staff without offsetting savings elsewhere, or if the basic economic factors which govern demand-related work prove to have been over-optimistic, the figure will rise even further. Legislation so far passed in this Parliament has already added 6,500 extra staff and will add in the coming year a further 4,000 for which we have had to find room in the PES 1975 forecasts.

17. When I approached my colleagues to propose options, I thought it right to stick to the strict aim of achieving a level of manpower and related expenditure in 1978-79 which would be £140 million less than that forecast in the 1975 PES, even although this has meant cuts of some 9 per cent in the net expenditure of civil Departments rather than the 5 per cent originally intended by the Cabinet over the Civil Service as a whole. But on this basis we should now need to effect cuts of a further £60 million to accommodate the changes referred to in paragraph 15, making a total of £200 million, and this figure could well increase still further before 1978-79 is reached. Faced with this situation, we have two alternatives:-

i. We can continue to chase after a moving target. But it is clear from the options identified by Departments that, while finding £140 million will be extremely difficult, a further £60 million would be impossible within the timescale without very serious damage to our policies; even if we were to accept all the options listed in Annex C, many of them totally unacceptable to individual Ministers, we should still fall well short of the necessary total.

ii. We could define our objective as taking £140 million off the manpower and related expenditure as forecast for 1978-79 in the 1975 PES, that is, a reduction of that amount in the volume assumed at that time. This has the disadvantage that we shall have achieved no reduction in the present size of the Civil Service. It also means acceptance of additional claims on the contingency reserve beyond those shown in the Chief Secretary's recent report to Cabinet (CP(76) 6).

18. My own view is that the second alternative is the only practical one; an attempt to make further savings in manpower numbers for their own sake without a full consideration of expenditure programmes as a whole would be an illogical approach likely to cause serious damage to our strategy. We have always taken the stance that the size of the Civil Service must depend on the tasks to be performed, and this principle remains as true as ever.

19. Annex D shows the estimated increase or decrease in the size of Departments, Minister by Minister, between 1 January 1976 and 1 April 1978 if we accept the proposals in Annexes A and B and the post PES changes I have just described.

THE FUTURE

20. I am sure that my colleagues will be disappointed that our combined efforts seem likely to leave us with a Civil Service of at least three-quarters of a million. I do not consider that we have any prospect of materially reducing this figure by looking at expenditure on staff separately from other forms of public expenditure. If our aim is to reduce the number of civil servants further, we must look closely at the administration of those policies which are manpower intensive; for example revenue collection and the distribution of social security benefits, which together account for over half the civil servants outside the Ministry of Defence. My colleagues may therefore wish to consider whether to set in hand a study or studies to examine whether a fundamental new approach to the administration of such policies, consistent with achieving our essential policy objectives but not excluding policy changes which might involve legislation, could reduce significantly the number of staff required; such studies would need to consider the revenue raising and public expenditure aspects of any changes as a whole, and would be most unlikely to lead to major savings by 1978-79, and might well involve significant transitional costs.

21. I therefore invite my colleagues:-

- a. to accept in principle the proposals in Annex A;
- b. to accept in principle the proposals in Annex B (or savings of a similar order from Annex C);
- c. to agree that Ministers must have some freedom, in the light of their further consultations and investigations, to vary in detail the ways in which they achieve the savings allotted to their Departments;
- d. to agree that Departments will be unable to put forward feasible options to make a further 5 per cent saving in staff and related expenditure in PES 1976;
- e. to agree that the present exercise cannot yield additional savings to offset existing or future commitments since PES 1975;
- f. to accept the need for exceptional restraint during the next two years in bringing forward proposals which involve extra civil servants;
- g. to consider whether to set in hand a study or studies of manpower intensive activities, taking account of their public expenditure implications as a whole.

S

Civil Service Department

5 May 1976

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ANNEX A
(3 May 1976)

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - OPTIONS WHICH ARE LEAST DAMAGING TO DEPARTMENTAL POLICIES

NOTES

1. The figures in column (1) are:
 - a. the PES 75 provision for staff and administration in 1978-79, less appropriate receipts for fees or trading;
 - b. the forecast total staff at 1.4.78. in PES 75.
2. The forecast provision for staff and administration for Departments marked "+" suffered a full 10% reduction as a consequence of the "formula cuts" in PES 75; those marked "-" had their expenditure reduced by less than 10%.
3. The percentage figures represent the totals in column (2) expressed as a percentage of the total financial provision by Ministerial responsibility.

RESPONSIBLE MINISTER AND DEPARTMENT (1)	SAVINGS		SIGNIFICANT CONSEQUENCES (4)
	EXPEN- DITURE (£'000) (2)	MAN- POWER (3)	
<u>Minister of Agriculture, Fisheries and Food</u>			
* MAF (£70.4m: 16,700 staff)	3,372	835	Abolition of some subsidies.
IBAP (£2.1m: 550 staff)	42	11	
(4.7%)	3,414	846	
<u>Chancellor of the Exchequer</u>			
Treasury (£5.9m: 1,202 staff)	120	24	
HM Customs and Excise (£113.2m: 31,797 staff)	5,700	1,600	Some loss of Revenue amounting to less than half of saving.
Inland Revenue (£252.0m: 90,822 staff)	21,300	5,200	Some loss of Revenue.
+ Department for National Savings (£32.2m: 12,886 staff)	2,700	1,144	Savings due to computerisation, review of business levels, and abolition of the National Savings Movement support staff.
National Debt Office (£0.2m: 64 staff)	50	25	
Public Works Loan Board (£0.2m: 48 staff)	24	10	
WDO (£1.6m: 227 staff)	32	5	
Paymaster General's Office (£2.9m: 876 staff)	154	0	Possibility of delays in payment; negotiations with NBS/Pensioners' Alliance required; Statutory Instruments required.
+ Registry of Friendly Societies (£0.4m: 115 staff)	93	2	Building Societies may object to increase in fees. Requires legislation.

* See paragraph 15 of paper; Inland Revenue require a net increase in staff in 1978-79.

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ANNEX A
Sheet 2

	(1)	(2)	(3)	(4)
Royal Mint (Trading Fund: 1,112 staff)		88	22	
	[7.4%]	30,261	8,032	
<u>S of S for Education and Science</u>				
++ DES* (£17.2m: 4,127 staff) *Includes Science and V&A Museums		860	206	Reduced services; reduced controls (eg Educational building); statutory responsibility for public libraries repealed; V&A and Science Museums closed one day a week.
	[5.0%]	860	206	
<u>S of S for Employment</u>				
+ DEB (£48.1m: 19,455 staff)		1,869	697	Contribution to economic planning policy impaired; deferment of some EPA provisions; curtailment in services; extension of quarterly signing to men over 50; preclusion of students from unemployment benefit in short vacations; legislation needed.
++ ACAS (£1.7m: 694 staff)		29	6	
+ HSE (£19.6m: 3,900 staff)		333	74	Would require prior consultation with RSC.
MSC (£0.9m: 130 staff)		13	3	This and the following items for ESA and TSA would require prior consultation with MSC.
ESA (£51.8m: 15,055 staff)		1,038	362	Deferment of planned growth. Approval of Post Office required for use of OP Stationery.
TSA (£29.6m: 8,098 staff)		222	75	Approval of Post Office required for use of OP stationery.
	[2.3%]	3,504	1,177	
<u>S of S for Energy</u>				
D Energy (£6.5m: 1,402 staff)		543	116	Reduced level of work in support of the offshore supplies industry; abolition of the need for consent to unopposed overhead electricity lines; (Legislation required).
	[9.9%]	643	116	
<u>S of S for the Environment</u>				
DOE* (£180.1m: 52,500 staff) *Excludes expenditure on Defence, Supplies work, etc.		7,757	1,852	Delays in planning appeals and processes; cut-backs in PSA building programmes and standards of service; reduced research, economic and statistics capability; winter closing of some Ancient Monuments; cut back in RCU seconded local authority staff and consultancy expenditure. Discussions with CSO proceeding.
++ Ordnance Survey (£12.4m: 4,311 staff)		478	193	Reductions in standard of mapping; slower development of computerisation etc.
	[4.3%]	8,229	2,055	

§ See paragraph 15 of paper; Department of Employment require a net increase in staff in 1978-79; Department of Energy require 43 additional staff for new work.

(1)	(2)	(3)	(4)
<u>S of S for Foreign and Commonwealth Affairs</u>			
GCHQ	450	35	[A separate exercise covers the greater part of PCO expenditure]
	450	35	
<u>S of S for the Home Department</u>			
* Home Office (£136.0m: 35,456 staff)	1,296	338	Select least harmful from: (a) reduction of new administrative commitments - including rephasing Stage 1 of Disposal, (b) disposal of wartime Fire Service stocks, (c) restriction of Ministerial intervention in immigration cases, (d) substantial reduction in immigration rights of appeal and in application for change of status, (e) miscellaneous minor administrative changes, (f) abolition of parole.
Charity Commission (£1.2m: 359 staff)	0	0	
[0.9%]	1,296	338	
<u>S of S for Industry</u>			
D Industry (£41.6m: 10,754 staff)	2,340	650	Selected R&D programmes discontinued; reduction of work on Planning Agreements; wide-ranging economies in statistical work - in particular postponement of obligation to change over to EEC standard industrial classification. Discussions with CSO proceeding. Reduction in planned security; in staff of regional offices on IDC and financial assistance work, and in Establishment and finance division generally.
[5.6%]	2,340	650	
<u>Lord Chancellor</u>			
* LCO (£16.4m: 10,085 staff)	330	30	Expansion of compulsory land registration will be slowed.
Land Registry (Nil: 5,945 staff)	500	715	
Public Trustee's Office (Nil: 520 staff)	300	170	
* Public Record Office (£1.4m: 501 staff)	53	11	
[6.7%]	1,183	926	
<u>Lord President of the Council</u>			
* Privy Council Office (£0.2m: 44 staff)	0	0	
	0	0	
<u>Lord Privy Seal</u>			
* CSD (£20.3m: 5,974 staff) * Includes Parliamentary Counsel, PSU and G&D	1,095	210	Retrenchment on Fulton work; closure of Edinburgh Centre of the College.
* OOI (£5.4m: 1,350 staff)	379	79	Reductions in use of films and TV media by Departments, exhibitions, and in support of overseas services. Has implications for Treasury-controlled expenditure.

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ANN 4
Shee. 4

(1)	(2)	(3)	(4)
HMSO (£27.4m: 7,696 staff)	1,110	295	Reduction in HMSO operations; likely union opposition.
[4.9%]	2,584	584	
S of S for Northern Ireland			
NIO (£2.4m: 271 staff)	144	16	Some loss of efficiency; tendency to increased strain on staff working round the clock in stressful environment and subjected to bomb attacks on homes and families.
Supreme Court (NI) (£0.2m: 104 staff)	12	0	No reduction in judicial capability but marginal savings in administrative expenditure and increases in fees. (To be amalgamated in Unified Courts service by 1978.)
[6.0%]	156	16	
Minister for Overseas Development			
ODM* (£9.9m: 1,629 staff) *Excludes staff of Technical Units	200	31	
[2.0%]	200	31	
S of S for Prisons and Consumer Protection			
DPCP (£1.6m: 343 staff)	92	19	Assumes phasing out all food subsidies (except milk and butter) by 1978-79.
OPT (£1.1m: 350 staff)	70	18	
[6.0%]	162	37	
S of S for Scotland			
+ Scottish Office* (£43.4m: 12,195 staff) *Includes SRD, R. Scottish Museum, and Registers of Scotland	1,599	447	Assumes equivalent GB policy changes in addition to a number of specific Scottish office options. Reduction in advisory, checking and supervision work relating to Local Authorities, now under review. Possible reductions in service at SRD.
+ Scottish Courts Admin (£1.7m: 896 staff)	133	29	
+ General Register Office (Scotland) (£0.9m: 417 staff)	50	20	
[3.9%]	1,782	496	
S of S for Social Services			
+ DHSS (£274.2m: 95,264 staff)	11,400	4,665	For some cuts, agreement of LGO, Local Authorities, DOB and Supplementary Benefits Commission needed; reduction in standards, in visits, and poorer service to the public; some unmet needs would not be uncovered; some loss of receipts and on health and personal social services side, of financial control.
+ OPCS (£6.2m: 2,768 staff)	300	110	Worsening service to public.
[4.2%]	11,700	4,775	

§ Scottish Office and DHSS will be seeking financial provision above the 1978-79 forecast levels. In addition there will be Devolution staffing needs to be met.

(1) (2) (3) (4)

S of S for Trade

B Trade (£16.9m: 7,951 staff)	940	284	Abolish Register of Business Names; requires legislation. Reduce visits to exporters and participation in Trade Fairs; accelerate contraction of Patent Office.
ECGD (Nil: 2,144 staff)	422	104	
[8.1%]	1,362	388	

S of S for Wales

++ Welsh Office (£6.2m: 1,600 staff)	310	80	Assumes equivalent GB policy changes
[5.0%]	310	80	

OTHER DEPARTMENTS

Cabinet Office* (£3.1m: 633 staff) *Includes CSO	0	0
	0	0

Crown Estate Office (£1.0m: 133 staff)	17	2
[1.7%]	17	2

DPP (£1.0m: 209 staff)	48	10	Remove obligation to refer obscene publications to DPP; politically sensitive (involves explicit undertakings given to Parliament by Law Officers). Cease to refer to DPP traffic offences involving Police Officers. Legislation required; may be unwelcome to HO.
[4.8%]	48	10	

Law Officers' Dept (£0.145m: 23 staff)	4	0
[2.8%]	4	0

Lord Advocate's Dept* (£2.7m: 764 staff) *Includes Crown Office, Fiscal Service)	16	0
[0.6%]	16	0

++ Treasury Solicitor (£2.0m: 445 staff)	142	19	Subject to the agreement of other Ministers.
[7.1%]	142	19	

TOTALS 70,663 20,819

OVERALL PROVISION £1477.5m

OVERALL PERCENTAGE 4.8%

W Welsh Office and Cabinet Office will be seeking financial provision above the 1978-79 forecast levels.
Welsh Office assumes requirement for devolution.

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ANNEX A
Sheet 5

(1) (2) (3) (4)

S of S for Trade

D Trade (£6.9m: 7,951 staff)	940	284	Abolish Register of Business Names; requires legislation. Reduce visits to exporters and participation in Trade Fairs; accelerate contraction of Patent Office.
ECGD (Nil: 2,144 staff)	422	104	
[2.1%]	1,362	388	

S of S for Wales

++ Welsh Office (£6.2m: 1,600 staff)	310	80	Assumes equivalent GB policy changes
[5.0%]	310	80	

OTHER DEPARTMENTS

Cabinet Office* (£3.1m: 633 staff) *Includes CSO	0	0
	0	0

Crown Estate Office (£1.0m: 133 staff)	17	2
[1.7%]	17	2

DPP (£1.0m: 209 staff)	48	10	Remove obligation to refer obscene publications to DPP; politically sensitive (involves explicit undertakings given to Parliament by Law Officers). Cease to refer to DPP traffic offences involving Police Officers. Legislation required; may be unwelcome to HC.
[4.8%]	48	10	

Law Officers' Dept (£0.145m: 23 staff)	4	0
[2.8%]	4	0

Lord Advocate's Dept* (£2.7m: 764 staff) *Includes Crown Office, Fiscal Service)	16	0
[0.6%]	16	0

++ Treasury Solicitor (£2.0m: 445 staff)	142	19	Subject to the agreement of other Ministers.
[7.1%]	142	19	

TOTALS 70,663 20,819

OVERALL PROVISION £1477.5m

OVERALL PERCENTAGE 4.8%

§ Welsh Office and Cabinet Office will be seeking financial provision above the 1978-79 forecast levels.
Welsh Office assumes requirement for devolution.

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ANNEX D

(3 May 1976)

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - FURTHER OPTIONS

NOTES

- The figures in column (1) are:
 - the PES 75 provision for staff and administration in 1978-79, less appropriate receipts for fees or trading;
 - the forecast total staff at 1.4.78, in PES 75.
- The forecast provision for staff and administration for Departments marked "+" suffered a full 10% reduction as a consequence of the "formula cuts" in PES 75; those marked "-" had their expenditure reduced by less than 10%.
- The percentage figures "B" represent the totals in column (3) expressed as a percentage of the total financial provision by Ministerial responsibility. Those marked "A" have been brought forward from Annex A.

RESPONSIBLE MINISTER AND DEPARTMENT	PROPOSAL	SAVINGS		COMMENTS
		EXPER- IMENTAL (£'000)	MAX- POWER (4)	
(1)	(2)	(3)	(4)	(5)
<u>Minister of Agriculture, Fisheries and Food</u>				
+ MAFF (£70.4m; 16,700 staff)	Curtail expansion of advisory services and research effort. Abolish national grant schemes for horticulture and agriculture.	636 3,000	167 790	Inconsistent with White Paper "Food from our own Resources". Increase in IE staff if tax relief given in place of capital grants; IE are assessing the increase with MAFF. Reduction in investment incentive, and in opportunity to guide investment. Legislation needed.
IBAP (£2.1m; 590 staff)	-	-	-	Work geared to EEC requirements.
	A = 4.7% B = 5.0%	3,636	917	
<u>Chancellor of the Exchequer</u>				
Treasury (£5.9m; 1,702 staff)	-	-	-	
HM Customs and Excise (£113.2m; 31,797 staff)	Adopt 'pre-entry' system for exports; raise value limit for minimum checking of documents; reduce information in Customs documents.	665	300	Departments of Trade and Industry are responsible for the policy.
Inland Revenue (£252.0m; 90,622 staff)	-	-	-	
+ Department for National Savings (£32.2m; 12,886 staff)	-	-	-	

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ANNEX B

Sheet 2

(1)	(2)	(3)	(4)	(5)
National Debt Office (£0.2m: 64 staff)	-	-	-	
Public Works Loan Board (£0.2m: 48 staff)	-	-	-	
HMDO (£1.6m: 227 staff)	-	-	-	
Paymaster General's Office (£2.9m: 876 staff)	Abolish weekly payment of pension for new pensioners.	14	-	Sensitive issues with the trade unions but no other public bodies pay weekly pensions.
→ Registry of Friendly Societies (£0.4m: 115 staff)	-	-	-	
Royal Mint (Working Fund: 1,112 staff)	-	-	-	
		A = 7.6% B = 0.2%	679	300

3 of 3 for Education and Science

→ DES* (£17.2m: 4,127 staff) *Includes Science and V&A Museums	Further reduction in services and controls (eg Fringe Bodies); miscellaneous legis- lative changes needed; significant enforced redundancies	516	124	Some cuts will have substantial policy implications. Resource planning and financial monitoring curtailed.
		A = 5.0% B = 3.0%	516	124

(1)	(2)	(3)	(4)	(5)
2 of 2 for Department				
+ MHA (£40.7m: 19,455 staff)	Reduction in Central Policy Divisions and directly supporting administrative services	325	86	The progressive effects of cuts impair the Department's contribution to regional economic planning and its ability to formulate policy. Defersent of nearly all individual rights provisions of EPA. Wages inspection cut below level agreed with TUC.
	Change to fortnightly payment and signing for unemployment benefit claimants	3,954	860	Additional staff needed in DHEW (possibly of the order of 200-300). Includes savings of 60 in ADP, and savings in postal costs (£17m assumed). Some increase in fraud possible.
+ ACAS (£3.7m: 694 staff)	-	-	-	-
+ HSE (£19.6m: 3,900 staff)	Reduction in planned recruitment over period to 1.4.1978.	562	125	Planned growth of 500 in period. Reduction would extend period for meeting Health and Safety at Work Act responsibilities.
	Further reductions in planned growth	890	198	Serious postponement of Health and Safety at Work Act responsibilities. Would require prior consultation with HSC.
HSC (£0.9 m: 130 staff)	Reduction in services provided for Agencies	18	4	Curtailement of manpower intelligence work and services provided centrally for the HMA and TMA. This and the following items for HMA and TMA would require prior consultation with HSC.
HMA (£53.8m: 15,893 staff)	Reduce planned growth across all programmes	1,769	617	Reduced service and economies over a range of activities, including TUPs procedural economies, occupational guidance, marketing, etc.
	Further across the board reductions in employment services (or set lower targets for penetration of the labour Market)	2,119	739	Reduced scope for diverting resources into Job Centres, inability to deal with all public queries, serious reduction in specialist services (or general reduction of staff on placing services).
	Further general reductions in all services including Job Centre programme	2,319	809	Severe reductions in specialist services, slow down of Job Centre programme, (some officers might have to close).
TMA (£29.6m: 5,698 staff)	General reduction in TUPs and other work	1,206	408	Inability to meet present TUPs targets and complete all the planned expansion of skill centres.
		A = 2.3% B = 0.3%	13,162	3,846
2 of 2 for HMA				
Dept of Energy (£6.5m: 1,402 staff)	-	0	0	
		A = 9.9% B = 0.0%	0	0

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ANNEX B

Sheet 4

(1)

(2)

(3)

(4)

(5)

2 of 2 for the Environment

DOE* (£180.1m: 52,500 staff) *Excludes expenditure on Refuse, Supplies work etc	Abolition of VED+	7,400	3,000	Acceptable to DOE but is not acceptable to Chancellor. <u>Point 1)</u> Extra £4.6m savings on Treasury controlled expenditure (payment of Post Office fees etc). New income of some £22m from £2 registration fee. <u>ii) If this proposal should be</u> unacceptable to Ministers generally, there are other possibilities for smaller scale savings in the driver and vehicle licensing organisation. These include: a) abolition of short period vehicle licences (£1.7m - 670 staff), b) introduction of date-to-date licensing (£0.25m - 100 staff), c) abolition of obsolete transfers of vehicle registrations (£0.2m - 75 staff).
Reduce water engineering and environmental protection effort	252	70	Reduced advisory and support services; abandonment of new initiatives (some already announced) on pollution and waste.	
Changes in planning procedures	136	40	Abandon office control; reduce work on enforcement; remove right of appeal on advertisement cases. Controversial, legislation required.	
Reduce planning and traffic case work	233	90	Less control of local authorities on listed buildings and development along trunk roads.	
Reduce advisory and other services in planning, highways and local Government directorates	636	160	Lower standards, rougher justice and various reduction of support to LAs on eg content of plans and national and regional planning assumptions.	
Reduce housing work	604	280	Implement Housing Finance Review - simpler system of capital allocation and subsidy control. Reduction of effort on improvements, building regulations etc. Legislation required.	
Transfer Housing Association case work to Housing Corporation	135	40	Doubtful whether there will be a net public sector saving of this amount.	
Winter closing of further Ancient Monuments including Hampton Court. Stop all but emergency listing	327	140	Public protests likely; also involve some loss of receipts.	
Further reduction in research effort	563	150	Depends into areas of high priority, including housing design, building regulations, road safety.	
Further reduction in economics and statistics support	85	30	Damage to advisory and survey capability. Various reduction to essential data base supporting major policy initiatives in housing, transport and planning.	
Further savings in general administrative expenses	550	-		
Marginal savings in transport industries	55	10	Slower growth of Railway Inspectorate, severance of parts reorganisation.	
Further reduction in industrial staff	100	30	Lower standards.	
Reduced design effort on new building programmes	500	125	Defeatment of projects in such programmes as Prisons, Courts, FDO, Post Office etc.	
Further reduction in P&A specialist and advisory services and development work	178	50	Reduced support to P&A construction activities with increasingly adverse effects on capability and efficiency. Close down Cleaning Advisory Unit - OSU objections and probably counter-productive.	
Reduced maintenance standards in Government offices etc	879	215	Slower response to failure, less value for money, less satisfactory service. Financial savings on maintenance expenditure likely to be outweighed by extra cost of remedying neglect later.	
Further reduction in professional and technical students	261	90	Potential future shortages of P&T staff.	

+ In DOE's view this should be in Annex A

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ANNEX B

Sheet 5

(1)	(2)	(3)	(4)	(5)
	Restriction and reorganisation of Government car and inter-departmental despatch services	210	90	Reorganisation of regional Government Car Services; reduction in frequency of IIS deliveries.
	Further cuts in P&A industrial staff	300	230	Doubtful if proposal can be implemented in full - effects would extend to essential services such as Custody Guards, heating and lifts.
	Further reductions in common services and support staff	1,060	305	Lower standards and reduced efficiency in personnel management, office services, typing, training, audit and payroll.
	Further cuts in road construction unit seconded local authority staff and consultancy expenditure	1,180	0	
* Ordnance Survey (£12.4m 4,311 staff)	Halve 1:1250 surveys	535	180	Affects planning and land registration; also loss of revenue. Affects engineering projects. Potential loss of revenue. Runs counter to Government policy but consequences probably not serious. Less effective financial control. Adverse effects on career development and welfare.
	Allow levelling network to deteriorate			
	Delay metrification programme			
	No further development of management accounting			
	Further reductions in Establishment staff			
		A = 4.3% B = 8.4%	14,181	5,285

These options will lead to voluntary premature retirements and compulsory retirements of technical staff over 60 (affecting approximately 200 staff). Cuts at this level would have a long-term effect.

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ANNEX 2
Sheet 6

(1)	(2)	(3)	(4)	(5)
4 of 8 for the Home Department				
* Home Office (£136.0m: 35,456 staff)	Further reductions in areas other than the Prison Service	1,596	416	Further selection from (a) reduction of new administrative commitments - including rephasing Stage 1 of dispersal, (b) disposal of wartime Fire Service stocks, (c) restriction of Ministerial intervention in immigration cases, (d) substantial reduction in immigration rights of appeal and application for change of status, (e) miscellaneous minor administration changes, (f) abolition of Parole.
Charity Commission (£1.2m: 359 staff)	Administrative reductions up to 5%	60	17	Although the Department has made no offer, it should be possible to reduce by at least 5% if a current staff inspection is fully implemented.
	A = 0.9% B = 1.2%	1,656	433	
5 of 8 for Industry				
Dept of Industry (£41.6m: 10,754 staff)	Further reduction in R&D, Economic and Statistics Divisions and support staff	1,460	405	More R&D programmes cancelled. Further economies in statistical work resulting in lower quality output and the postponement of eg the Shop Register project (unwelcome to DOE). Cancellation of initiative visiting of experts (by regional offices on behalf of Department of Trade). Further reduction in Establishment and Finance Division services.
	A = 5.6% B = 3.5%	1,460	405	
Lord Chancellor				
* LDO (£16.4m: 10,085 staff)	Reduce junior to number 10	700	111	Requires legislation. Unwelcome to Home Office.
Land Registry (£11.5m: 5,945 staff)	-	-	-	
Public Trustee Office (£11.5m: 520 staff)	-	-	-	
* Public Record Office (£1.4m: 501 staff)	-	-	-	
	A = 6.7% B = 3.9%	700	-	
Lord President of the Council				
* Privy Council Office (£0.2m: 44 staff)	One Private Office reduction	15	2	Assumes reduction of one Private Office (devolution)
	A = 0.0% B = 7.3%	15	2	
Lord Privy Seal				
* CSD (£20.3m: 5,974 staff) * Includes Parliamentary Counsel, PMO and GAD	Further reduction of Divisions	597	110	Further retrenchment of Palace work. Likely strong Staff Side opposition.

(1)	(2)	(3)	(4)	(5)
+ OOI (£5.4m: 1,350 staff)	Further reductions in use of TV media, participation in exhibitions, overseas press service	271	50	Severe reduction in export support material. Further curtailment of departmental use of films and TV media and abandonment of participation in exhibitions. Duplications for some Treasury controlled expenditure.
RMSO (£27.4m: 7,696 staff)	Further proposals yet to be agreed	800	390	
		A = 4.9%	B = 3.1%	1,668 510
<u>S of S for Northern Ireland</u>				
Northern Ireland Office (£2.4m: 271 staff)	Cutting staff by 28 posts to 7 below current provision.	96	12	In addition to increased strain on operational staff; less capacity for political and anti-terrorist planning and policy; less effective control of economic resources (£1,300m pa) in the face of exacerbated problems due to other Departments' cuts especially MOD in NI, and unemployment generally.
Supreme Court of Judicature, Northern Ireland (£0.2m: 104 staff)	-	-	-	
		A = 6.0%	B = 3.7%	96 12
<u>Minister for Overseas Development</u>				
+ OMD (£9.9m: 1,629 staff) *Excludes staff of Technical Units	Eliminate some smaller country programmes	300	48	Objections may be raised by FCB and Department of Trade. These aid programmes (eg to Latin America) are provided mainly for political or commercial purposes.
		A = 2.0%	B = 3.0%	300 48
<u>S of S for Prices and Consumer Protection</u>				
DPCP (£1.6m: 343 staff)	Cease enforcement of Hire Purchase controls	68	15	This could indirectly affect consumer demand, and more indirectly, imports. Introduction of consumer credit licensing should largely compensate.
CPT (£1.1m: 350 staff)	Further reductions in monopolies work, Trade Practices Reviews, goods proceedings work and support services.	68	17	
	Abandonment of Consumer Credit copy registers in Cardiff and Edinburgh	28	7	Might offend nationalist susceptibilities.
		A = 6.0%	B = 6.7%	164 39

(1)	(2)	(3)	(4)	(5)
3 of 3 for Scotland				
+ Scottish Offices* (64,401 12,195 staff) *Includes HM, R, Scottish Prisons, and Registers of Scotland	SO - Equivalent GR policy changes	1,515	420	The Secretary of State has made no offer of savings beyond those indicated in Annex A and any which might be achieved by the further application of GR policy options (the scope for which seems limited). He has emphasized that no savings at all are possible in Prisons and State Hospital staff (totalling about 3,000). Impact on provision of legal service in Scotland. Would need agreement of Lord President of Court of Session.
	SSO - Reduction of working; reduction of senior professional staff in General Register House Division	20	2	
	SSS - More automation of processes	85	20	
+ Scottish Courts Administration (21,701 896 staff)	Closing Summary Criminal Courts on Saturdays	24	-	Involves implementation only of those recommendations in the Thompson Report which result in savings. Therefore highly controversial. Legislation required.
	Reduce juries from 15 to 12	50	-	
+ General Register Office (20,901 477 staff)	Reduction in YES Central Register checking and in statistical and survey work	50	22	Reduced standards of security, reduction in extent and quality of statistical work and reduction in control over debtors lists. HSECI savings would accrue to HSEB.
A = 3.9% B = 3.8%		1,744	464	
3 of 3 for Social Services				
+ HSEB (274,201 95,264 staff)	Further reduction in visits to claimants	2,990	1,225	Supplementary Benefits Commission and Staff Side firmly opposed. Several types of visit involved. Serious reduction of contacts with clients. Serious loss of control over abuses.
	Further reduction in contribution enforcement	1,220	500	
	Reduce numbers of supplementary benefits rates for dependant children	290	120	Selective reduction needed to minimize offsetting losses to National Insurance Fund. Personal Pensions records adversely affected in a significant number of cases.
	Reduce review of supplementary pensions cases	1,160	475	Requires legislation. May not achieve savings by 1978-79 as process needs to be phased to avoid loss of Benefit.
	Arrange all Central and Local Government changes affecting supplementary benefit to be effective from common date with 29 week notice	850	350	Supplementary Benefits Commission opposed - major reduction in contact with most vulnerable clients.
	Reduce effort devoted to recovery of maintenance of recipients of supplementary benefits	1,680	680	Supplementary Benefits Commission support as a major simplification without loss of service. But difficult to arrange.
	Close HSEB caller offices	490	200	Loss of receipts, but not proportionately if unattractive cases eliminated first. Supplementary Benefits Commission question the merits.
	Reduce investigation work	730	300	Reduced service. Supplementary Benefits Commission opposed.
	General reductions (Social Security)	390	160	Scope for fraud and abuse widened.
	General reductions (Health)	600	280	Some opposition from interested parties to be expected.
+ OPCS (26,201 2,768 staff)	Reduction in level of Registration Services	60	21	Poorer service and serious reduction in effectiveness of control over NHS. Damage to policy making role.
	Reduction in level of Statistical and Survey work	270	96	Worsening service to public.
	Reduction in level of Common Service work	70	29	Costs would need to be discussed with Customers and are likely to be unacceptable. Usefulness and quality of service reduced.
A = 4.2% B = 3.7%		10,860	4,434	Reduced personnel services and management services.

(1)	(2)	(3)	(4)	(5)
E of S for Trade				
Dept of Trade (£16.9m; 7,951 staff)	Further contraction of Patent Office	250	70	Delay in granting patents. Advent of EPO will reduce demand in 1978-79.
	Reduce Marine Division	110	30	Reduction of standards; development of anti-pollution - fishing survey work.
	Stop participation in "shopping weeks"	35	10	Less advice to trade and industry.
	Abolish Export Information Services and index of exporters	80	22	Less advice to trade and industry.
	Eliminate initiative visiting of exporters	55	15	Possible reduction in export effort.
	Contain size of Encourtesy Service by raising minimum petition debt	280	73	Increased work in revenue collecting departments eg HMRS, IR, C&S.
Export Credits Guarantee Dept (£11.2m; 2,144 staff)	-	-	-	
A = 8.1% B = 4.7%		790	220	
E of S for Wales				
* Welsh Office (£6.2m; 1,600 staff)	Give up statutory obligations in Roads; Housing fields; cut back Welsh Language Council; Road Safety Unit and Small Firms Information Centre. Cut back or abandon important non-statutory work.	370	80	Seek legislative relief from some statutory obligations in the Roads and Housing fields. Legislation required. Assess equivalent GB policy changes.
A = 5.0% B = 5.0%		370	80	
OTHER MINISTRIES				
Cabinet Office* (£3.1m; 633 staff) *Excludes CDO	Abolish the Women's National Commission	12	3	Possible accusations of 'Male Chauvinism'.
A = 0.0% B = 0.4%		12	3	
Crown Estate Office (£7.0m; 133 staff)	-	33	4	Further lowering of standard of service.
A = 1.7% B = 3.3%		33	4	
Director of Public Prosecutions (£1.0m; 209 staff)	-	0	0	
A = 4.5% B = 0.0%		0	0	

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ANNEX B
Sheet 10

(1)	(2)	(3)	(4)	(5)
Law Officers' Department (£5.145m staff)	-	0	0	
	A = 2.8% B = 0.0%	0	0	
Lord Advocate's Department* (£2.7m: 764 staff) *Includes Crown Office, Fiscal Service	Introduction of a system of administrative fines Closing Summary Criminal Courts on Saturdays Decriminalising certain offences, particularly in the road traffic field	100 12 100	18 - 30	Legislation required. Highly controversial. Legislation required. Would have to be justified solely by need for economy. Legislation required. Consultation with HPP, MO, DOE necessary.
	A = 0.6% B = 7.5%	212	48	
→ Treasury Solicitor (£2.0m: 445 staff)	-	0	0	
	A = 7.7% B = 0.0%	0	0	
	TOTALS	54,194	17,376	
	OVERALL PROVISION	£1477.5m		
	OVERALL PERCENTAGE	3.7%		

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - OPTIONS LIKELY TO BE MOST DAMAGING TO DEPARTMENTAL POLICIES

NOTE

- The figures in column (1) are:
 - the PES 75 provision for staff and administration in 1978-79, less appropriate receipts for fees or trading;
 - the forecast total staff at 1.4.78, in PES 75.
- The forecast provision for staff and administration for Departments marked "++" suffered a full 10% reduction as a consequence of the "formula cuts" in PES 75; those marked "+" had their expenditure reduced by less than 10%.
- The percentage figures 'C' represent the totals in column (3) expressed as a percentage of the total financial provision by Ministerial responsibility. Those marked 'A' and 'B' have been brought forward from Annexes A and B.

RESPONSIBLE MINISTER AND DEPARTMENT	PROPOSAL	SAVINGS		CONSEQUENCES
		EXPEN- DITURE (£'000)	MAN- POWER	
(1)	(2)	(3)	(4)	(5)
<u>Minister of Agriculture, Fisheries and Food</u>				
* MAFF (£70.4m: 16,700 staff)	Curtailement of existing advisory services and research effort.	3,000	750	Wholly inconsistent with White Paper 'Food from our own Resources'. Inadequate use would be made of output from research councils. Would discourage use of Pure and Horticulture Development Scheme, which attracts EECDA contribution.
MBAP (£2.1m: 550 staff)	-	-	-	Work geared to EEC requirements.
	A = 4.7% B = 5.0% C = 4.1%	3,000	750	
<u>Chancellor of the Exchequer</u>	Reduce Security Guard	115	48	Reduction unacceptable to CSD on security grounds. Review of procedures may produce some saving.
Treasury (£5.9m: 1,202 staff)	Cease to value Crown Property	195	40	Local Authority objections.
	Withdrawing grant to FINEA.	90	-	Likely to result in closure - this is the only such body in the UK.
	Eliminate outside economic research	50	-	Would deprive Treasury economists of the benefits of this work and weaken their ability to maintain their professional standards.
	Abolish Economic forecasting	210	49	Inability to provide detailed forecasts; reduction in briefing on current events interpretation of the state of the economy and the views of outside commentators; no detailed forecasts for Parliament and the Public - contrary to requirements of Dr Bray's amendment to the Industry Act.
	Withdrawal from involvement in formulating an industrial strategy	22	5	Reversal of recently determined priorities might be interpreted as a weakening of the Government's resolve in this field.
	Reduce staff dealing with Defence Policy	110	25	An informed and critical approach to the Defence Budget no longer possible, risk of loss of control.
	Abolish Exchange Control	100	23	Substantial once-for-all exchange losses which could not be sustained at present. Also a £40m saving in the Bank of England.
	Abolish Treasury library, except for periodicals etc service.	60	12	Loss of research capacity - task likely to fall to more highly paid staff, reduce effectiveness of Department.

(1)	(2)	(3)	(4)	(5)
HM Customs and Excise (£113.2m: 31,797 staff)	-	-	-	-
Inland Revenue (£252.0m: 90,822 staff)	-	-	-	-
+ Department for National Savings (£32.2m: 12,596 staff)	Abolish SAYE, Savings Bonds, AIF projects	2,900	1,100	Not acceptable to Treasury
National Debt Office (£0.2m: 64 staff)	-	-	-	-
Public Works Loan Board (£0.2m: 48 staff)	Abolish Local Authority work	28	7	Increase in BCF staff - probably at least commensurate.
REDU (£17.6m: 227 staff)	Reduce numbers of Economic Development Councils by 1	30	10	TUC and CBI objections, could be seen as contrary to Government's industrial strategy and might adversely affect negotiations of counter-inflation policies.
	Reduce numbers of Economic Development Councils by 2	30	10	
	Reduce numbers of Economic Development Councils by 3	30	10	
Paymaster General's Office (£2.9m: 876 staff)	Abolish weekly payment of pensions for existing pensioners	220	-	Controversial, involves very difficult negotiations.
+ Registry of Friendly Societies (£0.4m: 115 staff)	-	-	-	-
Royal Mint (Trading Fund: 1,112 staff)	-	-	-	-
A = 7.4% B = 0.2% C = 1.1%		4,340	1,339	
2 of 3 for Education and Science				
+ DESP (£17.2m: 4,127 staff) *Includes Science and V&A Museums	Further severe reductions in services and controls	1,204	289	Over significant areas DES could no longer discharge its present role; substantial enforced redundancies; possibility of 1½ or 2-day closing of departmental Museums.
A = 5.0% B = 3.0% C = 1.0%		1,204	289	
3 of 3 for Employment				
+ Dept of Employment (£48.1m: 19,455 staff)	Reduction in Central Policy Divisions and directly supporting administration services	329	86	Unacceptable deferment of EPI provisions. Serious damage to Department's contribution to regional economic planning and its ability to formulate policy.
	Further reductions in other common services and related control divisions	1,106	335	Cuts at this level counter productive. Breakdown in routine administration likely.

(1)	(2)	(3)	(4)	(5)
++ ACAS (£3.7m: 694 staff)	Reduction in advisory conciliation and arbitration services	334	109	Because of increased demand cuts would immediately affect level of service provided. One-third of requests for disputes conciliation could not be met. Would require prior consultation with ACAS.
+ EEC (£19.6m: 3,900 staff)	Further reduction in numbers up to 15% level	890	198	Inability to meet requirement of new Act. Would require prior consultation with EEC.
NSC (£0.5m: 130 staff)	Further reduction in services provided for agencies	99	13	Unable to fulfil proper role. This and the following items for TSA would require consultation with NSC.
NSA (£33.4m: 15,893 staff)	-	-	-	
TSA (£29.6m: 3,698 staff)	Further reduction in all work up to 10% level	1,357	459	More serious shortfall in TOPS targets and further reductions in number of new skill centres.
	Further reduction in all work up to 15% level	1,354	458	Little further expansion of TOPS placements above present level and serious contraction of skill centre programme.
	A = 2.3% B = 8.3% C = 3.6%	5,629	1,698	
<u>S of S for Energy</u>				
Dept of Energy (£6.5m: 1,402 staff)	-	0	0	
	A = 9.9% B = 0.0% C = 0.0%	0	0	
<u>S of S for the Environment</u>				
Dept of the Environment* (£180.1m: 52,500 staff)	Further reduction of design effort on new building programmes	420	100	Deferral of projects related to dispersal.
*Excludes expenditure on Defence, Supplies work etc.	Termination of apprentice recruitment in 1976 and 1977	400	200	Politically unacceptable. Trade Union opposition.
	Transfer of industrial work to contractors	-	385	Cost would exceed saving on wages. Strong union opposition.
	Stop Office Improvement programme and disband work environment joint unit	330	95	Savings include estimated 50 staff in supplies division. Adverse effect on staff side relations.
	Reduce legal directorate by abandoning disputed betterment levy assessments	31	10	Challenged by Treasury. Unlikely to be acceptable at present in view of financial situation.
	Reductions to achieve long-term economies in maintenance costs	452	115	A doubtful proposition which has been challenged by Treasury.
	Government car service - restriction of allocated cars to Ministers in charge of departments	50	20	Minor saving outweighed by inconvenience.
	Major cut in RCU seconded local authority staff and consultancy expenditure	1,180	-	In addition to increased road construction costs, would seriously impair ability of RCU to carry through the already reduced road programme.
++ Ordnance Survey (£12.4m: 4,311 staff)	Stop 1:1250 re-surveys	535	180	Severe effects on planning and land registration and consequent loss of revenue. Serious long term effects on mapping standards. Further delay in providing up to date coverage of some areas at these scales. Out of date mapping of mountain and moorland areas. * Redundancy agreement terms would have to be applied to at least 330 staff
	Cessation of levelling and accuracy monitoring Reduce output of new 1:10000 and 1:25000 maps by one third Revision of 1:10000 mapping stopped			

(1)	(2)	(3)	(4)	(5)
Restriction stopped Further reduction of cost billing and audit plus delay in trading account preparation Further curtailment of staff administration	}	Home counter to Government policy. Lower standards and reduced efficiency	Redundancy agreement terms would have to be applied to at least 330 staff.	
A = 4.3% B = 8.4% C = 1.3%		3,398	1,705	
<u>2 of 3 for the Home Department</u>				
+ Home Office (£136.0m: 35,456 staff)	Further savings up to 1%	17,508	4,564	Substantial reduction in support services would directly impair police effectiveness. Immigration control significantly weakened. If extended to prisons, would involve reductions of levels of security and of service to Courts, and severe restrictions in inmates regimes.
Charity Commission (£1.2m: 359 staff)	Further savings up to 1%	60	35	Would require legislation. The Home Secretary considers there could be no question of this in view of the House of Commons 10th Expenditure Committee Report and the Goodman Committee.
A = 0.9% B = 1.2% C = 12.8%		17,568	4,599	
<u>3 of 3 for Industry</u>				
Dept of Industry (£41.6m: 10,754 staff)	No further staff increases	490	135	No capacity for increasing handling of Planning agreements, nor on industry aid schemes, nor on accountants.
	Further cuts to 1%	1,930	535	Further inroads into R&D and work of the Business Statistics Office.
A = 5.6% B = 3.5% C = 5.8%		2,420	670	
<u>Lord Chancellor</u>				
+ LCO (£16.4m: 10,085 staff)	-	-	-	
Land Registry (£11: 5,945 staff)	-	-	-	
Public Trustee Office (£11: 520 staff)	-	-	-	
+ Public Record Office (£1.4m: 501 staff)	-	-	-	
A = 6.7% B = 3.9% C = 0.0%		0	0	

(1)	(2)	(3)	(4)	(5)
<u>Lord President of the Council</u>				
++ Privy Council Office (£0.2m: 44 staff)	-	-	-	
	A = 0.0% B = 7.5% C = 0.0%	0	0	
<u>Lord Privy Seal</u>				
+ CHD (£20.3m: 5,974 staff) *Includes Parly Counsel, PRU and GAD	-	-	-	
+ COI (£5.4m: 1,390 staff)	Radical reductions in use of TV media and overseas press service. Virtual abandonment of participation in UK exhibitions	271	50	Closure of regional office at Reading. Severe reduction in departmental support.
HMISO (£27.4m: 7,696 staff)	Eliminate forms storage and distribution Abandon servicing office machinery Further reductions in HMISO services	850 665 497	340 259 195	Transfer work to other departments, probably no net savings. Transfer work to other departments, probably no net savings. Pay policy problems, union troubles (possibly acute).
	A = 4.9% B = 3.3% C = 4.3%	2,283	844	
<u>S of S for Northern Ireland</u>				
Northern Ireland Office (£2.4m: 271 staff)	Reduction of staff to 21 below PES provision for 1.4.76.	120	14	Unacceptably crippling effect in operational terms; inadequate provision for political planning and counter-measures against terrorism; inability to control effectively the economy of the Province with high unemployment and enhanced reactions to other Departments' cuts affecting NI economy and politics (eg civil disobedience); risk of avalanche effect of breakdown of staff with undermanning, round the clock duties, bomb attacks on houses and families (NIO UK civil servants are especially at risk as targets, and three houses have been 'bombed').
Supreme Court of Judicature, Northern Ireland (£0.2m: 104 staff)	-	-	-	
	A = 6.0% B = 3.7% C = 4.6%	120	14	
<u>Ministry for Overseas Development</u>				
++ ODA (£9.9m: 1,529 staff) *Excludes staff of Technical Units	Stop reconstruction of programmes (ie the move towards a poverty orientated policy), abandon improvements in control required by PAC, abandon any new programmes (eg Angola and Mozambique), pass administration of research to outside bodies	1,000	160	Would involve switch from technical assistance to capital aid, seriously impairing balance of aid programme. Would also mean inefficient adminis- tration with risk of malpractices in use of aid by recipients.
	A = 2.0% B = 3.0% C = 10.1%	1,000	160	

(1)	(2)	(3)	(4)	(5)
3 of 3 for Prisons and Consumer Protection				
DCCP (£1.6m: 343 staff)	Curtail Consumer Protection Services	90	20	Requires legislation.
OPT (£1.1m: 350 staff)	Extension of Consumer Credit Licences from 3 to 5 years Further general curtailment of work	48	12	
A = 6.0% B = 6.1% C = 5.1%		138	32	
3 of 3 for Scotland				
+ Scottish Offices* (£43.4m: 12,195 staff) *Includes SMO, R Scottish Museums, and Registers of Scotland	SMO- Assumes equivalent GB policy changes	2,106	618	The Secretary of State has made no offer of savings beyond those indicated in Annex 1 and any which might be achieved by the further application of GB policy options (the scope for which seems limited). He has emphasised that no savings at all are possible in Prisons and State Hospital staff (totaling about 3,000).
	RSM- Reductions up to 15%	60	20	Cut out all temporary exhibitions including those for the Edinburgh Festival, and a drastic reduction of educational work.
	SMO- Elimination of legal and binder/repairer posts Close West Search Room	20	6	Curtailment of registration of title programme; risk of damage to records; congestion, delay and inconvenience to Public.
+ Scottish Courts Administration (£1.7m: 896 staff)	-	-	-	
++ General Register Office (£0.9m: 417 staff)	Further reductions in statistics and survey work	50	19	Range of options open to Ministers constricted and conduct of 1981 census put at risk.
A = 3.9% B = 3.8% C = 4.9%		2,236	663	
3 of 3 for Social Services				
+ HMS (£274.2m: 95,264 staff)	Abandon unemployment review work	710	290	Remove important control. Supplementary Benefits Commission concerned.
	Further cuts in Health and Personal Social Services to 15% level	740	305	Unattractive when account taken of effect on benefit payments. Drastic curtailment of Department's role, including loss of control over HMS.
++ OPCS (£6.2m: 2,768 staff)	Reduction in level of Registration Services Reduction in level of Common Service work	50 50	17 20	Worsening service to public until personal hardship caused. Efficiency of Department impaired.
A = 4.2% B = 3.9% C = 0.6%		1,550	632	

(1)	(2)	(3)	(4)	(5)
2 of 3 for Trade				
Dept of Trade (£16.9m; 7,951 staff)	-	783	220	Withdrawal of Government support for outward trade missions. Significant reduction in planned level of the Homeguard. Material weakening of export promotion effort in key areas (eg Japan). Decline of effort in trade-marks field. Postcommunit sine die of provision in draft Companies Bill relating to more effective pursuit of late filing of accounts.
Export Credits Guarantee Dept (£11.2m; 2,144 staff)	-	-	-	
	A = 5.1% B = 4.7% C = 4.6%	783	220	
2 of 3 for Wales				
Wales Office (£6.2m; 1,600 staff)	Reductions of 15%	310	80	Serious impairment of Department's ability to undertake its essential functions.
	A = 5.0% B = 5.0% C = 5.0%	310	80	
OTHER DEPARTMENTS				
Cabinet Office ^a (£3.1m; 633 staff)	7% cut in CSO	50	13	Reduction in tempo of all aspects of work.
^a Includes CSO	10% cut in CSO	50	12	Deterioration in reliability of statistics; no review of financial statistics; no development of national and sector balance sheet estimates; other sections of work affected.
	15% cut in CSO	50	13	Elimination of functions; eg Research and Social Studies branch and Survey Control Unit, or work on regional statistics or input/output work.
	Abolish Social Research Coordinating Unit	24	6	Deprive Ministers of advice in the growing field of social research.
	Reduce effort on Official Histories	24	6	Run counter to the trend towards open government, reduce main source of information on recent Government activity.
	A = 0.0% B = 0.0% C = 6.4%	198	50	
Green Estate Office (£1.0m; 133 staff)	Major policy changes	100	13	Inefficient estate management. Short-term remedy only. Danger of failing to meet contractual liability to clients. Legislation necessary.
	A = 1.7% B = 3.3% C = 10.0%	100	13	
Director of Public Prosecutions (£1.0m; 209 staff)	-	-	-	
	A = 4.5% B = 0.0% C = 0.0%	0	0	

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ANNEX C
Sheet 8

(1)	(2)	(3)	(4)	(5)
Law Officers' Department (£0.145m: 23 staff)	-	-	-	
	A = 2.0% B = 0.0% C = 0.0%	0	0	
Lord Advocate's Department* (£2.7m: 764 staff) *Includes Crown Office, Fiscal service	-	-	-	
	A = 0.6% B = 7.9% C = 0.0%	0	0	
→ Treasury Solicitor (£2.0m: 445 staff)	Abandon statutes in force	64	14	Strong opposition from legal profession. Added difficulty in access to relevant statute law.
	A = 7.1% B = 0.0% C = 3.2%	64	14	
TOTALS		46,341	13,132	
OVERALL PROVISION		£1477.5m		
OVERALL PERCENTAGE		3.1%		

COMPARISON OF EXISTING STRENGTHS ON 1 APRIL 1976 IF ALL THE REDUCTIONS LISTED
IN ANNEXES A AND B ARE ACCEPTED

1	2	3	4	5
RESPONSIBLE MINISTER AND DEPARTMENT	CURRENT STRENGTH 1 1 76 (Staff in Post)	MANPOWER AT 1.4.78. AS SET OUT IN PES '75 ADJUSTED TO TAKE ACCOUNT OF THE REDUCTIONS IN ANNEXES A & B	% INCREASE/ DECREASE AGAINST CURRENT STRENGTH (Column 3 over Column 2)	% INCREASE/ DECREASE RECORD- ED IN COLUMN 4 ADJUSTED TO REF- LECT EXCESSES OVER PES '75 (See para 15 of the paper)
<u>MINISTER FOR AGRICULTURE, FISHERIES AND FOOD</u>				
MAFF	15,635	14,948	- 4.4%	
IBAP	504	539	+ 6.9%	
Total	16,139	15,487	- 4%	
<u>CANCELLOR OF THE EXCHEQUER</u>				
Treasury	1,144	1,178	+ 3.0%	
Customs & Excise	29,285	29,897	+ 2.1%	
Inland Revenue	79,081	85,622	+ 8.3%	+ 20.9%
Dept for National Saving	13,645	11,742	- 14.0%	
National Debt Office	64	39	- 39.0%	
Public Works Loan Board	47	38	- 19.2%	
NEDO	175	222	+ 26.9%	
Paymaster General's Office	761	876	+ 15.1%	
Registry of Friendly Societies	117	113	- 3.4%	
Royal Mint	1202	1090	- 9.3%	
TOTAL	125,521	130,817	+ 4.2%	
<u>DEPT OF EDUCATION & SCIENCE</u>				
DES	2,926			
Science Museum	525	3,797	- 8.3%	
V&A Museum	691			
TOTAL	4,142	3,797	- 8.3%	
<u>DEPT OF EMPLOYMENT</u>				
DEM	20,995	17,852	- 15.0%	
ACAS	562	688	+ 22.4%	
HSE	3,122	3,503	+ 12.2%	
MSC	142	123	- 13.4%	
ESA	13,946	13,366	- 4.2%	
ISA	6,774	8,215	+ 21.3%	+ 1.2%
TOTAL	45,541	43,747	- 4.0%	
<u>DEPT OF ENERGY</u>				
D Energy	1,374	1,286	- 6.4%	
TOTAL	1,374	1,286	- 6.4%	

COMPARISON OF EXISTING STRENGTHS ON 1 APRIL 1978 IF ALL THE REDUCTIONS LISTED
IN ANNEXES A & B ARE ACCEPTED

1	2	3	4	5
RESPONSIBLE MINISTER AND DEPARTMENT	CURRENT STRENGTH 1 1 76 (Staff in Post)	MANPOWER AT 1.4.78. AS SET OUT IN PES '75 ADJUSTED TO TAKE ACCOUNT OF THE REDUC- TIONS IN ANNEXES A & B	% INCREASE/ DECREASE AGAINST CURRENT STRENGTH (Column 3 over Column 2)	% INCREASE/DE- CREASE RECORDED IN COLUMN 4 ADJUSTED TO REFLECT EXCESSES OVER PES '75 (see para 15 of the paper)
<u>S OF S FOR THE ENVIRONMENT</u>				
DOE	50,873	45,533	- 10.5%	
Ordnance Survey	4,450	3,938	- 11.5%	
TOTAL	55,323	49,471	- 10.6%	
<u>S OF S FOR THE HOME DEPARTMENT</u>				
Home Office	32,528	34,702	+ 6.7%	
Charity Commission	337	342	+ 1.5%	
TOTAL	32,865	35,044	+ 6.6%	
<u>LORD CHANCELLOR</u>				
ICO	9,951	10,055	1.1%	
Land Registry	4,874	5,230	- 7.3%	
Public Trustee	465	350	- 24.7%	
Public Record	413	490	+ 18.6%	
TOTAL	15,703	16,125	2.7%	
<u>S OF S FOR INDUSTRY</u>				
D Industry	10,180	9,699	- 4.7%	
TOTAL	10,180	9,699	- 4.7%	
<u>LORD PRESIDENT OF THE COUNCIL</u>				
Privy Council Office	47	42	- 10.6%	
TOTAL	47	42	- 10.6%	
<u>LORD PRIVY SEAL</u>				
Civil Service Department	5480			
Parliamentary Counsel	47	5,654	- 0.4%	
CSPRU	39			
Government Actuary	67			
COI	1370	1,221	- 10.9%	
EMSO	7366	7,051	- 4.3%	
TOTAL	14,369	13,926	- 3.1%	

COMPARISON OF EXISTING STRENGTHS ON 1 APRIL 1978 IF ALL THE REDUCTIONS LISTED
IN ANNEXES A & B ARE ACCEPTED

1	2	3	4	5
RESPONSIBLE MINISTER AND DEPARTMENT	CURRENT STRENGTH 1 1 76 (Staff in Post)	MANPOWER AT 1.4.78. AS SET OUT IN PES '75 ADJUSTED TO TAKE ACCOUNT OF THE REDUCTIONS IN ANNEXES A & B	% INCREASE/ DECREASE AGAINST CURRENT STRENGTH (Column 3 over Column 2)	% INCREASE/DEC- REASE RECORDED IN COLUMN 4 ADJUSTED TO REFLECT EXCESSES OVER PES '75 (See para 15 of the paper)
<u>OF S FOR NORTHERN IRELAND</u>				
Northern Ireland Office	276	243	- 12.0%	
Supreme Court (NI)	102	104	+ 2.0%	
TOTAL	378	347	- 8.2%	
<u>MINISTER FOR OVERSEAS DEVELOPMENT</u>				
GDM (excluding Technical Units)	1,416	1,550	+ 9.5%	
TOTAL	1,416	1,550	+ 9.5%	
<u>OF S FOR PRICES AND CONSUMER PROTECTION</u>				
DGCP	378	309	- 18.3%	
OFT	289	308	+ 6.6%	
TOTAL	667	617	- 7.5%	
<u>OF S FOR SCOTLAND</u>				
Scottish Office	10,670	11,306	- 0.7%	} + 8.1%
Scottish Record Office	138			
Royal Scottish Museum	180			
Registers of Scotland	394			
Scottish Courts Administra- tion	741	867	+ 17%	
General Register Office	383	375	- 2.1%	
TOTAL	12,506	12,548	+ 0.3%	
<u>OF S FOR SOCIAL SERVICES</u>				
DHSS	91,563	86,309	- 5.7%	- 3.9%
OPCS	2,736	2,512	- 8.2%	
TOTAL	94,299	88,821	- 5.6%	
<u>OF S FOR TRADE</u>				
D Trade	7,730	7,447	- 3.7%	
BCGD	1,924	2,040	+ 6.0%	
TOTAL	9,654	9,487	- 1.7%	
<u>OF S FOR WALES</u>				
Welsh Office	1,491	1,440	- 3.4%	+ 103.9%
TOTAL	1,491	1,440	- 3.4%	

COMPARISON OF EXISTING STRENGTHS ON 1 APRIL 1978 IF ALL THE REDUCTIONS LISTED
IN ANNEXES A & B ARE ACCEPTED

1	2	3	4	5	
RESPONSIBLE MINISTER AND DEPARTMENT	CURRENT STRENGTH 1 1 76 (Staff in Post)	MANPOWER AT 1.4.78. AS SET OUT IN PES '75 ADJUSTED TO TAKE ACCOUNT OF THE REDUCTIONS IN ANNEXES A & B	% INCREASE/ DECREASE AGAINST CURRENT STRENGTH (Column 3 over Column 2)	% INCREASE/DEC REASE RECORDED IN COLUMN 4 ADJUSTED TO REFLECT EXCESS OVER PES '75 (See para 15 of the paper)	
<u>OTHER DEPARTMENTS</u>					
Crown Estate Office	125	127	+ 1.6%	- 0.6%	
Cabinet Office	685	630	- 8.0%		
Law Officer's Dept	21	23	+ 9.9%		
DPP	185	199	+ 7.6%		
Lord Advocate	16	716	+ 20.5%		
Crown Office	35				
Procurator Fiscal	543	426	- 3.4%		
Treasury Solicitor	441				
TOTAL	2051	2121	+ 3.4%		

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CP(76) 10

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81

7 May 1976

CABINET

CIVIL SERVICE MANPOWER

Memorandum by the Central Policy Review Staff

THE TARGETS

1. As a final and important contribution towards the target savings in public expenditure, Ministers agreed (CC(75) 55th Conclusions, December 1975) to reduce the 1975 Public Expenditure Survey (PESC) forecast size of the Civil Service in 1978-79 (772,000) by 5 per cent (about 38,500) thereby saving £140 million. The figure of £140 million was made public in the White Paper on Public Expenditure (Cmd 6393). On manpower, Parliament was told (Hansard, Col. 1586 of 5 February 1976) that reductions were being considered "so that by 1978 the Civil Service is much more like the size it was last summer including the Manpower Services Commission" (i.e. about 730,000). The Lord Privy Seal repeated this target to the conference of the Institute of Professional Civil Servants on 4 May.

2. Ministers' decisions were in general terms and the possible implications for the provision of public services had not been worked out. It was assumed that a "5 per cent cut in manpower" was roughly within the margins of possible improvements in efficiency and the cutting out of unnecessary policies and practices. However, subsequent analysis has shown that it is more complicated than this.

THE MAIN PROBLEMS

3. The first main problem is the nature of the commitment. A reduction of £140 million or a 5 per cent cut in manpower on the 1975 PESC forecasts is not the same as an undertaking to reduce the size of the Civil Service by 1978-79 to about 730,000.

4. As a result of revised forecasts and new commitments, particularly in the "demand related" areas of tax collection and social security payments, the estimated size of the Civil Service in 1978-79 is now 16,000 higher than the PESC forecast. Moreover, there are bound to be more new commitments over the horizon. Against this these additional demands will in part be offset by the agreed reduction of between 6,500 and 9,000 on the 1975 forecast for defence manpower.

5. In consequence, to achieve a target of 730,000 by 1978-79 would require a reduction of about 50,000 on the most recent Civil Service manpower forecasts (which is a reduction of $6\frac{1}{2}$ per cent rather than 5 per cent). Moreover, any further manpower increases agreed between now and 1978-79 will also need to be offset by further compensating reductions.

6. The second main problem is that whatever reductions are agreed there cannot be an arbitrary and equal cut across the board. The Annexes to the paper by the Lord Privy Seal (CP(76) 9) show how the decision to exempt certain Departments or services means a much greater problem for the remaining Departments. For instance, the exclusion of Defence from the exercise (given that they are contributing between 6,500 and 9,000 under a separate exercise) means that a target reduction of $6\frac{1}{2}$ per cent for the Civil Service as a whole becomes a target reduction of $11\frac{1}{2}$ per cent for Departments other than Defence.

DISCUSSION

7. There is no doubt that following the various Ministerial statements that have been made, the public is expecting a reduction in Civil Service manpower to about 730,000 by 1978-79. But the Lord Privy Seal's paper assumes that the Government cannot, in practice, achieve any significant reduction. It suggests that the best we can do is to try to achieve cuts in certain places, and to accept that even with these cuts the numbers in the Civil Service in 1978-79 are likely to be still as large then as they are today.

8. So the first and basic question is - what is the target? Until Ministers have decided, in the light of the more detailed examination of the problem presented in the papers now before them, what is their target for savings in manpower for 1978-79, it is difficult to know how radical an approach is required. At present, as is explained in the Lord Privy Seal's paper, certain Departments have been excluded from contributing beyond savings previously agreed. If Ministers decide that the manpower figure for 1978-79 really must be about 730,000, then assumptions such as these will probably need to be re-examined.

9. But there is no need to wait before taking some action. On any outcome, the savings set out in Annex A of the Lord Privy Seal's paper are certain to be needed. Since any manpower saving takes time there is much to be said for accepting the proposals in Annex A forthwith. The extent to which the proposals in Annex B would be adequate, or whether others even more radical and painful need to be considered, will depend very much on the decisions that Ministers come to on the target for 1978-79.

QUESTIONS FOR MINISTERS

10. Ministers will clearly find it difficult to agree all the details in one meeting. The CPRS therefore suggests that the main questions for decision at this meeting are:

- i. First and most important, what is the target? Having made commitments to cut Civil Service manpower do they feel that this somehow has to be achieved even if the consequences for policy are quite radical? If so, do they wish to aim at the target of 730,000 by 1978-79 or will something between 730,000 and 750,000 be good enough?
- ii. Can the proposed savings set out in Annex A to the Lord Privy Seal's paper be accepted now as being necessary in any case?
- iii. Having agreed the target, would Ministers agree that the next steps should be bilateral discussions between the Lord Privy Seal and Departmental Ministers to see how the remaining savings might be achieved?
- iv. Since Annex A and Annex B together would still not mean a significant reduction in Civil Service manpower by 1978-79, should Departments hitherto excluded from this exercise now be included?

Cabinet Office

7 May 1976

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CP(76) 11

COPY NO 81

10 May 1976

CABINET

STEEL CLOSURES REVIEW: SHOTTON

Memorandum by the Chancellor of the Exchequer

1. Since we returned to office in 1974 we have been carrying out our earlier commitment to review the closures involved in the British Steel Corporation's (BSC) modernisation programme. The Ministerial Committee on Economic and Industrial Affairs (EI) recently considered the future of Shotton, with which is linked BSC's development proposals for Port Talbot. In view of the importance of the decision I undertook to report to the Cabinet the considerations involved and the Committee's conclusions. I am also incorporating in this paper the answers to questions which the Prime Minister raised at the time of the discussion in EI.

THE POSSIBLE OPTIONS

2. Shotton at present carries out all the stages of steel production. Its coke ovens and finishing plant are modern and efficient, but its steelmaking plant is technically obsolete and will soon become economically uncompetitive. BSC propose to close the iron and steelmaking plant and the hot rolling mill in 1980-81 and to replace the capacity by expansion at Port Talbot, raising steelmaking capacity there from 3 million tonnes per annum (mtpa) to 5.75 mtpa. Shotton would continue coke production and finishing operations, using hot rolled coil supplied from Port Talbot. (Option I). During the review of BSC's proposal a variety of other possible courses have been examined, including proposals by the Shotton workers. The Secretary of State for Industry has concluded that the best course would be to build a new steelmaking plant at Shotton with a capacity of 2.25 mtpa and to modernise other parts of the plant. This scheme was put forward by the Shotton workforce. If this scheme were implemented he considers that only a marginal increase in Port Talbot's steelmaking capacity could then be justified in the light of BSC's sales prospects for strip mill products. (Option II).

3. In the discussion at EI the Lord President asked for consideration of the third course - Option III - which the Prime Minister has also asked should be considered. This would involve the full expansion at Port Talbot envisaged under Option I as well as the construction of the same steelmaking plant at Shotton as under Option II but with less modernisation of other facilities so that the resulting capacity would be limited to 1.8 mtpa.

4. Under all three Options there would be substantial investment at Port Talbot to modernise other equipment.

5. At Annex A is a table which sets out, as far as possible on a common basis, the main facts about these 3 options.

THE CONSIDERATIONS

6. The economic arguments favour Option I rather than Option II. Under Option I -

- a. The cost per tonne of additional liquid steel capacity is 15 per cent lower.
- b. Output per man is almost 20 per cent higher; and
- c. production cost per tonne of hot rolled coil is $5\frac{1}{4}$ per cent lower.

7. Option II, however, gives rise to less serious social problems. Option I involves the loss of some 7,000 jobs, direct and indirect, in 1980-84 compared with 2,600 in 1980-82 under Option II. Unemployment rates in the Shotton travel to work area at 7.7 per cent are now above the average for Great Britain (5.5 per cent) and Wales (7.4 per cent) (details in Annex B). Employment prospects at the only other major employers in the area (Courtaulds and Hawker Siddeley) are not good. Merseyside, with current unemployment of 12 per cent and worrying prospects, is close at hand. The prospects for attracting new projects in the immediate future are poor, and what can be achieved between 1977 and 1980-81 depends mainly on the level of activity in the economy nationally.

8. Option III limits the initial job losses at Shotton to around 1,100 though they would come a year or two earlier than under Option I or II. However officials advise that the 1.8 mtpa development leaves the plant only semi-modernised and additional investment would be needed in the early 1980s; this would result in a further loss of jobs, bringing the total to the 2,600 foreseen under Option II. The capital cost of Option III is very much greater than that of Option I or of Option II. BSC's ultimate capacity for hot rolled coil under Option III is at least 1.8 mtpa greater than under Option I or Option II, and 25 per cent more than their estimates of potential sales in the first half of the 1980s. Estimates by the Department of Industry

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suggest that even BSC's sales estimates may be over-optimistic. The additional capacity in Option III would inevitably delay other development plans of BSC, and the Secretary of State for Scotland is particularly concerned about its impact on the development planned at Hunterston.

OTHER POSSIBILITIES

9. The Prime Minister has asked that the possibility of proceeding now with the full expansion at Port Talbot and of postponing a decision on Shotton for a year or two should be examined. The problem is that BSC's development scheme for Port Talbot specifically requires the closure of steelmaking at Shotton since BSC are looking to Shotton to take the additional output of hot rolled coil from the enlarged Port Talbot. Approval for the full development of Port Talbot will therefore be taken by the Shotton interests as implicit approval for the closure of Shotton, whatever we say in public. To defer the decision at Shotton will only make it more difficult. It is very unlikely that market prospects will improve sufficiently over the next year or two to justify additional capacity. Even if they did, the problem of pre-empting developments elsewhere (for example at Hunterston) would remain: indeed they would be more highlighted than now. If the eventual decision went against Shotton we would have reduced the time available for bringing alternative jobs there.

10. The Prime Minister also asked about the likelihood of domestic steelmaking capacity constraints, particularly in the light of delays in the commissioning of new plant at Port Talbot. BSC plan to keep the existing iron and steelmaking plant at Shotton in operation until the new capacity at Port Talbot is fully operational so that there should be no capacity problem if commissioning is somewhat delayed. More generally, as indicated in paragraph 2 above, the combination of existing developments and either Option I or Option II should provide sufficient capacity for BSC to meet all their sales opportunities for strip mill products. Recent experience suggests, however, that supply constraints can arise as much from labour disputes, technical difficulties and raw material shortages as from lack of physical capacity.

VIEWS OF EI

11. In discussion in EI there was a substantial majority in favour of Option I. The view of these Ministers was that -

a. BSC's productivity record was 25 per cent to 85 per cent below that of the European industry, and that it would damage the Government's Industrial Strategy to stand in the way of BSC's efforts to raise productivity.

b. To hold down productivity in steelmaking would damage the whole of the economy but especially the tinplate works at Ebbw Vale, Trostre and Velindre and the motor industry.

- c. The higher capital costs of Option II would lead either to a reduction in other capital expenditure by BSC or to a charge on the Contingency Reserve.
- d. The £20-25 million per annum of higher production costs under Option II would further increase BSC's financing requirements which at present were £950 million for 1976-77 and £2,500 million over the following three years.
- e. The additional job losses compared with Option II almost all fell in the period 1982-84; and
- f. to perpetuate an uncompetitive industry was not the best way to help North Wales and Merseyside.

12. The view of the important minority favouring Option II was that -

- a. the Government is committed to review the closures involved in BSC's modernisation programme, balancing economic considerations against social considerations;
- b. the calculations showing an apparent economic advantage for Option I assumed that it could be carried through without disruption by industrial disputes. The relatively poor record of industrial relations at Port Talbot made this assumption questionable;
- c. the economic base of North Wales was so limited that it could not stand a contraction at Shotton of the scale of Option I;
- d. even with the most vigorous action by BSC and the Government and with five years for the task it was doubtful whether it would be possible to make good 7,000 job losses, almost all male, in the Shotton area;
- e. it would be necessary to designate Shotton a Development Area and the real cost of job creation there will fall on the rest of the Development Areas.

13. EI did not have before them comparable figures for Option III. It was, however, made clear that this course would be unacceptable in Scotland.

TIMING

14. The question of timing also needs to be considered. Sir Charles Villiers has just been appointed to the Board of BSC but he does not take over as Chairman until September. Even if the Government endorse BSC's strong preference for Option I, it might be thought surprising to take this, the major strategic decision for BSC for some years, now. I consider, nonetheless,

that we should avoid further delay if at all possible. There would be advantage in consulting Sir Charles informally just in case he has serious doubts about BSC's proposal. That apart, if we favour Option I we should announce our approval as soon as possible.

15. It would be very difficult to impose a decision in favour of Option II on the present Chairman. There is as yet no reason to suppose that Sir Charles takes a different view and a divergence of opinion on an issue of this magnitude would be a most inauspicious start to his Chairmanship. If the Government favour Option II, the best prospect for securing its acceptance might be through informal discussion with Sir Charles; this would point to deferring any announcement of our decision.

CONCLUSIONS

16. I conclude that the clear balance of advantage lies in the major expansion at Port Talbot - Option I - which was supported by the majority of members of EI. This would -

- a. result in lower production costs for steel and higher labour productivity;
- b. be a positive step both towards achieving the Government's objective of creating an efficient steel industry and towards the Government's industrial strategy, since steel is a basic raw material for large sectors of British industry;
- c. reduce the capital expenditure involved and secure better value for money from it.

RECOMMENDATIONS

17. I recommend the following course of action to the Cabinet -

- a. Decide in favour of Option I, the major expansion at Port Talbot.
- b. Invite the Secretary of State for Industry and the Secretary of State for Wales to arrange for informal consultations with Sir Charles Villiers. If Sir Charles has already considered the Options and supports Option I, announce our approval forthwith. If he has not considered the Options, ask him to do so as quickly as possible. If he favours Option II, we should be willing to reconsider the issue.
- c. If there has to be delay in announcing our decision on the issue as a whole, give immediate approval for that part of the modernisation at Port Talbot which is common to all Options and make an immediate announcement of that approval.

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d. Invite the Secretaries of State for Industry and for Wales to make proposals to EI of suitable measures to attract alternative jobs to the Shotton area which might be included in an announcement of approval for Option I.

D W H

HM Treasury

10 May 1976

	OPTION I - Single Plant			OPTION II - Two Plant			OPTION III - Two Plant		
	Port Talbot	Shotton	Total	Port Talbot	Shotton	Total	Port Talbot	Shotton	Total
CAPACITY (million tonnes pa)									
Liquid Steel	5.75	-	5.75	3.3	2.25	5.55	5.75	1.8 (later 2.25)	7.55 (later 8.0)
Hot Rolled Coil	4.85	-	4.85	2.75	2.0	4.75	4.85	1.5 (later 2.0)	6.35 (later 6.85)
CAPITAL COST (£ million)									
At September 1974 prices	444	11	455	299	183	482 (Note 1)	478 (Note 2)	64 (later 183)	542 (later 661)
PRODUCTION COST (£/tonne of hot rolled coil)							Average production cost would be considerably higher than in other options as a result of excess of capacity over sales		
At September 1974 prices	83.8		87.3 (average) (Note 3)	95.0	87.5	92.1 (average)			
EMPLOYMENT									
Maximum employment sustained	12,000-14,000 (Note 4)	7,000	19,000-21,000	12,000-14,000	10,400	22,400-24,400	12,000-14,000	11,900 (later 10,400)	23,900-25,900 (later 22,400-24,400)
Timing of redundancies		1980-84 (6000)			1980-82 (2600)			1979-80 (1,100) 1982-84 (1,500)	

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NOTES

1. In addition Option II would require capital expenditure of perhaps £10 million - £15 million at Birkenhead Docks to provide for increased imports of iron ore. This would also be necessary eventually under Option III.
2. Includes £34 million for additional coke ovens at Port Talbot.
3. In Option I the average production cost includes continuing Shotton costs and cost of transport of hot rolled coil to Shotton for finishing.
4. The agreement reached by BSC with the Unions at Port Talbot on 23 March would, if implemented, reduce total manning at the works to some 12,000 from the current 14,000.

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ANNEX BUNEMPLOYMENT RATES

	Males		Total	
	Nos	%	Nos	%
<u>Port Talbot TTWA</u>				
Feb 1975	1872	3.5	2502	3.3
Feb 1976 (Prov)	3255	6.0	4642	6.0
<u>Shotton TTWA</u>				
Feb 1975	1323	4.4	1749	4.3
Feb 1976 (Prov)	2278	7.6	3119	7.7
<u>Wales</u>				
Feb 1975	38913	6.0	47571	4.6
Feb 1976 (Prov)	59547	9.2	76130	7.4
<u>Great Britain</u>				
Feb 1975	624647	4.5	757131	3.3
Feb 1976 (Prov)	978817	7.1	1253427	5.5

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10 May 1976

CABINET

FIFTH ROUND OF OFFSHORE PETROLEUM PRODUCTION
LICENSING: BRITISH NATIONAL OIL CORPORATION
CONTRIBUTION TO COSTS

Memorandum by the Secretary of State for Energy

1. On 15 April 1976 the Ministerial Committee on Energy (ENM) agreed that there should be a further round of offshore petroleum production licensing. The method and timing of the financing of the British National Oil Corporation's (BNOC) participation in exploration and development arising from the fifth round is however the subject of a difference of opinion between the Chief Secretary, Treasury, and myself.
2. It is my view that BNOC should contribute its share (51 per cent) to the costs of exploration and development under fifth round licences, as the costs are incurred. The Chief Secretary, Treasury, has proposed that BNOC's contributions should be deferred until such time as they can be paid for out of revenues from successful developments.
3. ENM remitted this issue to a group consisting of the Chief Secretary, Treasury, the Chancellor of the Duchy of Lancaster, Lord Kearton and myself, which has not been able to reach an agreed solution.
4. A decision on this issue is urgently needed if the fifth round is not to be delayed.
5. This paper sets out the main arguments. I have reasoned my case at Appendix 1. The Chancellor of the Exchequer's letter to the Prime Minister setting out his main views on the question is at Appendix 2.

PUBLIC EXPENDITURE

6. Figures of Exchequer cash flows under the two alternative courses of action are shown in Appendix 3. In the next five years the additional costs to the Exchequer of BNOC contributing from the outset to exploration

and development costs are estimated to be £22 million and £13 million respectively. But as can be seen from the appendix early savings are more than offset in the long run by the repayment of deferred contributions with interest.

7. My view, that BNOC must contribute 51 per cent to costs from the outset is based on the following:-

- a. The round must be a success. Deferment of BNOC's contribution to costs diminish the round's attractiveness to potential applicants and introduces a serious risk of failure.
- b. Current participation negotiations have been given impetus by companies' belief that a co-operative stance on participation will ensure favourable treatment in the fifth round allocation. This incentive to negotiate participation is diminished if the round is not seen to be attractive.
- c. It would be difficult to reconcile the British Gas Corporation's and BNOC(Ex)'s ability (established under previous Governments) to contribute from the outset, with a BNOC that was unable to contribute from the outset. BNOC would clearly be at a disadvantage vis-a-vis these corporations and indeed vis-a-vis private sector companies. This disadvantage would be compounded by the fact that BNOC are inhibited from financing development costs from overseas borrowings because this borrowing counts in the Public Sector Borrowing Requirement, while companies such as British Petroleum have no such inhibition.
- d. A decision not to back BNOC with money at least to the extent that its private sector competitors enjoy would be very difficult to justify to the Party at large and to the Trades Union Congress.
- e. We have repeatedly given assurances that when in partnership BNOC will act commercially.
- f. If BNOC is not a fully contributing partner from the outset its ability to influence a range of decisions will be diminished.
- g. BNOC's contribution and hence the burden on the Exchequer could only be deferred till perhaps the mid-1980s and would then have to be paid with interest.

I do not believe it to be worth prejudicing the round for a deferment of a few years in BNOC's contribution.

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8. Treasury Ministers want to defer for as long as possible BNOC's involvement in expenditure under Licences, on the basis that every commercial organisation naturally seeks to defer making payments, if possible until there is revenue to cover them; that the BNOC does not have to buy its way into these licences; and that if it did there would be additional public expenditure in the early years. Treasury Ministers also argue that with interest payable on any deferred contribution the success of the round will not be put at risk; but that if nonetheless it was considered that deferred terms might make the round less attractive, then other terms could be eased to compensate for this. I have looked at this last suggestion and am satisfied that adjustments to the financial terms (eg royalty) would have minimal compensatory effect due to their relative cheapness, and the point that they are expensable for tax purposes.

CONCLUSION

9. In view of the importance that we attach to a successful fifth round, I invite my colleagues to agree that BNOC should pay its share of all exploration and development costs under fifth round licences, as and when those expenses are incurred.

10. If however agreement cannot be reached on this basis, then in the interests of settling the issue as soon as possible, to avoid delaying the round I am prepared to put forward the following as a compromise:-

BNOC will as the standard pattern meet its share of exploration costs as they arise leaving open for decision case by case whether BNOC should pay its share of development costs as they arise, or defer them to be met out of revenue with an appropriate rate of interest.

A W B

Department of Energy

10 May 1976



THE CASE FOR 'PAY AS YOU GO' ROUTE

1. Objectives

In order to achieve success in the round it is my view that BNOC must contribute 51% to costs from the outset. BNOC must begin to build up its existing capability if it is to fulfil its intended role. Full partnership from the beginning will enable it to gain experience and influence decisions.

2. My main arguments are as follows:-

- (a) The attraction of the package is essential to success of the round. We cannot risk a failure. To add the further burden of deferred costs to what is already a tough package will, in the view of our consultants, act as a substantial disincentive to application. Failure of the round would be politically embarrassing, would lose confidence in the UK Shelf and income from future finds. Employment in oil related industries would be jeopardised. For comparison purposes it is worth mentioning that the Irish and Greenland provisions are less onerous than what we propose. This is mainly because neither country has a special oil tax.
- (b) The imminence of the round has added impetus to companies' willingness to negotiate participation. This is because they expect the round to be attractive. If terms are made less attractive by insisting on BNOC being carried through the development stage this lever for getting companies to the negotiating table will become very much less effective.



- (c) Contribution from the start by BNOC would underline the Government's intention that BNOC should be able to behave commercially (a point on which many HMG assurances have been given).
- (d) We are seeking full oil company status for BNOC with access from the start to information and decision taking. Deferred payment could well involve at worst partial surrender of voting rights and diminished status at the best.
- (e) As a full partner BNOC will be better able to influence investment policies to the advantage of the UK oil related industries.
- (f) BNOC would also have more influence over the pace of exploration and thus could aid the achievement of desired depletion policies.
- (g) The burden on the Exchequer of BNOC contributing from the start is recognised, but the costs are relatively modest. BNOC's initial outlay on exploration is estimated to be £50m between 1977 and 1983. If this were carried by private partners the real saving could be smaller as companies are often able to expense such costs for tax purposes.

The additional net burden on the Exchequer by the pay as you go route of development costs might approximate to £100m a year in 1982-1984, £150-200m (gross). Deferring contribution would result in the burden on the Exchequer being deferred to 1986-1989, together with any interest that might be agreed on the contribution (£175m at 7%). It is questionable whether it is worth prejudicing the round for a deferment of Exchequer burden starting in nearly 10 years time.

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- (h) BGC & BNOC(Ex) contribute to costs as they arise. BNOC would be seen as a half-hearted participant compared with these corporations if it was not able to contribute. BNOC would also be at a disadvantage in comparison with these corporations and with the private sector.
- (i) If BNOC were to follow the practice of major companies such as BP in borrowing abroad to finance its developments then the Exchequer costs would be eliminated. While I understand that BNOC's foreign borrowing would count as part of the public sector borrowing requirement, this should not be an inhibiting factor if BNOC are to be allowed to compete on level terms with the private sector.

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Treasury Chambers, Parliament Street, SW1P 3AG

01-930 1234

PRIME MINISTER

Fifth Round North Sea Licenses -
Government Contribution to Capital Costs

I have seen EN(76)9, in which the Secretary of State for Energy reports a disagreement with the Treasury about one aspect of the proposed financial terms for fifth round licenses, and I should like to make my position clear in advance of the EN meeting on Monday 12th April.

2. It may help if I set out my position afresh. We all agree that BNOC should participate in future fifth round licenses. Lord Kearton would like his Corporation to be an active partner from the start, contributing to exploration and development expenditure, having access to information and a part to play in decision making. I see no case for a Government contribution to exploration, although the sums involved are not particularly large. I believe we can secure the access to information and the decision making powers that we need through the ordinary licensing process during the exploration phase, and through participation at the development stage. Participation will also give us half the oil. Provided BNOC has a 'carried interest' option to join in once a field is declared commercial, I think the public interest is safeguarded.

3. The question then is whether it should contribute to development costs as they arise. My suggestion is that there should be no automatic obligation to contribute. Each case should be negotiated individually. There should be a strong presumption that HMG will not put up cash, but that its share of the capital costs should be

/ contributed retrospectively out



contributed retrospectively out of revenue. This means that the companies, in exchange for the right to exploit mineral resources on the Continental Shelf, would be required to finance HMG's share of the investment until any fields it discovered produced sufficient revenue to pay back the public share of the costs out of the public share of revenue. The company would be entitled to interest on the repayment of the capital contribution which it made on behalf of the BNOC. We would have to decide whether, if the field were abandoned before the full development costs were recouped, BNOC would have nevertheless to contribute its share of costs to date.

4. This seems to me the correct commercial approach to the negotiations. It would be wrong for the Government, in conceding a valuable franchise to an oil company, to be required itself to finance its own share of the capital costs of developing any oil fields discovered. If, unexpectedly, any licensee finds himself unable to raise the necessary capital, then BNOC has the power to contribute. But I believe that the whole license package should be constructed on the assumption that, in the normal case, there will be no public capital contribution.

5. It is important to maintain this approach, not only for strictly commercial reasons, but because of the prospective calls on public expenditure and the public sector borrowing requirement if the Government were required to finance 50 per cent of future development costs. It is no answer to say that this would be profitable investment; the difficulty lies in raising the necessary finance during the development stage. Our projections of available real resources and of public expenditure and receipts already allow for a Government take from any new fields which may be discovered, but not for any BNOC capital contribution. As Ministers know, the

/ public expenditure situation



public expenditure situation projected on those assumptions is already difficult enough. To require direct BNOC investment in field development would reduce, pro tanto the amounts available for other public expenditure programmes.

6. I do not see why these terms need necessarily have a disincentive effect. In most cases, the prospective licensees will be borrowing to finance field development, rather than using their own internally-generated cash resources. Some of the borrowing will be (indirectly) on the strength of the BNOC involvement in the field (which has the effect of ensuring that resources will always be available to ensure its development provided it remains viable). So the lenders' security should be improved and the oil companies' problems in raising finance eased. The forecasts of available finance already assume that the oil companies will be able to raise 100 per cent of the capital needed.

7. In any case, if the package as a whole seems unattractive on these terms (which seems unlikely, given the success of the Irish and Norwegian governments in negotiating equally tough arrangements) the solution might be to adjust some other element of the package - the license fee, the rental, resale of some of the BNOC oil, the royalty rate, etc., rather than to compromise on the essential principle of a Government capital contribution. Such concessions would affect future revenues, extending over the life of the field, and would be more acceptable than a Government capital contribution in the early years of the field when the constraints on public expenditure will be tightest.

8. The Secretary of State has argued that, if my terms were included in the license, the whole round might become a flop. I do

/ not believe this



not believe this would happen, for the reasons given above. But if this is considered a real danger, there are two alternatives which we should consider.

9. The first is that we should abandon altogether the idea of a 1976 licensing round. The advice of officials who have studied depletion policy (EN(76)4) is that we should, on balance, go rather slower with new licenses. Admittedly, we have already announced the intention to have a fifth round this year. But we could defend a change of policy by referring to the increasing importance of conservation and of a fairly strict depletion policy.

10. Alternatively, if this course were thought too damaging to the confidence of the offshore supplies industry, I suggest that we simply drop the idea of a 'round' of licenses. Instead, we could indicate in general terms our intention to issue new licenses (without saying how many) and begin separate negotiations with the main potential licensees. We could say that it was open to any company to make a bid for a particular block within the designated area. This course would leave us much freer to negotiate individual terms case by case, and if the number of applicants were smaller than we hoped, we would be able to adjust the terms continuously to maintain the necessary flow of new exploration. But in doing so, we should avoid any risk of a 'flop' with the consequent damage to the offshore industry and to the credibility of the Government's North Sea Policy.

(D. M. H.)
9 April, 1976

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YEAR	NET STATE CASH FLOW (\$M, 1975 PRICES)		
	EXPLORATION	DEVELOPMENT (PAY-AS-YOU-GO)	DEVELOPMENT (CARRIED INTEREST)
1977	-2		
1978	-5		
1979	-5		
1980	-10	-13	
1981	-15	-56	
1982	-10	-117	
1983	-3	-126	+9
1984		-70	+24
1985		+76	+66
1986		+278	+187
1987		+430	+255
1988		+542	+399
1989		+581	+484
1990		+559	+497
1991		+510	+499
1992		+437	+437

- NOTES: 1. Exploration costs based on 50 wells drilled, average cost \$2M/well, 51% met by DNOG.
2. Carried interest at rate 7% for illustrative purposes.

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14 May 1976

CABINET

LEGISLATIVE PROGRAMME 1976-77

Memorandum by the Lord President of the Council

1. The Government's legislative programme for the third Session of the present Parliament should be as attractive and balanced as circumstances allow. There will, however, be unusually severe constraints on the number and kind of Bills which can be fitted in. We shall have, at most, about 60 days available on the Floor of the House of Commons for Government legislation (apart from the Finance and Consolidated Fund Bills). We are committed to introducing the Devolution Bill as early as possible in the Session, and most or all of its Commons Committee Stage will have to be taken on the Floor; this Bill might require as much as half the available Commons Floor time or even more. There is a considerable number of Bills which will be, or may become, Essential; for these we must allow at least another quarter of the available Commons Floor time. The time left for other Bills will be considerably less than usual, though no precise estimate can be made at this stage. We must also take account of the Party balance in the Commons, which will make our legislation, especially any controversial Bills, more vulnerable than hitherto in this Parliament.

2. In the Commons the first half of next Session will be largely taken up by the Devolution Bill and by those Essential Bills which have an early deadline and must be introduced in the Commons because they concern money. By comparison with last Session and this Session, there will then be very restricted scope for the introduction in the Commons during the weeks preceding Easter of large and/or politically contentious Bills. The Lords will need sufficient time during the summer to deal with the Devolution Bill, which they are unlikely to be able to start until after Easter. The Bills comprising the programme, in addition to the Devolution Bill and Essential Bills, will have to include a substantial proportion which can be introduced in the Lords early in the Session. It will be more than ever important that all Bills should be ready on time, and should be confined to those provisions which need to be enacted next Session.

3. The Queen's Speeches and Future Legislation Committee (QF) have considered all the bids for legislation next Session made by Departmental Ministers and recommend that these Bills should be placed in the categories shown in the attached appendices. These categories are the same as those used for the present Session except that, in the circumstances described above, the Committee propose that the whole of next Session's programme category should be described as "provisional", and that this category should be grouped into three orders of priority. The categories are as follows:

I. Essential. Appendix I lists those Bills which must be enacted next Session, eg because powers or finance would otherwise run out.

II. Contingent. Appendix II lists those Bills which may become Essential in the above sense. It does not include Bills which are contingent upon policy decisions not yet taken.

III. The Provisional Programme. Appendix III lists those Bills, in addition to the Devolution Bill, which the QF Committee recommend for inclusion in the provisional programme. The three orders of priority, and the Bills shown in Appendix III under each, are:

First Priority, a small group comprising the Government's other most important legislative proposals, which we expect to enact in 1976-77:

Industrial Democracy - a short paving Bill
Homelessness)
Housing Subsidies) - combined in one Bill
Conspiracy and Criminal Law Reform
Shipbuilding (Redundancy Payments)
Post Office Act (Amendment) - industrial democracy
in the Post Office

Second Priority, comprising those further Bills which have the strongest claims and which will be introduced so far as Parliamentary time is available, provided they are ready, though there can be no guarantee how far it will be possible to get through this list:

Industrial Training (Amendment)
Coal Industry
Social Security (Amendment) - but this Bill's
introduction will be dependent upon an assessment at
the beginning of the Session of whether it can be got
through the Commons; hence it should not be
mentioned in The Queen's Speech
Occupational Pensions
Road Traffic (Relaxation of Licensing)

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Water (Equalisation of Charges)

Criminal Justice - those provisions which are ready for introduction by the end of November

Exemption Clauses

Patents - provided the Bill is ready for introduction well before Christmas

Third Priority, comprising other Bills with strong claims, some of which might be accommodated if the Devolution Bill takes considerably less than half the available Commons Floor time:

Parliamentary Pensions

Power Stations (Financial Arrangements)

Administration of Justice

Judicature (Northern Ireland)

Merchant Shipping

Banking and Deposit Taking Institutions

Miscellaneous Financial and Administrative Provisions

IV. Reserve Bills. Appendix IV lists Bills which have no prospect of introduction next Session, despite their merits, unless they are taken up by a Private Member or Second Reading Committee procedure is agreed and they would not divert drafting resources from Bills of higher priority.

V. Scottish Grand Committee Bills. Appendix V lists these in order of priority.

VI. Other Bills. Appendix VI lists Bills which have no priority but seem suitable for Second Reading Committee procedure or for introduction by a Private Member.

4. Because of the severely limited Parliamentary time available, the QF Committee have had to give a number of Bills lower priority than that desired by the responsible Ministers. This is unavoidable. The number of Bills which we can be sure of being able to introduce next Session, in addition to Essential Bills and the Devolution Bill, is very small; and any overloading of the provisional programme, particularly the first and second priority groups, would thus be self-defeating, for it would not increase the number of Bills which could in practice be introduced next Session.

M F

Privy Council Office

14 May 1976

LEGISLATIVE PROGRAMME 1976-77

I. ESSENTIAL

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. MAFF	New Covent Garden Market.	To increase the New Covent Garden Market Authority's borrowing limits and/or to restructure its finances.	6	Introduction November. RA by end of Session.	Possibly hybrid.
2. DOE	Transport (Finance)	To increase support for BRB's services; to support rail and NFG freight and to provide a financial reconstruction for NFG.	10	RA by end of Session.	Payments already being made under authority of Appropriation Acts, so specific legislation essential. Controversial.
3. DOE	Harbours (Grants)	To enable Government to pay grants to harbour authorities.	5	Introduction November. RA probably needed before end of Session to deal with PLA's financial situation.	Probably controversial.
4. DOE	Direct Labour Organisations	To enable dlo's to work for other local authorities and for other public and private sector organisations.	5	Some policy cleared. Existing powers expire in <u>March 1977</u> .	Some aspects controversial.
5. DOE	Formula Rating	To rectify an error in the General Rate Act relating to rating of mines, quarries harbours etc.	Short	RA as early as possible.	Should be uncontroversial. Suitable for Lords

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LEGISLATIVE PROGRAMME 1976-77

I. ESSENTIAL (Cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
6. FCO	Solomon Islands Independence	To provide for the independence of the Solomon Islands.	6+2 schedules	Probably independence by June/July 1976.	Uncontroversial. Suitable for Lords
7. ODM	Overseas Resources Development	To extend the borrowing limits of the Commonwealth Development Corporation and (possibly) to write off advances to it.	5	Introduction January 1977. RA <u>July 1977</u> .	Only the borrowing limit provisions are essential.
8. DCP	Food Subsidies	To continue milk and butter subsidies and to increase the limits on food subsidy expenditure.	3	Introduction November. RA needed by <u>31 March 1977</u> to continue current milk and butter subsidy powers.	
9. Trade	Civil Aviation (Miscellaneous Provisions)	To increase the CAA's borrowing limits; to provide compulsory third party insurance for aircraft owners; and to make miscellaneous changes.	16 maximum	Introduction November. RA <u>March 1977</u> for borrowing powers.	Only borrowing limit is essential. May need to shorten Bill to ensure early RA,
10. Treasury	International Monetary Fund	To increase the United Kingdom's IMF quota.	2-3	Introduction November.	Uncontroversial. Already drafted.

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LEGISLATIVE PROGRAMME 1976-77

II CONTINGENT

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. MAFF	Fishery Jurisdiction	To extend United Kingdom fishing limits and to provide necessary powers within them.	10-15 + 3 schedules	Could be required at short notice	Policy approved on contingent basis.
2. Energy	Atomic Energy	To enable United Kingdom to implement IAEA agreement on safeguards on nuclear weapons.	5	Date for entry into force will be determined if and when Treaty concluded in June 1976.	Possible candidate for Second Reading Committee. Contingent on satisfactory conclusion of non-proliferation agreement.
3. Energy	British Nuclear Fuels Ltd and The Radio Chemical Centre Ltd Borrowing Powers	To extend the borrowing powers of BNFL and TRC Ltd and to provide Government guarantees on external borrowings.	4-5	RA <u>July 1977</u>	
4. DOE	Control of office building	To extend and amend existing ODP powers.	6 + 1 schedule	Powers expire August 1977. <u>If Bill needed, RA required by Summer Recess.</u>	Ministers have not yet decided whether to renew powers. Next step is to publish Green Paper on office control.
5. DOE	New Towns	To increase the borrowing limits for New Towns.	2	Policy clearance may be as late as Spring 1977.	Other parts of Bill (up to 20 clauses) placed in Reserve List.

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LEGISLATION PROGRAMME 1976-77

II CONTINGENT (cont'd)

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Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
6. FCO	Gilbert Islands Independence	To provide for the independence of the Gilbert Islands.	6 + 2 schedules	Independence may be any time between October 1977 and April 1978.	Uncontroversial. Suitable for Lords.
7. FCO	Rhodesia Independence	To provide for the settlement of the Rhodesia problem.	Short		Might be followed by longer Bill.
8. FCO	St Christopher Nevis (and Anguilla)	To end the status of Associated state for St Kitts-Nevis, and to make separate provision for Anguilla.	6	Introduction January 1977	Contingent on outcome of possible constitutional conference in summer 1976. Suitable for Lords
9. FCO	British North America Acts (Amendment)	To end United Kingdom's powers to amend BNA, and to confer these powers on the Canadian Parliament.	?	?	United Kingdom would need to react quickly if Canadian authorities requested legislation.
10. HO	European Assembly Elections	To provide for the conduct of direct elections to the European Assembly.	Unknown		Green Paper currently under discussion. Select Committee to be set up.
11. HO	Television Licence Fees	To clarify the law relating to the operation of licence fees.	Short		Not certain whether clarification necessary before next increase in fees.

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LEGISLATIVE PROGRAMME 1976-77

II CONTINGENT (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
12. Industry	Post Office (Borrowing)	To increase the GPO's borrowing limits	2	RA could be required by <u>April 1977</u>	Possible candidate for Second Reading Committee
13. NIO	Northern Ireland Constitution	} To deal with developing situation in Northern Ireland	7	Depends on situation	
14. NIO	Northern Ireland Emergency Provisions				
15. ODM	Overseas Aid (Amendment)	To enable the United Kingdom to take up its share of a proposed increase in the International Finance Corporation	3+1 schedule	RA. by <u>September 1977</u>	Decision to subscribe will not be taken before June 1976
16. Treasury + DPCP	Counter-Inflation	To renew counter-inflation and/or price control powers and/or to introduce new powers	10-30	RA by <u>July 1977</u>	If counter-inflation powers are to continue, a short holding Bill would be essential even if it were decided to defer a longer Bill until 1977-78 Session
			5		

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LEGISLATIVE PROGRAMME 1976-77

III DEVOLUTION

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. Privy Council	Devolution	To establish Assemblies for Scotland and Wales	125 + 15 schedules	Introduction November RA <u>July/</u> <u>October 1977</u>	May require up to 30 days of Commons floor time or even more.

LEGISLATIVE PROGRAMME 1976-77

III(i) PROVISIONAL PROGRAMME: FIRST PRIORITY

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. DE } Trade }	Industrial Democracy	To pave the way for a comprehensive measure of industrial democracy in 1977-78	7	If Bullock reports end-year, introduction of short Bill by Easter 1977	Government has made specific commitments to legislate in 1976-77. Decisions not yet taken on timing and scope of Bill.
2. DOE	Homelessness and Housing Finance	a. To give local housing authorities a statutory duty to deal with homelessness b. To reduce housing subsidies from April 1977	20-25		Might need to be 2 Bills
3. HO	Conspiracy and Criminal Law Reform	To reform the law of conspiracy following the Law Commission Report	24+1 Schedule	Introduction November	Report and draft Bill published March but policy changes likely. Firm commitment to legislate in 1976-77. Suitable for Lords
4. Industry	Shipbuilding Industry (Redundancy Payments)	To enable the Secretary of State to finance payments to redundant shipyard workers	2	Introduction November RA required by <u>February 1977</u>	
5. Industry	Post Office Act (Amendment) (industrial democracy)	To provide a two tier board for the Post Office and to make provision for industrial democracy	5-10+1 Schedule	Introduction Spring 1977	Likely to be rather late.

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LEGISLATIVE PROGRAMME 1976-77

III. (ii) PROVISIONAL PROGRAMME - SECOND PRIORITY

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. DE	Industrial Training	To enable Industrial Training Boards to impose levies and improve apprentice training arrangements.	6-8	Introduction November.	Consultation document about to be issued.
2. Energy	Coal Industry	<p>a. To provide a financial reconstruction for NCB.</p> <p>b. To make payments for maintaining employment and promoting the sale of coal and coke.</p> <p>c. To make grants to NCB towards stocking coal and coke</p>	10 + 3 schedules	<p>Introduction November.</p> <p>a.RA might be required by <u>September 1977</u>.</p> <p>b.RA might be needed by <u>March 1977</u> if it was decided to operate payments in 1976-77.</p>	
3. DOE	Road Traffic (Relaxation of Licensing)	To enable the Secretary of State to relax bus licensing for transport experiments.	3	Introduction November.	Bill drafted - nearly made programme in current session. Suitable for Lords.

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LEGISLATIVE PROGRAMME 1976-77

III. (ii) PROVISIONAL PROGRAMME - SECOND PRIORITY (cont'd)

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Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
4. DHSS	Social Security (Amendment)	Various changes in National Insurance and SB scheme, in particular to prevent a further rise in earnings limit for retirement pensions.	10 +	Beginning of Session	Not to be mentioned in Queen's Speech. Depends on assessment of whether Bill could be carried.
5. DHSS	Occupational Pensions Schemes	a. To compel disclosure of information to members and TU's in pension schemes and to provide for more TU and employee representation on boards; b. To give women equal status in pension schemes	18 + 4	Introduction November RA as early as possible in 1977.	
6. HO	Criminal Justice	To reform criminal law, including - a. The distribution of court business (James Committee) b. Identification procedures (Devlin Committee) c. Evidence (Criminal Law Revision Committee Report), d. Provide statutory basis for criminal injuries compensation scheme. e. The treatment of mental offenders (Butler Committee) f. Firearms	70-100 + 8 schedules a. 20 b. short c. 40 d. short e. 15+ f. 20	Introduction by end November	Will have to be shortened to be ready by end November. Suitable for Lords. f. very controversial

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LEGISLATIVE PROGRAMME 1976-77

III. (ii) PROVISIONAL PROGRAMME - SECOND PRIORITY (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
7. DPCP	Exemption Clauses	To limit the avoidance of civil liability for breach of contract and negligence.	18 + 3 schedules	Introduction by November	Part of Bill already drafted, but some policy changes likely. Promises to legislate suitable for Lords.
8. Trade	Patents	a. To enable UK to ratify European Patents Convention b. To bring UK patent law into line with Europe	100 + 3 schedules	Introduction well before Christmas.	Suitable for Lords.
9. WO (DOE)	Water (Equalisation of Charges)	To enable Ministers to proscribe schemes for reducing differentials between English and Welsh water supply charges	10 + 1 schedule	RA needed in time for scheme to come into operation in <u>April 1977</u> .	Policy agreed. Would be a DOE Bill. Top Welsh priority.

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LEGISLATIVE PROGRAMME 1976-77

III(111) PROVISIONAL PROGRAMME: THIRD PRIORITY

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. CSD	Parliamentary Pensions	To implement the recommendations of the Top Salaries Review Body on Parliamentary pensions	20+2 Schedules	Depends on timing and scope of Boyle Committee recommendations	
2. Energy	Power Stations (Financial Arrangements)	To enable Government to contribute to costs of a. CEGB's shareholding in French fast reactor programme; b. introduction of the Steam Generating Heavy Water Reactor.	4-5	Introduction November	Decisions on a. not expected until September Bill could be amalgamated with Electricity (Reserve)
3. Lord Chancellor	Administration of Justice	To reform the administration of justice, in particular the conduct of superior and country courts	30+1 Schedule	Introduction November	Some parts drafted. Scope for shortening
4. NIO	Indicature (NI)	To make major changes in the organisation and jurisdiction of courts	Very long	Introduction February 1977	Firm commitment to legislate. Secretary of State considering how to shorten Bill

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LEGISLATIVE PROGRAMME 1976-77

III(111) PROVISIONAL PROGRAMME: THIRD PRIORITY (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
5. Trade	Merchant Shipping	To improve the control of merchant shipping safety; to modernise conditions of employment; to prevent foreign takeovers of British shipping companies	75+5 Schedules	Introduction November	Legislation promised. Mainly uncontroversial
6. Treasury (CSD)	Miscellaneous Financial and Administrative Provisions	To achieve manpower savings in the Civil Service	5-10	RA needed as early as possible if savings to be achieved in 1977-78 and 1978-79	Depends upon decisions about Civil Service economies. Suitable for Lords
7. Treasury	Banking and Deposit Taking institutions	To increase supervision of banking and deposit taking institutions	20-25+2 Schedules	Introduction November	White Paper to be published shortly. Policy cleared. Commitment to legislate.

LEGISLATIVE PROGRAMME 1976-77

IV. RESERVE

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. MARP	Agricultural Marketing	To reorganise the Central Council for Agricultural and Horticultural Co-operation and to pay various grants for agricultural marketing	15		
2. MARP	Agriculture (Miscellaneous Provisions)	Miscellaneous agriculture provisions including a. control of ova transplants b. to deal with mink and ooypu	19-22	Introduction November	
3. DES	Education (Miscellaneous Provisions)	To enable Secretary of State to pay grants for trade union studies and for research in education; to amend the law on school transport; and other miscellaneous provisions	10	Introduction November RA by April 1977 if provisions to be put into effect in 1977-78	

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LEGISLATIVE PROGRAMME 1976-77

IV. RESERVE (cont'd)

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Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
4. Energy	Oil Pollution	To enable UK to ratify Convention on Civil Liability for Oil Pollution	20	Introduction February 1977 RA by end of Session	Depends upon Agreement being signed in July 1976. Suitable for Second Reading Committee
5. Energy	Electricity	To make changes in the structure of the electricity industry	30-40+ 8 schedules	Introduction before Christmas	Needed to implement recommendations of Flounden Committee. Could be combined with Power Stations (3rd priority). Comprehensive legislation will not now be ready until 1977-78 Session.
6. DOE	Housing Finance	To change the system of local authority housing subsidies, and support for owner-occupation and housing associations	100-150		
7. DOE	Ports	To bring commercial ports and cargo handling into public ownership	70 + 10 schedules	-	DOE, TGWU and PLP now accept no prospect of legislation next Session - whole scheme has changed, and takeover requires PESO allocation of £150 million or more
8. DOE	Town and Country Planning (Enforcement and Development Control)	To strengthen local authorities' powers to enforce development control and deal with unauthorised changes of use	10-12	Introduction November.	Would reduce load on local planning authorities - saving of perhaps £3 million per annum. Suitable for Lords

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IV. RESERVE (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
9. DOE	New Towns	Transfer non-housing assets to local authorities and to define the role of the Commission for New Towns	20	-	Separated from Essential clauses. Secretary of State regards this as a top priority.
10. DOE	Transport and Road	a. to reorganise bus industry and bus licensing system	Up to 60	Introduction November	Follows publication of Transport Consultative Document. Secretary of State regards drink and Drive Bill as a top priority
		b. to strengthen lorry operators' licensing system	a. 34 b. 6		
		c. to control private parking	c. 10		
		d. concessionary fares schemes	d. 8		
		e. to restructure vehicle classification for excise purposes	e. 5-10		
	Drink and Driving	To implement the recommendations of the Blennerhassett Report	5		
11. DOE	Local Government Finance				Ruled out by timing - Layfield Report not yet published

IV. RESERVE (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
12. DOE	National Parks	To implement recommendations of the Sandford Report and Countryside Review Committee	15-20		Most of policy approved but some parts of Bill not likely to be ready until early 1977.
13. DOE	Burial	a. To regulate non-local authority cemeteries to reduce neglect b. to allow building on disused burial grounds	20-25		Might be suitable for Second Reading Committee if controversial clauses on building on burial grounds removed
14. FCO	Papua New Guinea, Western Samoa and Nauru	To make consequential provisions following independence	5+1 schedule.		
15. DHSS	Health Professions	To implement the Briggs Report on the training and education of nurses and to make changes in the Medical Acts	60	Introduction November	Policy may need re-consideration. Public expenditure implications - £27 million per annum after 6 years. Some parts of Bill could be handed to Private Member as separate Bills. Public commitment to legislate

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LEGISLATIVE PROGRAMME 1976-77

IV. RESERVE (cont'd)

Department	Bill	Purpose	No. of clauses	Department's estimate of timing	Comments
16. HO	British Nationality	To replace the British Nationality Act 1948 following the report of the group on nationality law	50	Introduction early 1977	Manifesto commitment to review law. Green Paper expected early summer. Complex and late
17. HO	Official Information	To repeal S.2. of the Official Secrets Act and to give effect to Franks Report with modifications	?	Introduction January	Manifesto Commitment to replace Official Secrets Acts
18. HO	Representation of the People (Service Voters)	To provide for a system of electoral registration for service voters	6	Introduction November	Only needed if Mr Granley Onslow's Private Member's Bill does not succeed this Session

LEGISLATIVE PROGRAMME 1976-77

IV. RESERVE (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
19. HO	Extradition	To modernise a tradition law	30+2 schedules	Introduction February 1977	
20. Industry	Statistics of Trade Act 1947 (Amendment)	To improve the arrangements for the collection and use of economic statistics	9	Introduction November	
21. Lord Chancellor	Matrimonial Homes	To implement the Law Commission Report on co-ownership in the matrimonial home.	35-40 + 2 schedules	Introduction February 1977	Law Commission Report and Bill expected in Autumn
22. Lord Chancellor	Household Goods	To implement the Law Commission Report on the use of property in the matrimonial home.	10-20	Introduction February 1977	Law Commission Report and Bill expected in Autumn
23. ODM	Crown Agents (Incorporation)	To confer corporate status on the Crown Agents	60 + 4 schedules	Introduction January 1977	White Paper published April

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IV. RESERVE (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
24. DPCP	Weights and Measures (Amendment) No 2 + Weights and Measures (Amendment) No 1	To introduce an "average" system of measure To permit goods to be sold in metric units	? 9	Introduction March 1977 Introduction November	Depends upon Working Party report expected June 1976. Late timing may rule out for next Session. But if current Bill does not proceed this Session, may be necessary to reintroduce it in 1977-78
25. DPCP	Regulation of Estate Agency	To license estate agents and to regulate the estate agency business	20 + 2 schedules	Introduction December	Consultative document already issued. Would be welcomed by consumers.
26. DPCP	Nationalised Industries (Consumer Representation)	To implement any recommendations of the National Consumer Council	10-15 + 3 schedules	Introduction March 1977 at earliest	
27. DPCP	Consumer Safety	To improve consumer safety	12 + 2 schedules	Introduction February 1977	
28. DPCP	Fair Trading (Amendment)	To make statutory provision for codes of advertising practice and to improve powers to deal with monopolies and mergers.	50 + 2 schedules	Introduction February 1977	Could be shortened.
29. DPCP	Trade Descriptions (Amendment)	To strengthen the Trade Descriptions Act	30	Introduction November	

LEGISLATIVE PROGRAMME 1976-77

IV. RESERVE (cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
30. Trade	Securities	To increase supervision of the securities market and to deal with insider dealing and warehousing	30-50	Introduction January 1977	No policy decision taken yet
31. Trade	Films (Financial Assistance)	To provide additional finance for film production	3-4 clauses + 1 schedule	Introduction November	Financial limit for NEFC could be reached in Autumn 1977

V. SCOTTISH GRAND COMMITTEE

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
1. S.O.	Representation of the People (Scotland)	To transfer responsibility for Parliamentary elections from the Sheriffs' service to local government.	6	Introduction November	
2. S.O.	Police (Scotland)	To introduce an independent element into police complaints procedure	12	Introduction November	Policy already approved - Bill originally proposed for 1975-76 Session
3. S.O.	Housing (Scotland)	To permit rents to be increased; to make provision for housing subsidies and to give local authorities a duty to house the homeless and provide security of tenure for council house tenants	45	Introduction early 1977 Christmas, RA by July 1977 at latest, to apply retrospectively to 1977-78 financial year.	
4. S.O.	Education (Scotland)	To establish negotiating machinery for teachers' pay and conditions	10	Introduction by Christmas	
5. S.O.	Marriage (Scotland)	To modernise marriage law, following the recommendations of the Kilbrandon Committee	30	Introduction November. RA required fairly early in order for provisions to come into effect by 1 January 1978	Policy already approved

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LEGISLATIVE PROGRAMME 1976-77

V. SCOTTISH GRAND COMMITTEE (Cont'd)

Department	Bill	Purpose	No of clauses	Department's estimate of timing	Comments
6. S.O.	Registration of Title to Land (Scotland)	To modernise the law of land registration	70	Introduction early in session	
7. S.O.	Rating and Valuation (Scotland)	To remove doubts about the rateability of certain oil installations and bridges	4	Introduction November	Policy approach might be accommodated in current session
8. S.O.	New Town (Stonehouse) (Scotland)	To revoke the New Town (Stonehouse) Designation Order and to make consequential provisions.	6	Introduction November	Might be accommodated in current session.

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LEGISLATIVE PROGRAMME 1976-77

VI. OTHERS

i. Suitable for Second Reading Committee Procedure (first list)

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Department	Bill	Purpose	No. of Clauses	Department's estimate of timing	Comments
1. MOD	Gun Barrel Proof	To enable the UK to join the Permanent International Commission for the Proof of Small Firearms	10	Introduction November	Bill ready
2. DOE	Ancient Monuments and Archaeological Areas	To modernize ancient monument legislation and to require developers to provide opportunities for rescue excavations	15-20	Introduction November	Policy approved. Some political attraction
3. FCO	Foreign Compensation (Disposal of Tsarist Assets)	To take over Tsarist assets in the UK and to dispose of them to UK nationals with claims since 1917	3		Depends upon agreement being reached with USSR. Bill ready
4. FCO	Crimes Against Internationally Protected Persons	To enable UK to ratify UN Convention	5	Introduction November	Policy cleared. Commitments to legislate
5. FCO	Diplomatic Privileges	To give privileges and immunities to International Organisations and Conferences in the UK in which the UK does not participate	10		Might be slightly controversial
6. FCO	Colonial Stock Act 1877 (Amendment)	To give holders of stock a remedy of ordinary Court action against the Registrar of the Stock	2	Introduction November	If Bill had to cover Rhodesian stock, might be controversial

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LEGISLATIVE PROGRAMME 1976-77

VI. OTHERS (cont'd)

1. Suitable for Second Reading Committee procedure (first list) (cont'd)

Department	Bill	Purpose	No. of Clauses	Department's estimate of timing	Comments
7. DHSS	National Health Service Optical Charges	To exempt the blind and partially sighted from NHS charges	2		Legislation promised. Policy approved
8. HO	Domestic Proceedings and Magistrates' Courts	To implement the Law Commission's Report on domestic proceedings in Magistrates' Courts	54 + 2 schedules	Introduction November	Report and draft Bill expected Easter 1976
9. HO	Forgery and Counterfeit Currency	To modernise the law relating to forgery and counterfeit currency, as recommended by the Law Commission	19 + 2 schedules	Introduction November	Policy cleared. Most of Bill drafted
10. Lord Chancellor	Torts (Interference with Goods)	To implement the Law Commission Report on Conversion and Detinue	19-20	Introduction November	Bill drafted but some policy aspects being reconsidered.
11. Lord Chancellor	Landlord and Tenant (Implied Covenants)	To implement the Law Commission Report and to improve the law on maintenance of leasehold premises	25	Introduction November	Policy approved. Bill drafted. Subject matter (though not Bill) may be regarded as sensitive
12. Lord Chancellor	Jurisdiction of Ancient Courts	To implement the Law Commission Report and to extinguish obsolete jurisdiction	1 + 2 schedules	Introduction November	
13. WO	Companies (Welsh Language) (Amendment)	To provide for the use of certain Welsh words in company law	1	Introduction November	Policy approved. Welsh Grand Committee

LEGISLATIVE PROGRAMME 1976-77

VI. OTHERS (cont'd)

(ii). Suitable for Second Reading Committee (second list)

Department	Bill	Purpose	No of Clauses	Department's estimate of timing	Comments
1. DOE	Town and Country Planning (Miscella- neous Provisions)	To clarify planning law and to strengthen development control	10		
2. FCO	Diplomatic Privi- leges (Special Missions)	To give effect to the 1969 UN Convention on Special Missions	6+1 schedule	Introduction Spring 1977	
3. FCO	State Immunity	To enable the United Kingdom to ratify the Council of Europe Convention on State Immunity	?		
4. DHSS	Medicines Act 1968 (Amendment)	To rectify minor errors and omissions in the Medicines Act	10	Introduction December	
5. DHSS	Births and Deaths Registration (Amendment)	To implement the recommendations of the Committee on Death Certifi- cation and to modernise the law relating to births, marriages and deaths	20+3 schedules		
6. Trade	Enemy Property	To wind up obsolete provisions dealing with enemy property	12-14+3 schedules		

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LEGISLATIVE PROGRAMME 1976-77

VI. OTHERS

(iii). Suitable for handing to a Private Member

Department	Bill	Purpose	No of Clauses	Department's estimate of timing	Comments
1. DRSS	Infant Life (Preservation)(Amendment)	To reduce the presumption of the age at which a foetus is capable of being born from 28 to 24 weeks	2	Introduction December. RA by Easter 1977	
2. Lord Chancellor	Rent Charges	To implement the Law Commission Report and to prohibit new rent charges	15	Introduction November	Draft Bill available
3. Lord Chancellor	Charging Orders	To implement the Law Commission Report	7	Introduction November	Might be incorporated in Administration of Justice Bill
4. Lord Chancellor	Occupiers' Liability	To implement the Law Commission Report	7	Introduction November	

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17 May 1976

CABINET

RATIFICATION OF THE INTERNATIONAL COVENANTS ON
HUMAN RIGHTS: INDEPENDENT SCHOOLS

Memorandum by the Secretary of State for the Home Department

1. The Home Affairs Committee, at their meeting on 12 May approved a proposal for early ratification by the United Kingdom of the International Covenants on Human Rights which would be subject to a number of derogations and reservations in respect of Northern Ireland and certain other issues of potential difficulty where there is a need to safeguard the United Kingdom interest. In order to stand for election for a place from the outset on the United Nations Committee which will shortly be set up to supervise the implementation of the Covenants, it is very desirable that we should ratify by 23 May.
2. The Committee were unable to reach a consensus of view on the question whether or not a reservation should be made in regard to Article 13 of the Covenant on Economic, Social and Cultural Rights in order to retain the option of abolishing independent schools. Paragraph 3 of this Article (of which the full text is at Annex A) requires States Parties to have respect for the liberty of parents to choose for their children schools other than those established by the public authorities; and paragraph 4 states that no part of the Article shall be construed so as to interfere with the liberty of individuals and bodies to establish and direct educational institutions.
3. If a reservation were made, it is proposed that it should read:

"The Government of the United Kingdom reserve the right to restrict to the public authorities the power to establish and conduct schools."
4. In favour of a reservation on these lines, it was argued that the Manifesto committed the Government to "withdraw tax relief and charitable status from Public Schools, as a first step towards our long-term aim of phasing out fee paying in schools"; that to accept Article 13.3 without a reservation would inhibit a future Government from legislating to abolish

independent schools; and that failure to make a reservation would, more immediately, cast doubt on the Government's willingness to carry out the specific undertaking to withdraw tax relief and charitable status.

5. Those Ministers who opposed a reservation did so on the grounds that the Manifesto commitment did not extend to the abolition of independent schools; that it was, in practice, unlikely that a future Government would wish directly to prohibit such schools; and that the political disadvantages of the domestic controversy which a reservation would provoke would therefore greatly outweigh any practical as well as presentational advantages vis-a-vis our own supporters.

6. There was also a further view, expressed by the Lord Advocate, that a wider reservation might be required (in relation to the religious convictions provision of Article 13.3) in order to enable a future Government to secure the integration of Roman Catholic and non-denominational schools in the public sector in Scotland, if this seemed desirable.

7. In considering these potentially sensitive issues the Cabinet will wish to have in mind that Article 2 of the First Protocol to the European Convention on Human Rights, which the United Kingdom ratified in 1952, reads as follows:-

"No person shall be denied the right to education. In the exercise of any functions which it assumes in relation to education and to teaching, the state shall respect the right of parents to ensure such education and teaching in conformity with their own religious and philosophical convictions."

8. There are conflicting legal views on whether this Article, which is binding on the United Kingdom, already guarantees a right of parents to education for their children outside the State system. Nevertheless, a legal sub-group of the recent working group of officials on Human Rights (which considered the possible incorporation of the European Convention in United Kingdom domestic law) concluded that any attempt to restrict the freedom to establish and to educate children at independent schools may be regarded as a contravention of the Article; and this conclusion, I understand, is supported by obiter dicta of the European Commission, although the European Court has not given judgment in the relevant Danish case.

9. The terms of the Article also suggest that we are already restricted in relation to the point made by the Lord Advocate about the integration of public sector schools in Scotland.

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10. I invite the Cabinet to decide whether or not a reservation should be made in relation to Article 13 of the relevant Covenant on the lines of paragraph 3 above.

R H J

Home Office

17 May 1976

Article 13

1. The States Parties to the present Covenant recognize the right of everyone to education. They agree that education shall be directed to the full development of the human personality and the sense of its dignity, and shall strengthen the respect for human rights and fundamental freedoms. They further agree that education shall enable all persons to participate effectively in a free society, promote understanding, tolerance and friendship among all nations and all racial, ethnic or religious groups, and further the activities of the United Nations for the maintenance of peace.

2. The States Parties to the present Covenant recognize that, with a view to achieving the full realization of this right:

- (a) Primary education shall be compulsory and available free to all;
- (b) Secondary education in its different forms, including technical and vocational secondary education, shall be made generally available and accessible to all by every appropriate means, and in particular by the progressive introduction of free education;
- (c) Higher education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education;
- (d) Fundamental education shall be encouraged or intensified as far

as possible for those persons who have not received or completed the whole period of their primary education;

- (e) The development of a system of schools at all levels shall be actively pursued, an adequate fellowship system shall be established, and the material conditions of teaching staff shall be continuously improved.

3. The States Parties to the present Covenant undertake to have respect for the liberty of parents and, when applicable, legal guardians, to choose for their children schools, other than those established by the public authorities, which conform to such minimum educational standards as may be laid down or approved by the State and to ensure the religious and moral education of their children in conformity with their own convictions.

4. No part of this article shall be construed so as to interfere with the liberty of individuals and bodies to establish and direct educational institutions, subject always to the observance of the principles set forth in paragraph 1 of this Article and to the requirement that the education given in such institutions shall conform to such minimum standards as may be laid down by the State.

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14 May 1976

CABINET

PUBLIC EXPENDITURE

Memorandum by the Chancellor of the Exchequer

1. On 29 April we discussed briefly the serious public expenditure problem reported by the Chief Secretary, Treasury. For our resumed discussion I enclose a further report by the Chief Secretary, Treasury, which reflects recent developments, in particular the large excess in local authority current expenditure (on top of the excess in their spending on council houses and housing subsidies) which the Secretary of State for the Environment has brought to our attention. Cabinet has been warned of these possibilities a number of times, but the scale of the excess expenditure by local authorities is even greater than was feared. If it were to become public knowledge without a simultaneous announcement of corrective measures, there could be grave damage to our credibility as a Government which would be highly dangerous to our economy. The Secretary of State for the Environment and the Chief Secretary, Treasury, have been in consultation on the detailed handling of this situation and will be consulting the other Ministers particularly concerned with local government spending.
2. Sterling has just weathered a period of intense strain, at considerable cost to the reserves. There will be a continuing risk of renewed pressure on the pound until we can fully restore confidence at home and overseas by meeting the following conditions:-
 - a. The new pay deal must receive convincing union support and thereafter must be seen to stick.
 - b. Our policies must be firmly directed towards improving industrial efficiency and this must be made evident by our choice of investment projects in the public sector and by our refusal to underwrite industrial disruption or low productivity.
 - c. We must show decisively that the public expenditure plans in our February White Paper are being adhered to and that the already massive borrowing by the public sector is not being further increased.

SECRET

3. The last of these conditions is the one for which as a Government we have the most direct responsibility. There is a considerable body of opinion, not merely among our political opponents, but also among those in the financial sector on whose confidence we depend both at home and abroad, which believes that we ought to be cutting public expenditure this year; and that if we fail to do this of our own free will, we will sooner or later be compelled to do so by the force of circumstances. I am determined to do everything possible to avoid the unemployment which could result from having to adopt such measures in present circumstances. But it may not be possible to do so unless we prove that we can contain public expenditure this year within the limits we have so recently announced. This is in any case essential if we are to permit the necessary growth in our industrial output and especially in exports.

4. We do not have the same specific powers of control over the current expenditure of the local authorities as we can exercise over their capital programmes; but we must at least make full use of those instruments of pressure and guidance which are available to us. The proposals put forward by the Chief Secretary on this issue are largely in line with those of the Secretary of State for the Environment. They are drastic, as are his proposals on other expenditure issues. But nothing less will match the critical nature of our predicament. They are designed not to cut the programmes we have announced, but to prevent an increase far beyond our commitments. As such they should be thoroughly defensible to our supporters. I ask my colleagues to approve these proposals and to consider how best to present our decisions as a reassertion of our determination to carry through the plans announced in the White Paper.

D W H

Treasury Chambers

14 May 1976

PROGRESS REPORT ON PUBLIC EXPENDITUREMemorandum by the Chief Secretary, Treasury

1. Since my progress report on public expenditure (CP(76)6) which was briefly discussed on 29 April, there have been a number of developments, and in particular the Secretary of State for the Environment has informed us of increased estimates for local authority expenditure which make the outlook for the current year not merely serious but critical, with major implications for 1977-78 also. In the following paragraphs I comment on the more important of these developments and set out my proposals for dealing with them.

Local authority current expenditure

2. Cabinet have been repeatedly alerted to the risks of excess current spending by the local authorities. A holding figure of £100 million has been included for this item in previous progress reports on the contingency reserve. The Secretary of State for the Environment has now reported that revised and more reliable returns indicate that local authorities in England and Wales spent about £150 million more on revenue account last year, and are planning to spend up to £500 million more this year in real terms, than was allowed for in the public expenditure White Paper. There is also some prospective overspending by local authorities in Scotland.

3. We will need to consider, in the context of the Layfield Report, whether to move to more effective control of the local authorities or to give them greater freedom in their spending and, if we were to adopt the latter course, how this should be reflected in our public expenditure planning. But the immediate requirement is to prevent the economic damage from this excess demand on resources which, if not halted now, would carry through into subsequent years also, and the political damage to our standing if we expose

ourselves to fresh criticism that public expenditure in general, and the local authority sector in particular, is out of control. Clearly we must require the local authorities to cut back the excess in order to give credibility to the request, in my view, we should be prepared to say that, unless they do so, we will consider withholding the further grant otherwise due to be paid under a Cost Increase Order later this year.

Housing

4. In my last report I drew attention to the excess developing in council house building and the subsidy bill for them this year. On the other hand, there are now prospective shortfalls in improvement grants to the private sector and in acquisition of houses for municipalisation which, between them, involve around £60 million. This leaves a net claim of £140 million on the contingency reserve in respect of the housing programme as a whole. I have discussed with the Secretary of State for the Environment the possibility of other savings to offset this requirement, principally by a suspension of local authority mortgage lending in the latter part of this year, but also by further retrenchment on municipalisation. Naturally the Secretary of State sees difficulty about these suggestions, and I recognise the invidious position in which he is placed but, in view of the seriousness of the public expenditure situation as a whole, I see no alternative but to press for these offsetting savings.

5. As regards future years, I have warned in previous progress reports of the danger of failing to secure the savings on the subsidy bill announced in the White Paper, and also of the probable need to consider bringing the council house building programme under control. The Secretary of State has now proposed, and I have agreed that in the first instance our officials should make a progress report to us within a month on the feasibility of a control on housing investment.

Food subsidies and school meals

6. In my last report I said that we might have to look again later at the programme for phasing out food subsidies, but that meanwhile the White Paper programme should stand. This was on the basis that a concession on food subsidies might be necessary in the negotiations with the unions in order to secure an agreement on wages. The unions pressed for a variety of concessions on the expenditure front, which could have involved very large amounts, but EY Committee decided that any such concessions must be kept within a total of £50 million. Within this figure, priority has been given to postponement of the planned increase in charges for school meals, at an estimated cost of £35 million. This limited concession will be important in securing not only the general benefits of a low pay round but also the avoidance of an excess in the public sector pay bill which would have been entailed by a high level of pay settlements. However, against this background, the previous proposal on food subsidies lapses, and the programme for phasing out will have to be rigidly adhered to.

Shipbuilding

7. EI Committee have agreed in principle to new subsidies for the shipbuilding industry entailing, in addition to the existing White Paper provision, perhaps £4 million this year and £18 million next year. We have always regarded some support for this industry as an ineluctable claim on the contingency reserve and I did not enter any reservation on this particular conclusion. I should, however, be resolutely opposed to further ideas which have been floated, especially the idea of speculative building of ships in the absence of orders, whether in Belfast or in other shipyards.

Child benefit scheme

8. We will be considering a separate paper on the implications of postponing introduction of child benefit grants and on possible

compensatory measures. I favour postponement, but I should be bound to oppose incurring expenditure on new alternative arrangements. If we do after all decide to introduce the scheme next year, I can only re-state my proposals for keeping the cost to a minimum, partly by the exclusion of non-resident children from the scheme.

State of the Contingency Reserve

9. The resulting position as regards the contingency reserve for this year and next can be summarised as follows -

	£ million		
	1975 Survey Prices	1976-77 Prices	1977-78 Prices
1. White Paper contingency reserve	700	875	900
2. Already charged to the reserve, or now recommended	400	456	293
3. Balance in the reserve	300	419	607
4. Child benefits		-	66-190
5. Other firm bids (including housing but excluding local authority current expenditure)		225	159
6. Balance		194	258-382
7. Other claims not yet firm (excluding local authority current expenditure)		420-560	530-570

Conclusions and recommendations

10. We must make it an overriding objective to keep within our White Paper plans and demonstrate that we are doing so. This means that we must avoid any net excess in expenditure from the contingency reserve this year and avoid building up claims against the contingency reserve for future years. I believe that the results of failure in this would be disastrous economically and politically.

SECRET

11. In order to achieve this objective it may become necessary to propose reductions in all expenditure programmes across the board. For the time being I confine my proposals to offsetting or avoiding excesses in those particular programmes where they have occurred or are threatened, starting with local authority current expenditure, which by itself could consume the balance of the contingency reserve.

12. In the light of the considerations set out above and in my last report, I recommend that Cabinet should approve the following proposals:-

- (a) The Local Authority Associations should be informed immediately that the whole of the reported excess must be cut back and that, unless this is done, we will consider withholding further grant due to be paid later in the year under a Cost Increase Order, and that the cash limit for rate support grant will be cut back to a total exclusive of such cost increases.
- (b) The net excess in housing expenditure this year should be offset by reductions in local authority mortgage lending and acquisition of houses for municipalisation.
- (c) The requirement for the coal stockpile should be kept to a minimum; and the Ministers responsible for the nationalised industries and other industrial programmes should preclude any further claims on the contingency reserve for additional expenditure, including working capital, by accommodating the amount required within the programmes already approved.
- (d) The Secretary of State for Education should be invited to bring forward proposals to implement the reductions agreed by Cabinet in the net cost of educating overseas students.

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- (e) We should postpone introduction of the child benefit scheme and avoid any alternative new expenditure.
- (f) The Secretary of State for Social Services, in conjunction with the Secretary of State for Education, should be invited to bring forward revised proposals for achieving the savings already agreed by Cabinet in the payment of social security benefits to students in the light of our decisions on the child benefit scheme.

SECRET

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CP(76) 16

COPY NO

81

14 May 1976

CABINET

PUBLIC EXPENDITURE: LOCAL AUTHORITY CURRENT
EXPENDITURE 1976-77

Note by the Secretary of State for the Environment

1. We shall be discussing the Contingency Fund on the basis of the Chancellor of the Exchequer's memorandum CP(76) 15 covering a note by the Chief Secretary. His memorandum refers to the possibility of a substantial overspend by local authorities on current expenditure for 1976-77.
2. As background to this, I circulate the attached letter which I have sent to Ministerial colleagues most immediately concerned.
3. I shall need to have the Cabinet's view on the line I should take with local authorities when I chair the next meeting of the Consultative Council on Local Government Finance on 26 May 1976.

P S

Department of the Environment

14 May 1976

SECRET



2 MARSHAM STREET
LONDON SW1P 3EB

12 May 1976

Dear Mr. Barrett

LOCAL GOVERNMENT EXPENDITURE 1976/77

I should bring to your notice the disquieting information we have just received that local authorities in England and Wales may be proposing to spend considerably more in current expenditure than allowed for in the public expenditure White Paper (Cmd. 6393) - by something of the order of £300/500m.

This information comes from the returns that local authorities make this month to us and the local authority associations of their expenditure plans for 1976/77 which were used in drawing up the budget estimates for the 1976/77 rate. They also show the estimated outturn for 1975/76. The latter itself seems to be considerably in excess of what was expected both by central government and local authorities during the Rate Support Grant negotiations last autumn - perhaps by £100/150m. Basing ourselves on a 1975/76 figure that was too low, therefore, we had assumed on the basis of the rate demands for 1976/77 that while some excess expenditure by local authorities was likely - it would be small and would not amount to more than £100m overall. But it now turns out that they were adding to an already higher 1975/76 total; and are planning for a further overspend as well.

The annex to this letter sets out what the overspends are, service by service. The figures in the annex are in November 1975 prices. They are probably inaccurate in some considerable degree - local authorities do consistently over-estimate the expenditure they are likely to incur, and they may have allowed too much inflation in their budgets for individual services, and if they do not use the whole of this allowance, it may be transferred to balances and benefit the rates in 1977/78. We are having the figures examined as a matter of urgency to see if we can form more reliable estimate of likely local authority expenditure. Nevertheless, the prospect is of a substantial overspend of what has been provided in Cmd. 6393 unless action is taken to restrain this.

I recognise how sensitive the revelation of a potential overspend of £300/£500m might be. It is bound to become public in due course: the local authority associations have the figures already and we shall have to say something about them at the meeting of the Consultative Council on 26 May. (Officials will be meeting the local authority associations at the Official Steering Group on 13 May, and will also need to express extreme disquiet). I think we should agree a line of action to make it clear that, when the excess becomes public, we are acting to make the public expenditure figures stick. I do not think it would be sufficient simply to pass the figures back to the local authorities and tell them that they must cut back their expenditure plans in 1976/77. There are the following possibilities:

- i. In addition to asking for expenditure to be cut back, we could ask for a further return in, say two months' time which would show how local authorities intended to accomplish the necessary savings: this would be a new development, and might be criticised as a new intervention by central government into the affairs of local authorities, but they would find it difficult to resist. (Any follow-up action against individual authorities, after we had received the returns, would be much more difficult).
- ii. We could say now that we will reduce the Rate Support Grant Increase Order for 1976/77 to take account of any excess. We have provided £480m for this within the cash limits towards possible inflation in 1976/77. It would normally be decided on in November. This would effect a reduction in expenditure. But it has some difficulties: to say that I will make a reduced Increase Order, before I have information about price rises which I am bound by statute to consider, might leave us open to challenge. It would be grossly unfair, since it would affect both the authorities who had made big savings already and those who had not. It would also add another element of uncertainty to the Rate Support Grant situation, which already suffers too much from this.
- iii. We could say that the 1977/78 Rate Support Grant settlement we shall be negotiating this autumn will be based on the assumption that the final outturn for 1976/77 has been kept down to the level implicit in the public expenditure figures, and that any excess would have been put to balances and be available for next year's expenditures. Thus the percentage rate of RSG would be well down on that for the current year. This also would penalise 'good' and 'bad' authorities alike, but not as badly as making no Increase Order in the autumn.

It is important that we should recognise that the local authorities will try to argue that the new figures merely reflect the costs of present policies after all the necessary economies have been made, and that the Cmd 6393 figures are simply on too low a base. They can say that the increases do not involve Government paying any more in Rate Support Grant, or the ratepayers in higher rates than those already being levied. They will themselves no doubt argue that the figures are unreliably high, and that we ought not to take precipitate action because of this - which will, of course, reinforce our demand for a further return, as suggested in para 4.1. above. And if we press for cuts, Ministers will have to say how these should be accomplished, for example to reduce expenditure in the particular services by the amount of excess shown in the Annex.

Given the urgency of this, you may think it right to have a meeting of Ministers especially concerned very quickly. I should perhaps say that, in the slightly longer term, I am sure we must study how we can prevent such large switches in expenditure coming to our notice in this way without warning. But this is a question with considerable implications - not forgetting Layfield among them!

I am sending copies to Roy Jenkins, Bruce Millan, John Morris, David Ennals, Fred Mulley and to Sir John Hunt.

Yours Sincerely
P. M. Shore

EP. PETER SHORE

COMPARISON OF CURRENT EXPENDITURES IN THE REG
SEPARATED WITH INFORMATION FROM CRRP/DOE
RETURN OF RATES, BY CATEGORY, FOR 1976/77

SERVICE	1976/77 at Nov. 75 figures as in Circular 129/75 (1)	Other current expenditure in Return of Rates: 1976/77 (2)	Difference between columns (1) and (2) (3)	% increase - column (2) on (1) (rounded) (4)
Education	4769.7	4948.2	178.5	4%
Libraries, Museums Galleries	160.2	163.9	3.7	2%
PERSONAL SOCIAL SERVICES	805.5	855.9	50.4	6%
PORT HEALTH	1.8	*		
POLICE	798.8	855.2	56.4	7%
FIRE	204.0	212.0	8.0	4%
ADMIN. (Magistrates OF (Other courts JUSTICE (Probation (Homes	40.0 4.5 40.5 0.5			
TOTAL	85.5	90.7	5.2	6%
School crossings	9.3	*		
Registration of Electors	7.8	*		
Civil Defence	2.7	*		
Urban Programmes	22.7	*		
Refuse collection and disposal	256.9	276.7	19.8	8%
Recreation	239.5	244.2	4.7	2%
General Administration	213.0	182.9	-30.1	-14%
Environmental Health	135.2	125.4	-9.8	-7%
RACP	124.8	133.5	8.7	7%
GRF Contrib. to Trading	3.5	28.0	24.5	700%
Cemeteries & Crematoria	16.0	20.6	4.6	29%
Fishing and Fish	39.6	*		
Miscellaneous	88.4	*		
Consumer Protection	19.5	*		
Local (Rev. Support	133.3	205.8	73.5	55%
Transport (Other	563.3	605.7	42.4	8%
TOTAL	696.6	812.8	115.9	17%
Concessionary Fares	61.6	83.2	21.6	35%
HOUSING - Other	30.2	27.6	-2.6	-9%
Prisons Service	21.0	*		
Sheltered Employment	6.9	*		
Residual services - other	*	(210.7)	(210.7)	31%
TOTAL - Other current exp	6320.7	6348.6	27.9	0%
Housing - GRF Contribution	160.0	285.8	125.8	65%
TOTAL	8989.7	6634.4	544.7	7%

* N/A

Notes: amounts reported in return of rates at current prices = 230% at 10% inflation
allowance requires c. 230% off column (2), a negligible amount.

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CP(76) 17
14 May 1976

COPY NO 81

CABINET

STEEL CLOSURES REVIEW: SHOTTON

Memorandum by Secretary of State for Industry

In his memorandum reporting on the recent discussion on Shotton in the Economic and Industrial Committee (EI) (CP(76) 11) the Chancellor of the Exchequer has outlined the two options originally presented to EI and the third option introduced during our discussion in EI Committee. Some of the important considerations which led me to recommend Option II to my colleagues are not covered in the memorandum and I think Cabinet should take these into account in reaching decisions on this difficult issue.

INDUSTRIAL CASE FOR OPTION II

2. If I had thought a course of action could be justified which permitted the expansion of Port Talbot to go ahead at the same time as the construction of a new steel plant at Shotton, I would have recommended it unhesitatingly to my colleagues in EI. However, my examination of the alternatives convinced me that on grounds of capital cost and excess capacity such a course was ruled out as an industrial solution.

3. In my view the economic arguments in favour of Option I set out in paragraph 6 of the Chancellor's paper are subject to important qualifications which are not mentioned there. Thus, it says that the cost per tonne of the additional liquid steel capacity in Option I would be 15 per cent less. But this is subsumed in the production cost of the hot rolled coil made from the liquid steel. Paragraph 6 says this is 5½ per cent lower in Option I. However, when officials examined all the options last year, they noted that Option I would be more vulnerable to disrupted production (eg by labour disputes) than Option II, because all production would be concentrated in one plant. They concluded that this and other vulnerabilities of Option I should be reflected in the figures for production cost and suggested that variations in assumptions might reduce the production cost advantage of Option I over Option II to £2.8/tonne, or only 3 per cent of the average production cost. Again, paragraph 6 says that output per man is almost 20 per cent higher (in Option I). But estimates of future productivity provide no assurance that these production levels will be achieved in practice; the track record of the workforces has to be taken into account. Port Talbot's record, as indicated for example in the damaging strike earlier this year, inspires no confidence

that the high productivity figures estimated for Option I represent the likely outcome of future dependence on the one plant. The Shotton workforce, on the other hand, has an outstanding record of freedom from disputes. Even in terms of capital cost, the difference between the options may no longer be as shown in Annex A to the Chancellor's paper. We know that the BSC are continuing to examine the cost of Option I and their latest estimate for it, at September 1975 prices, contains a special contingency element of £80 million which would represent an increase in real terms over the September 1974 estimate.

4. These represent significant qualifications to the apparent strength of the economic and industrial case for Option I. And, against that case, qualified as it needs to be, I would set what I consider the real industrial advantages of Option II -

a. with a new steel plant with 2.25 million tonnes capacity, as proposed by the workforce, Shotton would be an efficient and modern steel producer. BSC have effectively admitted that such a plant would supply Shotton's own finishing end with hot rolled coil costing no more and probably marginally less than the coil transported from Port Talbot in Option I. So this is not a matter of 'perpetuating steel production (in North Wales) on an uneconomic basis' as has been suggested. A new hot rolling mill would certainly not be needed in the present round of investment at Shotton;

b. we would continue to make use of the skills of a traditional steelmaking community with a proven record of good labour relations and uninterrupted production;

c. by continuing to make this element of BSC's strip mill output in two modern plants instead of one we would have better protection against disruption to supply whether from technical problems, transport difficulties (the need to carry coke from Shotton to Port Talbot and hot rolled coil from Port Talbot to Shotton) or labour disputes. This would be a valuable insurance for steel consuming industries.

SOCIAL AND EMPLOYMENT CASE FOR OPTION II

5. Up to now Shotton has been heavily dependent upon steel jobs: BSC provides 60 per cent of the male manufacturing employment in the travel to work area. Both Shotton, whose male unemployment rate has increased by 146 per cent in the last 2 years, and on a much greater scale Merseyside, have suffered substantial blows to employment over the past 12 months. These are described in the Annexes to this paper.

6. The task of replacing the jobs already lost to Shotton and on Merseyside will be difficult enough. Even in Option II we have the prospect of adding to our problem with 2600 redundancies from BSC, but the local unions are prepared to accept this as the price for securing a long term future for steelmaking in the area. To increase the direct and indirect loss of jobs

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by a further 4400, as would be implied by selecting Option I, would in my view make it impossible - in spite of all our efforts and of BSC's - for us to provide alternative employment over the next five years on the scale needed to alleviate the social hardship we would be causing in the Shotton area. In addition, the action we took to help Shotton would be increasingly at the expense of other Assisted Areas, most probably Merseyside, where the problems of unemployment and its social consequences remain very severe.

7. Option I would also face us with some difficult and far reaching decisions about the direction of our regional development policies. If we wanted to be seen to be doing all in our power to help Shotton, we would find it hard to resist calls to upgrade it from its present Intermediate Area status; indeed, there would be pressure to make it a Special Development Area (SDA). Not only would this have a limited effect on the real problem of job replacement, given the competition from existing SDAs, but it would also lead to renewed pressure from other areas for changes in Assisted Area boundaries which we have hitherto been able to resist. Such changes would in turn dilute the overall effectiveness of our regional strategy unless accompanied by some down-grading - for instance, of Aberdeen and the surrounding areas - which would raise other political difficulties.

CLOSURE REVIEW

8. In deciding that Option II is the course we should adopt, I have been guided above all by the objectives we set ourselves in establishing the review of BSC's closure programme. We considered that the plans agreed by the Conservatives did not take enough account of the social effects of making people redundant in areas heavily dependant on steel industry employment. In some cases there were also real doubts about the economic arguments used by BSC to justify closure. Our review was intended to take a more balanced view of the economic case and a more compassionate view of the social implications of what BSC planned. In the light of these aims and of the points to which I have drawn attention above, I strongly recommend Option II to my colleagues.

EV

Department of Industry

14 May 1976

EMPLOYMENT PROBLEMS IN THE SHOTTON AREA

Until recently Shotton enjoyed a relatively low unemployment rate (see detailed figures in Annex B). But in the past two years (roughly the period covered by the closure review) the male unemployment rate has increased by 146% and it is now substantially higher than the average for Great Britain. On Merseyside the male rate at 12.5% is one of the highest in the country, and there are now nearly 60,000 males (75,000 total) unemployed. By comparison the male rate in Port Talbot has increased only by around 50% and has improved from being slightly above the GB average in April 1974 to being sensibly below it today.

2 Among the reasons for the increase in unemployment and for the prospects of further unemployment around Shotton are:

(a) Courtaulds

At one time the company provided 15% of the male manufacturing jobs in the Deeside area but it has been reducing its labour force over the last two years. It recently announced the "mothballing" of one of its Greenfield plants (involving 600 jobs - 400 to be made redundant and 200 redeployed under a worksharing scheme) and there is no certainty about the long-term future of the Deeside plant (1000 employees).

(b) Hawker Siddeley

Hawker Siddeley provides about one-third of the male manufacturing jobs in the Chester area. The prospects for maintaining employment in the next three years are good but, beyond that, much will depend on receipt of orders.

(c) Tillie & Henderson

The firm (which makes light clothing) has been placed in the hands of a Receiver, putting 575 jobs at risk in the Clwyd/Chester area. Trading continues at present and financial assistance has been sought from this Department.

3 On Merseyside also there are problems in a number of individual industries, but on a much larger scale:

- (a) telecommunications - as a result of the cutback in Post Office orders, 900 redundancies were announced by Plessey in February this year;

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- (b) electronics - the closure of the Thorn factory in Skelmersdale resulted in the loss of 1,400 jobs;
- (c) glass - there have been 750 redundancies at Pilkington's Ravenhead plant;
- (d) shipbuilding - the report of the inter-departmental group included the possibility of substantial job losses at Cammell Laird, if measures to secure orders prove unsuccessful, jobs were also lost at Western Shiprepairers;
- (e) sugar - there is uncertainty as to the future of jobs at the Liverpool refinery of Tate and Lyle.

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ANNEX B

UNEMPLOYED

	MALES		TOTAL		% EXCL A/S SEE NOTE
	Nos	%	Nos.	%	
<u>APRIL 1974</u>					
<u>INCLUDING ADULT STUDENTS</u>					
PORT TALBOT TTWA	2209	4.1	2919	3.8	
SCOTTON TTWA	961	3.2	1346	3.3	
CHESTER EDA	1225	4.1	1540	2.9	
MERSEYSIDE SDA	39088	8.3	46476	6.2	
NORTH WEST REGION	87487	5.2	105145	3.8	3.4
WALES	35288	5.4	44162	4.3	3.7
GREAT BRITAIN	532067	3.9	646775	2.8	2.5
<u>APRIL 1975</u>					
<u>INCLUDING ADULT STUDENTS</u>					
PORT TALBOT TTWA	2593	4.8	3543	4.6	
SCOTTON TTWA	1564	5.2	2226	5.5	
CHESTER EDA	1913	6.4	2467	4.7	
MERSEYSIDE SDA	50190	10.7	62083	8.2	
NORTH WEST REGION	119760	7.2	147749	5.3	4.7
WALES	46154	7.1	59554	5.8	5.0
GREAT BRITAIN	718727	5.2	899729	3.9	3.5
<u>APRIL 1976 (PROVISIONAL)</u>					
<u>INCLUDING ADULT STUDENTS</u>					
PORT TALBOT TTWA	3272	6.0	4676	6.1	
SCOTTON TTWA	2363	7.9	3215	7.9	
CHESTER EDA	2371	8.0	3047	5.8	
MERSEYSIDE SDA	58850	12.5	75390	10.0	
NORTH WEST REGION	146385	8.7	185257	6.6	



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UNEMPLOYED

	MALES		TOTAL		% EXCL A/S SE NOTE
	Nos	%	Nos.	%	
<u>APRIL 1976 (PROVISIONAL) contd...</u>					
WALES	57359	8.9	73872	7.2	
GREAT BRITAIN	959138	6.9	1,231,218	5.4	

NOTES:

IN APRIL 1974 THERE WAS A TOTAL OF 11525 ADULT STUDENTS IN THE NORTH WEST REGION, 6221 IN WALES AND 66857 IN GREAT BRITAIN.

IN APRIL 1975 THERE WAS A TOTAL OF 16043 ADULT STUDENTS IN THE NORTH WEST, 8521 IN WALES AND 91530 IN GREAT BRITAIN.

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CP(76) 18

COPY NO 81

17 May 1976

CABINET

IMPLICATIONS OF POSTPONING CHILD BENEFIT

Note by the Chancellor of the Exchequer and the Secretary of State
for Social Services

We attach a memorandum which has been prepared by Treasury and
Department of Health and Social Security officials, in accordance with the
request made by the Cabinet at their meeting on 6 May
(CM(76) 3rd Conclusions, Minute 3).

D W H
D E

Treasury Chambers

17 May 1976

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IMPLICATIONS OF POSTPONING CHILD BENEFIT AND POSSIBLE COMPENSATING MEASURES

Memorandum by Treasury and Department of Health & Social Security Officials

1. This paper has been prepared by officials in response to the request made by Cabinet at their meeting on 6 May. Part I considers the administrative, expenditure and other implications of postponing the introduction of the Child Benefit (CB) scheme beyond the present starting date of April 1977. It assumes that Family Allowances (FAM) and Child Tax Allowances (CTAs) would be continued on their present basis. Part II examines a way of phasing in the Child Benefit scheme in 1977 which would be equivalent to extending FAM to the first child and would reduce the effect of the scheme on take-home pay. Part III discusses possible measures to relieve family poverty which might be combined with a decision to postpone the scheme. The administrative implications of postponement for the DHSS are set out in Annex 1. The manpower requirements of the CB scheme are shown in Annex 2. The Government's existing commitments on the starting date of CB are listed in Annex 3 while Annex 4 shows the development of the commitment to transferring family support from husband to wife.

SUMMARY

2. The conclusions of the paper are as follows:

- (i) Provided that a decision is taken on 20 May, it would be possible to postpone the CB scheme. The administrative difficulties could be overcome but the Government would be criticised for abortive expenditure on preparations.
- (ii) Postponement would have several important advantages: it would avoid an abrupt reduction in take-home pay at the time of the next pay deal and would also avoid a substantial increase in public expenditure and in net Exchequer cost.

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Ministers will want to weigh these advantages against the political disadvantages of postponing a scheme to which they are firmly committed.

(iii) If however Ministers decided in favour of postponement, there would be considerable advantage in making it for three years (or sine die) rather than for one year or two.

(iv) As an alternative to postponement, the drop in take-home pay could be reduced by phasing in the CB scheme. (It is not possible to extend FAM to the first child for 1977.) This would involve reducing instead of abolishing the under-11 rate of CTA, making the CB rate for second and subsequent children the same as the present FAM rate and perhaps paying a lower rate of CB for the first child. This option would be as expensive as Child Benefit at the rates which the Cabinet has considered. It would also add to DHSS staff costs while delaying the offsetting staff saving from Inland Revenue.

(v) Other alternatives for 1977 would depart altogether (for that year) from the CB concept, but would help to relieve family poverty. These would include an increase in Child Interim Benefit (for one-parent families), an increase in FAM for large families, an increase and extension of Family Income Supplement, and a relaxation for those with families of the entitlement conditions for the higher rate of supplementary allowances.

I. IMPLICATIONS OF POSTPONEMENT

(1) The problems

3. It is not yet too late to postpone the starting date of the CB scheme but it soon will be. That is because a decision on postponement is linked with the rate of benefit to be paid on FAM renewal order

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books, which must now be printed for issue from August at the rate of about 100,000 a week. The books run for 12 months and so it is necessary to decide whether, in the five months April - September 1977, the families will receive FAM or CB. The deadline for printing the order books was 6 May but, if a firm decision can be taken - one way or the other - on 20 May, it should just be possible to issue them in time. If the decision were left beyond that date, many families would not have their new order books when the old ones expired.

4. The administrative task of postponement would be feasible but the consequences would be formidable. Preparations are far advanced and expensive commitments have been undertaken. In particular:

(i) The large new office complex which has been specially built in Washington New Town would stand empty, unless and until temporary alternative use could be arranged.

(ii) Five hundred clerical staff are already in post. Many more clerical posts have been advertised and 2,500 applications received. Jobs are desperately needed in the area and the saving from not employing these staff would be partly offset by social security payments.

(iii) There might be trouble with the staff side in DHSS over those DHSS staff in Newcastle who have volunteered for the CB centre.

(iv) Thirteen million claim packs would be wasted (because the starting date is printed on them).

(Details of these and other consequences are given in Annex 1.)

5. It would be necessary to continue the payment of Child Interim Benefit (CHIB) for the first child of one-parent families. (CHIB was introduced only in April this year at £1.50 a week - the same rate as FAM.) There would be no great operational difficulty about that and

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no need for new legislation. The cost of CHIB would continue to be about £20 million a year gross and £10 million net.

6. The position on students is more awkward. Although postponement of CBs would not create any serious administrative problem, it would be necessary for DHSS to take action over the 100,000 parents who have been told that their student sons and daughters would probably be excluded from child benefit. Moreover, following the meeting of the Social Services Committee on 3 May, reference was about to be made to the Cabinet on two related questions: first, how to re-shape the student support system if CTAs were abolished in respect of students and secondly, what to do about students' present access to supplementary and unemployment benefits. If a decision to abolish CTAs were deferred, the first question would have to be deferred with it. The second would remain but it would have to be looked at afresh in the new situation.

(11) The advantages

7. An important advantage of postponing the CB scheme would - as Ministers are well aware - be that this would avoid the sharp cut in take-home pay which all family men would otherwise suffer in April 1977 through losing their CTAs. The loss would vary from £2.02 a week for one child to £5.44 for four children and more for more children. This would create a dangerous pressure on pay in the midst of discussions with the TUC on incomes policy for 1977-78. Against that there is the political expectation of a substantial increase in the support made directly available to the mother - to which all parties are committed and which informed opinion welcomes as a socially valuable reform.

8. The effect on manpower of postponing the CB scheme would be a saving in the short-term but a hump in later years (depending on when it was introduced). With a 1977 start to the CB scheme the extra staff

compared with April 1976, would build up to 3,900 by October 1976 dropping to about 1,000 by April 1978. For a start in 1978, the peak would be reached in October 1977 and would continue in 1978-79 - the first year of the £140 million reduction in expenditure on civil service administration - and the fall would not occur until April 1979. If the start could be deferred for 3 years, until April 1980, the peak would not occur until October 1979; moreover, if Ministers then wished, child benefit could be age-related from the start and age-related CTAs could be abolished: the peak number of staff would then be lower at 3,700 and would fall more rapidly thereafter. (Detailed figures are given in Annex 2 and are shown on the graph.) The estimated saving on staff costs from postponement would be about £10 million a year in 1976-77 and in 1977-78 (if the postponement were for more than one year).

9. The main effect of postponement on public expenditure would however be that it would avoid the net Exchequer cost of the new benefits: about £40 million at a CB rate of £2.45 a week (with a 50p premium for some families) rising to £116 million at a flat rate of £2.65 a week. And a further £45 million on CTAs for non-resident children (if the decision were to retain them after the start of the CB scheme). On the other hand a statutory reduction in the entitlement of students to social security benefits, which would produce the required saving of £15 million in public expenditure, would be more difficult ^{to achieve} if CTAs had to be retained (see paragraph 6).

10. Postponement would also have a presentational advantage. Whenever the CB scheme is introduced, it will look like a large addition to public expenditure on the social services. The fact that the greater part of it is offset by a reduction in tax reliefs will make little impression on the outside observer. By deferring the scheme the Government would look as if they were doing something about

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the level of public expenditure and this is a point on which there has been substantial home and overseas criticism.

11. The DHS3 would question however whether, in 1977-78 and 1978-79, any net Exchequer savings are likely to be obtained from postponement, in view of the pressures to increase either FAM or CTAs or both. An increase of 50p on FAM costs about £80 million^{a year}/net of tax apart from substantially increasing the eventual impact cost of CB.

A full year's cost of the 1976 increase in CTAs is £300 million. Against that the Treasury view is that it might well be harder for Ministers to resist pressure to uprate CB, once introduced, than to resist on a combination of FAM and CTA. (It would be administratively possible to increase CBs five months after the scheme was begun.)

12. Ministers will want to consider whether the above advantages - which are substantial - outweigh the political disadvantage of postponing yet again a scheme which they have firmly and repeatedly committed themselves to introduce in April 1977 (see Annexes 3 and 4). A possible way of avoiding this dilemma may be to phase in Child Benefit starting in 1977: this is considered in Part II.

(111) Length of postponement

13. If Ministers wish to postpone the CB scheme, they will need to decide whether to do so for one year, two years, three years, or since die. The points set out below are relevant to this decision.

14. Postponement for ONE year, to April 1978, would mean that the CB scheme was introduced at the same time as Better Pensions; there would then be a fall in take-home pay not only from the withdrawal of CTAs but also from the increase in national insurance contributions: about 50p a week for those on average earnings who were not contracted out. Moreover the peak in staff numbers would continue into 1978-79 (see paragraph 8).

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15. Postponement for TWO years, to April 1979, would cause major difficulties for Inland Revenue, who have to undertake a large re-coding for life insurance relief in the Autumn of 1978 and for DHSS who expect that their local offices will be struggling, in 1978-79, to deal with queries arising from the new pension scheme.

16. Postponement for THREE years, to April 1980 would avoid both the administrative difficulties of a start in 1979 and the coincidence with higher insurance contributions of a start in 1978. Moreover it would then be possible, if Ministers wished, to move directly from an age-related system of CTAs to age-related CBe, instead of continuing with "residual CTAs" for children over 11. With three years warning it should also be possible to prepare both family men and parents of overseas children for the loss of their CTAs and to devise suitable compensation for a new generation of students.

17. Postponement of the scheme simpliciter would leave Ministers with the maximum freedom of choice. They could say that the new scheme would be introduced "as soon as economic circumstances permit". This would enhance their credibility in some quarters but would damage it in others.

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POSSIBLE PHASING IN OF CHILD BENEFIT IN 1977

18. The obvious alternative to CB would seem to be to extend the existing FAM to first children from April 1977. Apart, however, from cost considerations, this would not now be a feasible operation and it would require principal legislation.

19. Much the same result could, however, be achieved under the existing Child Benefit Act, which provides for the payment of benefit for all children including the first and does not itself govern the withdrawal of CTAs nor the taxation of benefits. In this way CB could still be paid for all children subject to whatever tax arrangements were dictated by cost and operational considerations.

20. Under this arrangement it would not be necessary to take away the whole of the under 11 rate of CTA as had been intended. To take the simplest example, if CB were the same as the present FAM rate of £1.50 and were paid to all children, parents would receive a £1.50 tax-free cash payment for each child and a CTA reduced by £1.30 for every child. For most families the reduction in take-home pay would be only 88p but the overall cash gain would be 62p. This scheme would be broadly similar in its distributional effects to the original £2.65 scheme and the net cost would be about the same (£160 million including the payment of full rate CTAs to non-resident children). However, those below the tax threshold would not gain as much as under the original CB scheme. The key difference is in the effect on take home pay. The cost could be reduced either by paying a lower rate of benefit for first children or by reducing the rate of CTA for all children by rather more. Both options would have disadvantages. A lower benefit for the first child would look odd in a scheme designed to end discrimination against first

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children and would run contrary to previous Government statements that they would introduce the CB scheme at a flat rate. It would also have operational difficulties for DHSS and involve a small premium for one-parent families. Reducing the rate of CTA for all children would put first children on the same footing as other children but would increase the take-home pay effects and involve premiums for large as well as one-parent families.

21. The simplest scheme, and two less costly variations, are shown in the table below. The illustrations are for basic rate taxpayers in two-parent families:

Child benefit	CTAs under 11	Effect on take-home pay	Net cash gain for family	Premiums required	Net Exchequer Cost (1975 Survey Prices)
Weekly	(a) Annual	Weekly	weekly	Weekly	(b) Annual
£1.50 for all children	£170	Fall of 88p a family	£1.50 to non-taxpayers; 62p to taxpayers	None	£162 m
£1.20 for 1st child; £1.50 for other children	£170	Fall of 88p a family	£1.20 to non-taxpayers; 32p to taxpayers	50p a family for 1-parent families	£90 m
£1.50 for all children	£140	Fall of £1.08 for 1 child families; and a further fall of 20p for each subsequent child	£1.50 to non-taxpayers; taxpaying 1 child families gain 42p, 2 child families 22p, 3 child families 2p. (c)	50p for each child in 1 parent families and 4th and subsequent child in 2 parent families	£81 m

Notes

(a) CTAs for children 11-15 inclusive would be £35 higher

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and for 16-18 inclusive £65 higher. CTAs for children 19 and over would be £365 in all cases.

(b) Includes present estimated cost of £45m for CTAs for non-resident children; this cost would be lower if CTAs were allowed at reduced rates only.

(c) With the premium larger families make a cash gain, increasing with the size of family.

22. The above schemes assume that the proposals for reducing CTAs would be operationally feasible for the Inland Revenue. Further study is being given to this, including its manpower implications. An alternative approach which would be to subject the CB to tax and clawback as with FAM at present. Both would be collected as a deduction from tax allowances and shown as such on PAYE codings. The distributional effects would, however, be similar.

23. The adoption of any of the above options would have the following advantages:

(a) The CB scheme could be introduced while mitigating the main objection to the original proposals, the substantial fall in take-home pay.

(b) The gains for the great majority, the taxpaying families, would be of the same order and there would still be a substantial gain for those below the tax threshold.

(c) Whilst leaving some rough edges, it would avoid many of the political and practical disadvantages of postponement.

24. On the other hand, in addition to the difficulties discussed in paragraph 20 above, the options would have the following disadvantages:

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(a) They all involve a substantial net Exchequer cost of the same order as the original schemes plus the £45 million for non-resident children.

(b) All the manpower costs of introducing CB would be incurred but the offsetting savings on the Inland Revenue would not be available.

(c) All the options still involve a reduction in the father's take-home pay though less than with the CB scheme (for example, 88p or £1.28 for a two-child family compared with £3.16).

(d) Although the overall gains for families would be broadly the same, presentationally a CB rate of £1.50 would be much less than any figure previously discussed or expected publicly.

25. Students: With CTAs retained for all children at substantial levels there could be no question of excluding students under 19 from the child benefit scheme as previously planned.

26. Non-resident children: With these more modest reductions in take-home pay it might be possible to avoid special treatment for non-resident children - this would reduce costs by £19 to £22 million on the basis of the options in paragraph 21 above.

POSSIBLE ANTI-POVERTY MEASURES IF SCHEME POSTPONED

27. If Ministers decide to postpone the scheme they may wish to consider some accompanying measures to relieve family poverty.

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28. The possibilities which we have considered are:

Postponement of future increases in the school meal charge.

Increase in Child Interim Benefit.

Increase in FAM for large families.

Increase and extend Family Income Supplement to those working
24 hours a week.

Reduce the waiting period for long-term supplementary benefit
for families with children.

29. School meal charge: In addition to the 5p increase (to 20p) due in September 1976 whose postponement until April 1977 was announced on 5 May, Cmd 6393 assumed increases of another 5p in September 1977, another 10p in September 1978, and a further 10p in September 1979. However, these increases have not been announced and only obliquely implied in Cmd 6393. It would thus be difficult to make much impact on public opinion generally by cancelling any of them. At the same time, local education authorities would recognise the significance of any change and would be highly critical of it, especially if it were introduced without reference to them at a time when Ministers are avowedly bringing them within the public expenditure planning process. This measure therefore seems unpromising, especially in view of the savings which would have to be foregone - about £24 million in 1977-78 rising to some £96 million in 1979-80 (at 1975 Survey prices). Eligibility for free school meals would in any case be unimpaired.

30. Increase in CHIB: Another option would be to increase the payment of Child Interim Benefit, for the first child of one-parent families, from the present £1.50 a week to £2.50 a week. The gross cost would be £12 million a year; after allowing for savings on supplementary benefit,

the net increase in public expenditure would be £11½ million. As CHIB is taxed, the net Exchequer cost would be less, at £8 million. Simple legislation amending the Child Benefit Act would be required. Any increase would be likely to raise the minimum rate at which Child Benefit could reasonably be introduced in the future, and/or to make inevitable a continuing premium for one-parent families. It would also add to the complexities of tax administration. It would benefit some 250,000 families. Staffing costs would be a minimum of 300 for 5 weeks, but many more if take-up among supplementary benefit recipients increased substantially as it well might.

31. FAM for large families: This option has a precedent: higher rates of FAM for third and subsequent children were introduced in 1956, and in 1967-68 large families were given their increases in FAM before others. The gross cost of raising the present £1.50 a week to £2 for fourth and subsequent children would be £16 million a year. The net public expenditure cost would be £12½ million, and the net Exchequer cost £10 million. This, too, would require simple amending legislation. Like an increase in CHIB, it would either push up the minimum feasible rate of Child Benefit and/or make inevitable a continuing premium for large families. It would benefit 500,000 families. This would require some 3,000 extra staff for 8 weeks and a small number permanently.

32. Increase and extension of Family Income Supplement (FIS): Present expenditure provision allows for FIS to be uprated only by prices. To uprate instead by earnings would probably prevent the numbers on FIS from falling and would cost less than £1 million extra a year. A further change would be to reduce the number of hours' work necessary to qualify single parent families for FIS. At present FIS is paid only where they work at least 30 hours a week. A reduction to 24 hours a

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week would enable about 5,000 more one-parent families to qualify. The benefit would be a real help to them. It would also carry out one of the Finer Committee recommendations. The cost would be only £1 million a year and the staffing costs would be small (300 extra for 4 weeks and a few extra permanently).

33. Long-term Supplementary Benefit: At present all those who receive supplementary allowances, with the sole exception of the unemployed, are eligible for a higher rate after they have been on benefit two years. The unemployed never qualify. Two possible changes would be to reduce the qualifying period for those with dependent children from two years to one, and to bring into entitlement (also after one year) those of the unemployed who have dependent children. This would benefit nearly 100,000 families and cost about £14 million. Unless this were introduced at the uprating (and it is already too late for November 1976) the staff costs would be substantial - 3,000 for 15 weeks. In any case 200 extra staff would be needed permanently.

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POSTPONEMENT OF CB - ADMINISTRATIVE IMPLICATIONS FOR DHSS

Although first payments will not be made until April 1977, claims will be taken and books issued from August/September 1976, only 4 months from now. All the administrative preparations have been made, and although some of the work can be put into storage there is bound to be waste and confusion at a change so late in the day. Some of this will be obvious to the public and will attract criticism. For example:

- a. Order books. Renewal books (running for 12 months) issued from next August are to contain both FAM and Child Benefit orders. The covers are a different colour from ordinary FAM books and they have child benefit notes (telling payees about title and changes which have to be reported) as well as FAM notes. We can still print the foils with FAM rates but there is not time to change the covers and notes. About 1½ million books could be involved (about a third of the FAM load) and these would remain in use for 12 months.
- b. Forms already issued. DHSS have already had to write to parents of older children so as to identify students who are to be excluded from CB. This has been done on the basis of a start in April 1977 - 100,000 forms with this date in have gone out.
- c. Leaflets. 1½ million "claim packs" consisting of leaflet, index slip and 2 forms have been printed for the take on of single child families. These contain the 77 start date and would have to be wasted at a cost of about £150,000.
- d. Accommodation. CB is to be run from a large new complex of buildings at Washington New Town Co Durham. It was because high alumina cement had been used in one of these buildings that the original 1976 start date was lost. The buildings needed for the take on are virtually ready. Temporary alternative use would have to be considered. This would not be easy and would complicate the take on of CB when it came about.
- e. Staff. The CB centre at Washington will provide immediate employment for 1,500-2,000 people increasing later to about 2,500. Local recruitment is well under way and many existing staff in DHSS Newcastle Central Office have volunteered for transfer. There may therefore be local political difficulty over not providing the expected employment opportunities; the embarrassment and expense of having to get rid of or redeploy people already recruited; trouble with the Newcastle staff side over transfers not honoured.
- f. Future developments. Deferring the start is likely to defer the date (at present 1979) age relation can be introduced (with consequent saving of staff on CTAs) and the introduction of 13 week books which would enable us to uprate without over-stamping in local offices (which costs £1m-1½m every time).

MANPOWER CONSEQUENCES OF INTRODUCING THE CHILD BENEFIT SCHEME

1977 START

	<u>DHSS</u>	<u>REVENUE</u>	<u>TOTAL</u>	<u>TOTAL COMPARED WITH APRIL '76</u>
April 1976*	2500	1500	4000	-
October 1976	5400	2500	7900	+3900
April 1977	5600	1900	7500	+3500
April 1978	3200	1700 [†]	4900	+ 900
April 1979	3700*	1300 [†]	5000	+1000
April 1980	3700*	800 [†]	4500	+ 500
April 1985	3700*	200**	3900	- 100

*Tax in payment; CTA's and clawback operating. DHSS figures include about 500 staff for Child Benefit.

†Revenue figures cover residual CTA's; adjustment for Higher Rate Tax payers and CTA's for children overseas.

**Staff for Higher rate tax adjustments only.

* Includes an initial estimate of 500 staff for age related benefit.

1978 and 1979 START

A deferment to 1978 or 1979 puts the table shown above back by 1 or 2 years as appropriate.

1980 START

Assumptions CB would start with Age- Related Benefit; CTAs for overseas children would have been phased out; and Higher rate tax relief would continue.

	<u>DHSS</u>	<u>REVENUE</u>	<u>TOTAL</u>	<u>TOTAL COMPARED WITH APRIL '76</u>
April 76 to 79	2500	1500	4000	-
October 79	5400	2300	7700	+3700
April 1980	3700	1700	5400	+1400
April 1981	3700	1100	4800	+ 800
April 1982	3700	900	4600	+ 600
April 1986	3700	200	3900	- 100

The profile of the Child Benefit staff requirements is illustrated in the attached graph (related to a 1977 start).

GOVERNMENT COMMITMENTS ON START DATE OF CHILD BENEFIT.

February 1974. Labour Government takes office pledged in the manifesto to introduce cash allowances for all children, including the first.

Summer 1974-Spring 1975. Mounting criticism by MP's of absence of any action on pledge. Government says cannot start "before April 1976 at the earliest" because of the operational difficulties in launching so large a scheme.

April 1975. (over a year since original commitment and after press leaks and speculation of postponement) Postponement of scheme announced because buildings had had to be halted because high alumina cement had been used. Start date given in House as April 1977. Difficulty over building represented by the Opposition as an excuse, real reason for deferment being supposed to be public expenditure considerations. In making the announcement in his Budget Statement on 15 April 1975, Chancellor said:

"I also said last November that the Government would carry out their commitment to introduce a new scheme of child cash allowances or child benefits, payable for all children including the first, as soon as resources and the practicalities of administration allowed. We have now decided that, subject to parliamentary approval of the necessary legislation, the scheme will be introduced in April 1977. This is in fact the earliest date by which it is administratively practicable to extend family benefits to all of the 7 million families which will be eligible - over 3 million more than those now receiving family allowances. Such a scheme is, of course, potentially expensive; and against the background of the economic prospects and the resulting need to hold back planned expenditure, which I have already described, we shall need to accommodate its cost within the total which, in the light of future reviews, we conclude that we can devote to public expenditure at large in the years beyond 1976-77." (Hansard 15 April 1975 Vol 890 col 297)

Summer 1975. During passage of Bill Labour backbenchers and Opposition attempted to write start date into Bill, because they suspected Government's good intentions. The Opposition spokesman said:

"I am sure that the Government will not resist these amendments, because they have used these dates throughout as a defence, and even I would not dare to suspect them of just fobbing off the House. I am sure that they would not come back with the lame excuse that they did not have the necessary powers, or that the building was not ready, or that perhaps another part of it had

fallen down, or that the carpets were not ready, or something else of that sort, so that they could claim that it was not possible to proceed in 1976 or 1977. But in case the Treasury succeeds in encouraging the Department to take that view, we have provided the opportunity for the Department to put its own date into the Bill."^{*}

The amendments were resisted on the grounds that they were unnecessary: the scheme was to start in April 1977, and putting the start date in a later commencement order rather than in the Bill was a mere technicality. Mrs Castle said on Report: "it is the long accepted practice in social security legislation....that the principal legislation lays down the benefit structure and the operational dates are set out in a commencement order...the Chancellor and I have told the House that child benefit....will begin in April 1977". (Hansard 7 July 1975 - vol 895 col. 198).

February 1976. Public Expenditure White Paper specifically refers to "the introduction of the new general scheme of child benefit in April 1977". (Cmd 6393 page 102 para 8).

26 April 1976. In answer to a PQ, Mr Orme said:

"The child benefit scheme, set up under the Child Benefit Act passed last year, will come into operation next April. We hope to make a statement about the rate of benefit shortly". (Hansard Vol 910 col 49-50)

13 May 1976. In answer to Mr Kenneth Clarke's question

"whether the Government remains committed to the introduction of the new system of child benefit in full in April 1977".

Mr Smalls said "I have nothing to add to earlier statements".

25 May 1976. Mrs Barbara Castle has a question for oral answer down to the Secretary of State for Social Services

"if he will announce the rate at which child benefit will be introduced next year".

* Hansard 7 July 1975 vol 895 col 191.

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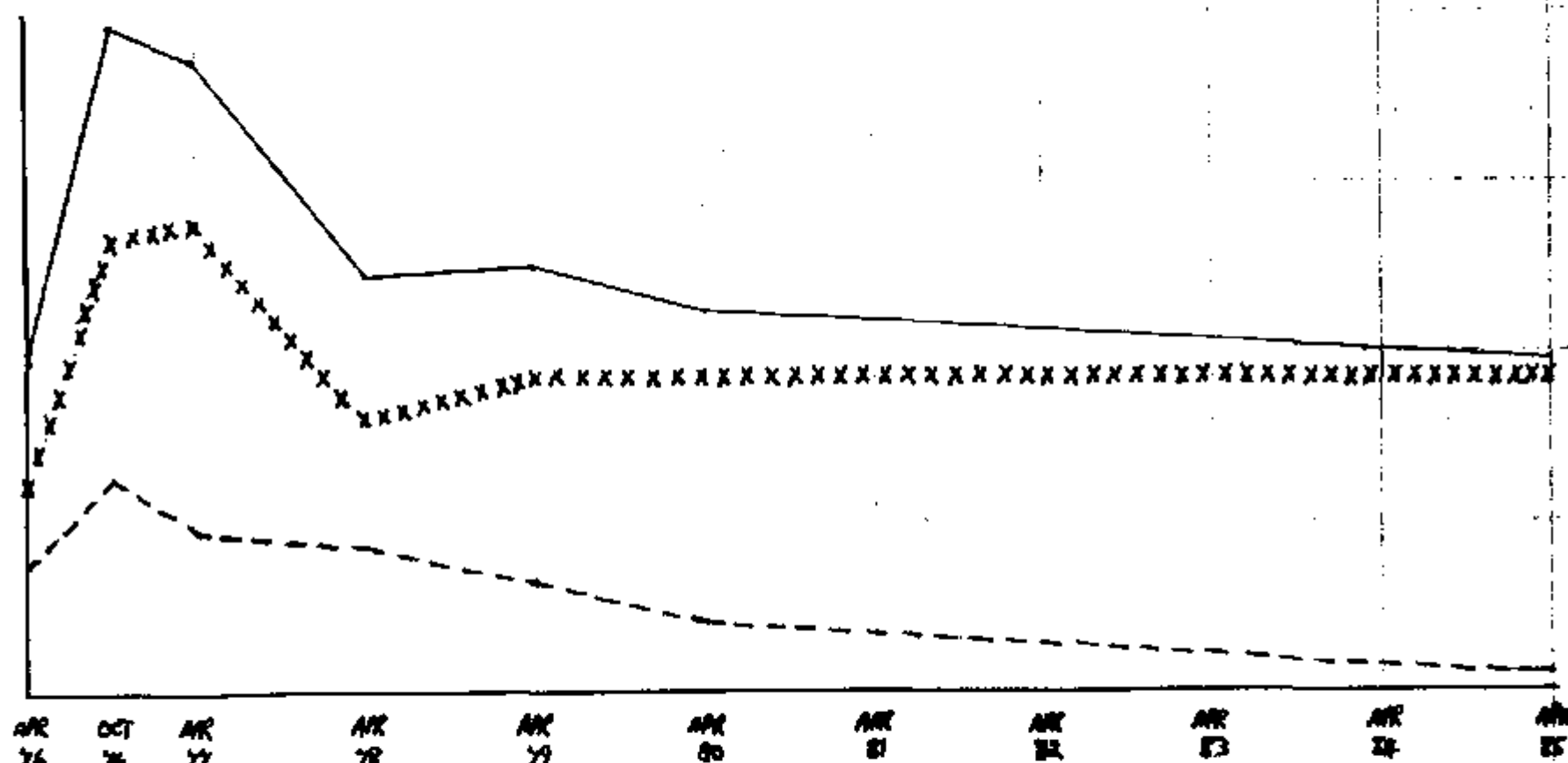
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KEY

--- REVENUE

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— REVENUE + DHSS



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DEVELOPMENT OF POLITICAL COMMITMENT TO TRANSFERRING FAMILY SUPPORT FROM HUSBAND TO WIFE

The Conservative Tax Credit proposals (November 1972 Green Paper) originally left open the question whether husband or wife should get the child credit. There was a massive reaction in favour of the wife. Mrs Castle presented a petition with over 5m signatures. Amongst many other organisations strongly in favour were the TUC although they wanted a phased transfer of support from husband to wife. They confirmed their view that the wife should get the credit when closely questioned in oral evidence. The Select Committee, in a full and reasoned section of their Report in July 1973, came down decisively in favour of the wife. This was both hailed by the Labour members as a victory for their point of view, and welcomed by the Conservative Government.

In the same year the Labour party, within which the transfer had been studied for some time, became publicly committed to payment to the mother. Family Endowment, as the Child Benefit scheme was then called, was a firm commitment in both Labours 1974 Election Manifestos.

The smaller parties have been enthusiastically in favour of payment to the wife, which has thus had all party support from 1973.

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17 May 1976

CABINET

PROGRAMME ANALYSIS AND REVIEW AND
LONGER TERM PUBLIC EXPENDITURE SAVINGS

Note by the Chancellor of the Exchequer

I attach a memorandum by the Chief Secretary, Treasury, with which I am in full agreement.

D W H

Treasury Chambers

17 May 1976

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POLICY STUDIES TO IDENTIFY POTENTIAL
LONGER TERM SAVINGS

Memorandum by the Chief Secretary to the Treasury

At our discussion of public expenditure on 11 December 1975 (CG(75) 55th Conclusions, Minute 2, conclusion 14) the Secretary to the Cabinet was asked to consider ways of identifying potential policy changes which would lead to public expenditure savings but would only come to fruition in the longer term. This matter was raised again at Cabinet on 28 March (CG(76) 12th Conclusions, Minute 3) when it was agreed that this work should be pressed ahead.

2. Following discussion of this remit at official level, it was agreed that the best way of handling it was to marry it up with the next PAR programme and to give us an opportunity to discuss a fairly wide range of topics before the PAR programme is finally settled. In rolling forward the programme to cover the period 1976-78, particular attention has been given therefore to possible subjects for study, whether within or outside PAR, which could lead to longer term savings.

3. I am therefore putting forward for my colleagues' approval the PAR programme set out in Annex I. It has been drawn up by the interdepartmental Committee on Programme Analysis and Review (PARC) and has my approval. To set the programme against a wider background, Annex II lists other major policy studies which departments are proposing over the next three years. A list of PAR options is included in Annex III. These are subjects which are prima facie suitable for PAR reviews but on which the departments concerned would have reservations.

4. In addition to all these proposed studies the Lord Privy Seal has drawn attention to the need for studies of manpower intensive activities in the memorandum on "Cutting the Cost of
/the

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the Civil Service" (CP(76)9) which the Cabinet considered last week. These are to include a study, under arrangements to be agreed with the Secretary of State for Social Services, of ways of making savings on the administration of personal taxation and of social security benefits with particular regard to areas where these systems overlap.

5. We must recognise that policy reviews put a burden on scarce resources of Departmental manpower. But in general the studies listed in the Annexes are concentrated on areas involving significant amounts of expenditure and/or manpower resources, and most of them will be undertaken in the expectation that a thorough review could lead either to savings (of expenditure and/or manpower) or increased effectiveness. In principle the need for such reviews is greater rather than less when resources are under severe constraint, and it would be counter-productive if we failed to make every effort to find the relatively small staff resources required.

6. I ask my colleagues to endorse the PAR programme set out in Annex I, to take note of the list of other policy studies in Annex II, and to consider whether any of the options in Annex III should also be studied, within PAR or otherwise.

JB

H M Treasury

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PAR PROGRAMME 1976-78

PART I

STUDIES ARRANGED BY SUBJECT

(Lead Department noted after title. The Treasury and Central Policy Review Staff are concerned with every study and the Civil Service Department when their interests are involved. Other Departments with an interest are noted at the end of each description.)

1. THE ECONOMY (Industry, Agriculture, Trade, Employment, Research)
- a. Studies completed but not yet submitted to Ministers collectively

- i. Farm Structure Policy

Report completed.

- b. Studies in progress

- i. Regional Industrial Policy (DIa - continuing from 1975)

In 1976-77 expenditure is forecast to be around £575m. The PAR is concentrating on incentives in regional policy, though also taking into account effects of infrastructure investment. The PAR will examine the relative merits of encouraging mobility of firms by capital and labour subsidies and of labour. The effectiveness of past measures will be examined, and it is hoped that a preliminary assessment can be made of the effects of the 1972 Industry Act. The results may be of some help in working out the UK's approach to the EEC regional policy measures. The work started in 1975, is continuing in 1976, and it is expected that the Report will be available after the Summer Recess. (DEa, DOE, SO, WO, CSO).

- ii. Fisheries (MAFF - 1976-1978)

£21m in 1976-77. This is in two parts. The first is on the immediate issues arising in current international negotiations and will help to clarify EMG's policy objectives and options for

those negotiations. The second part will cover Government support and policy bearing on the fishing industry, with particular regard for the effect of the UN Conference on the Law of the Sea and for the development of the common fisheries policy of the EEC. This stage cannot be tackled until the outcome of these international developments is known, and completion is not therefore expected until 1978. (DAFS, DANI, FCO).

c. Proposed Studies

i. Energy Conservation (DEn: 1977)

A final decision on undertaking this review will be taken later.

The study is not costable. Its purpose would be to assess the effects of the energy conservation measures already implemented and to consider whether existing measures could be made more effective and whether new measures should be introduced. (DIn, DOE and some cooperation from most other Departments).

ii. Government R&D Post-Rothschild (Cabinet Office - 1977)⁺

A review of the experience and effectiveness of post-Rothschild arrangements and whether any further work should be done in the light of this. Total Government expenditure on R&D in 1975-76 was some £1205m. (DIn, DES, DHSS, MOD, DOE, MAFF, DEn, SO).

iii. Industrial R&D (DIn - Provisional for 1977)⁺

The scope of this study has not been defined; it might cover such questions as whether the results of research are adopted sufficiently rapidly by industry, and whether adequate economic and industrial benefits are obtained from R&D expenditure. (Expenditure on general industrial R&D and industrial and technological sponsorship - excluding aerospace - was about £40m in 1975-76).

iv. Animal Health Policy (MAFF - 1978)

Expenditure in GB is estimated at £34m in 1976-77 falling to £22m in 1978-79 as a nationwide programme of brucellosis eradication nears completion. The study

would cover all areas of animal health arrangements directed towards the improvement of agricultural productivity. (DAFS).

NOTES

/ The precise arrangements for and organisation of these two R and D studies will need to be worked out between the Department of Industry and the Cabinet Office when the scope of, and responsibility for the Zuckermann Review are clearer.

i. Two studies noted as possible 1978 reviews were (i) a review of current UK and EEC policy towards hill farming, and (ii) a further review of Agricultural Strategy as justified after the lapse of time since Cmd 6020, on UK food policy. The case for both these reviews will be considered next year.

ii. There is a need for some analytical stocktaking review after the upturn, of counter cyclical measures, both employment and investment. Employment aspects may however be covered by the interdepartmental Manpower Group. The situation will be considered again next year to see whether a review should be undertaken in one combined study or otherwise.

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2. THE ENVIRONMENT

a. Studies completed but not yet submitted to Ministers collectively
Nil

b. Studies in progress

i. Review of Housing Finance (DOE and SO, continuing from 1975)
£3500m in 1975-76 plus tax relief on mortgages. A long-term comprehensive review of the existing system of housing finance in both the public and private sectors in conjunction with other departments concerned. The review is based on an objective economic analysis of the working of the housing market. (WO, IR, DHSS, DEu, DIu). The separate but parallel review being carried out in Scotland is linked with the DOE review, particularly in relation to owner occupation and mortgage lending. The Department of the Environment had hoped to complete the review and publish a consultative document this summer, but that will not now be possible until later in the year. A Green/ White Paper (for Scotland) is possible for summer/autumn.

ii. Transport Policy Review (DOE, Continuing from 1975)
£2400m in 1975-76. A review of the whole of inland surface transport in Great Britain. A Consultative Document has been published. The Secretary of State has indicated that there should be a Government statement after the summer recess, (DPCP; DIu; DT; DEu; SO; WO).

c. Proposed studies

i. Review of the Working of the Rent Acts in the light of the Housing Finance Review (DOE and SO - 1976)

Following on from the Housing Finance Review. (WO, IR).

ii. Anti-Pollution Policy (DOE - 1977 - Provisional)

(This review will not take place if the Royal Commission recommendation for a Pollution Inspectorate is implemented.)

A study of all aspects of pollution and a review of the effectiveness of anti-pollution measures, with particular reference to the arrangements for clean air and water, the disposal of solid and toxic wastes, and the wide-ranging problem of noise. (SO, WO, DI, DEu, DHSS; DT; DEu).

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iii. Settlement Patterns in Declining Areas (DOE - 1978 - Provisional)

The study would be a follow-up to the PAR on Rural Depopulation and would examine evidence on the success of the policy of concentrating population growth and development in selected settlements in sparsely populated areas as a means of countering rural depopulation. It would consider the feasibility of adopting this policy more widely. The case for this study will be reconsidered in the light of further research, some of which is already started, as it may be more appropriate for the subject to take the form of a research project rather than a full-scale policy review. (SO, WO, DI, MAFF, DEM, Forestry Comm).

iv. Urban Deprivation II (HO - Provisional - Open date)

This study, as a follow-up to the completed Stage I, is in abeyance pending the outcome of the DOE study on Inner City Areas, and Ministerial decision on how follow-up action should be organised. (DOE, SO, WO, DEM, DHSS).

NOTES

i. A review of Inter Urban Public Passenger Transport, originally envisaged as a PAR study for 1976, is one of the specific issues which the proposed National Transport Council might commission when it has been set up. The PARC Committee has some reservations on the possible delay that this might entail. The prospects for this study, and for it being undertaken principally by the Department of the Environment, on commission if need be from the National Transport Council, should therefore be kept under review.

3. EDUCATION AND TRAINING

a. Studies completed but not yet submitted to Ministers collectively

i. Post Graduate Loans (DES)

Completed last year but not yet discussed by Ministers collectively.

b. Studies in progress

i. Finance and Control of Non-University Higher Education in England and Wales (DES - 1975 not yet completed)

About £550m in 1975-1976, rising to £600m in 1980-81. The aim of the review is to consider whether changes should be made in the method of financing and controlling non-university institutions of higher education in England and Wales. (WO). Completion has been deferred by the Department pending clarification of the implications of the Layfield Report and devolution proposals. This deferment has been considered by the PARC Committee. While both the responsible Department and Central Departments are in agreement on the need to complete this PAR, there is disagreement on its timing, the Central Departments favouring completion at an early date, the DES favouring further deferment.

ii. Financial Control and Institutional Structure of Higher Education Sector (SED 1975 - Not yet completed)

£60 m in 1975-76 and in 1978-79. The aim of the study is to review the structure and organisation of the higher education sector in Scotland, including the relationship between institutions of higher education and central and local government and to consider what measures might be necessary to improve the coordination of provision of higher education. Again, as for the corresponding review in England and Wales, the Department is deferring completion, and consider it premature to do otherwise, whereas the Central Departments consider that it should be completed at an early date.

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iii. School Building (DES - 1975/6)

Capital expenditure on schools is £375m in 1975-76, falling to £200m in 1980-81. The element for improvement is £31m for starts in 1975-76 falling to £16m in 1980-81. The study is covering the replacement and improvement programme for primary and secondary school building. A central aim is to establish a systematic long-term approach to the problem of renewing the country's school building. In preparation for the review, a sample survey of existing school buildings was conducted. The Report is expected this Summer. (SED, WO, DOE).

c. Studies proposed

i. Student Residence (DES 1976)

This review will re-examine the proposition that the supply of private lodgings is unlikely to match the expected rise in the student population and to consider the means for encouraging more students to live at home, and other possible ways of alleviating this problem (SED).

ii. Non-Teaching Costs (SED - 1978)

£120m in 1975-76 falling to £118m in 1979-80. This study will examine this large element (about 30%) of recurrent expenditure on schools and will look in particular at policy on the employment of non-teacher staff.

4. HEALTH AND SOCIAL WELFARE; SOCIAL SUBJECTS GENERALLY

- a. Studies completed but not yet submitted to Ministers collectively
Nil
- b. Studies in progress

i. Priorities within the Health and Personal Social Services
(DHSS - continuing from 1975)

£5,285m in 1975-76. A comprehensive study of health and personal social services priorities. A forward programme budget has been produced to assist in the selection of options.

A Consultative Document has been published. The PAR will identify the main issues and the conclusions recommended. (SO, WC).

ii. *Advisory Services for Citizens (DPCP - continuing from 1975)

A preliminary study, continuing from 1975, is surveying the purposes and extent of existing services and their inter-relationships. Citizens' Advice Bureaux, consumer advice centres, trading standards departments, law centres, housing advice centres are among those covered. A concurrent survey by the National Consumer Council is now awaited. Once this is available, a decision will be taken on whether to proceed to a review of priorities for future development, and of the scope for coordinating and rationalising activities in this field, and on the nature of the review (PAR or otherwise). (LCO, DOE, HO, DHSS, SO, WO, CSD, DBa).

iii. *Distributional Effects of Expenditure Programmes
(Treasury - continuing from 1975)

A preliminary interdepartmental Report by a Working Party of economists and statisticians has been completed, examining the feasibility of and recommending on a common classification system for data on distributional effects. Provisional views on the scope of the PAR are that it should deal with (a) the distributional

effects of new policy proposals rather than those of existing programmes, (b) that it should relate to income and social economic groups, not to regional aspects and (c) it should concentrate primarily on the main social expenditures which bear directly on income distribution. The confirmation of this approach and the scope for its further development and possible application will need to be discussed at the PARC Sub Committee set up to conduct this PAR. (DPCP, DOE, DEM, DIn, IR, MAFF, DES, DHSS, HO, SO, WO CSO).

c. Studies proposed

i. Economic Effects of Food Subsidies (Provisional)
(DPCP - 1976/7)

£576m in 1975-76. If some food subsidies seem likely to remain in the longer term, consideration will be given to an examination of their economic effects on food production and processing, prices and profits, food distribution, and the balance of payments etc. The need for a PAR will be reviewed before starting it. (MAFF).

ii. *Relative Needs for, and Standards of Public Services in
England, Scotland, Wales and Northern Ireland
(Treasury - 1976/7)

Paragraph 100 of the White Paper "Our Changing Democracy; Devolution to Scotland and Wales" (Cmd 6348) stresses the importance of objective information on standards of and needs for public services in Scotland, England, Wales and Northern Ireland, for the purpose of negotiating the block grants which are proposed as the basis of the financial system under devolution. This PAR will be undertaken in this context. It will consider existing measures of relative need and output for services likely to be devolved in England, Scotland and Wales; and for the corresponding services in Northern Ireland; what resources could be devoted to collecting evidence of relative costs, and the longer term prospects for relating needs to expenditure. (DOE, SO, WO, NIO, DHSS, DES HO, DEM).⁴ Most associating Departments have reservations on the possible manpower demands for their input to this PAR.

iii. N.H.S. Capital Programme - (DHSS - 1977 - Provisional)

\$385m in 1975-76. Following the review of priorities within the health and personal social services, particular areas are to be selected for detailed review. This is the first such selection. It would review the cost of different elements in the health programme, the scope for redeploying stock, the balance between new provision, improvement and replacement and the overall balance between capital and revenue account. (DOE).

iv. NHS Manpower Supply and Demand (DHSS - 1978 - Provisional)

\$2760m in 1975-76. This is the second particular area for study following the review of priorities within the health and personal social services. It would consider the demand for the various categories of NHS manpower implied by expenditure projections, the supply likely to be available and the relationship with the country's supply of manpower including that of part-time staff. (DEM).

NOTES

Most Departments associating with this PAR on relative needs for and standards of public services in devolved regions have expressed some reservations on the possible manpower demands which their contributions to this review might impose on them.

5. LAW, ORDER AND PUBLIC SAFETY

a. Studies completed but not yet submitted to Ministers collectively

Nil

b. Studies in Progress

i. Custodial Care of Offenders (HO - Continuing from 1975)

£162m, in 1975-6 of which the staff element is £88m. The custodial care of offenders, for which the prison service is principally responsible, has always been a highly labour-intensive activity. Trends in penal policy indicate this is not likely to change within the next few years. The object of this PAR is to consider the demands for manpower in the prison service in the light both of recent developments in penal policy and of present forecasts of the supply conditions in the appropriate labour markets. Completion is expected soon. (LCO, MOD, DHSS, DEM, NIO, SO, WO).

c. Proposed studies

i. Fire (HO - 1976-1979)

£215m on the fire services in 1975-76 plus a further sum for fire prevention measures in the public sector. The study will consider the aims of fire prevention, fire protection, fire fighting and salvage, the distribution of resources between these activities, and their cost-effectiveness. It will also cover the wider aspects of fire prevention measures and fire losses in the private sector. This wide ambit makes it necessary to extend the time scale over 4 years to 1979, and therefore some form of progress reporting will be necessary. (DEM, DOE, MAFF, DI, SO, WO, Forestry Commission).

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6. DEFENCE AND OVERSEAS COMMITMENTS

a. Studies completed but not yet submitted to Ministers collectively
Nil

b. Studies in Progress

i. Projecting Britain Overseas (FCO continuing from 1975)

£65m in 1975-76. Primarily a review of expenditure on overseas information, including the allocation of funds to the external service of the BEC, the British Council and the information services of the FCO (including the supporting COI and HMSO expenditure). (DT, HMSO, COI). A Report has been prepared and its handling in relation to the CPRS review of overseas representation is under consideration.

ii. Aspects of British Policy for Overseas Development Following Entry into Europe (ODM 1976)

This study will consider the effect of UK membership of the European Community on our overseas aid, and the options for meeting our overseas development objectives and our Community objectives. (FCO, DT, DIn).

c. Studies proposed

Nil

7. CENTRAL GOVERNMENT - COMMON SERVICES AND ORGANISATION

a. Studies completed but not yet submitted to Ministers collectively
Nil

b. Studies in progress

i. Review of Cost in use Implications of Capital Investment in Buildings (PSA - DOE - Continuing from 1975

£244m in 1975-76 on the provision, operation and maintenance of public buildings. The review is studying the relationship between capital investment in buildings for which the PSA is responsible and their cost in use with particular reference to offices and housing for the Armed Services. The primary aim is to develop techniques to optimise this relationship and to explore the implications for future building types and expenditure patterns. Progress is good and an early Report expected.

c. Studies proposed

i. Investment in Computers for Administrative Purposes (CSD - 1977)

£35m in 1975-76. Timing will depend on the completion of the review of computer procurement. This study would as a first phase assess some past decisions for investment in computers for administrative purposes against the results in terms of greater efficiency or staff saving. In the second phase, issues for further study would be identified, leading to consideration of whether the criteria for investment decisions should be changed, and in that case, evolving improved criteria for new investment decisions. (User Departments concerned).

NOTE

i. The case for a study on Civil Service Training will be considered later in the light of the current Management Review of the Civil Service Department.

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KEY TO SYMBOLS USED IN THE PAR PROGRAMME

- * = Interdepartmental Study
- II = Separate second stage of a study
- COI= Central Office of Information
- CSO= Central Statistical Office
- CSD= Civil Service Department
- MAFF= Ministry of Agriculture, Fisheries and Food
- DAFS= Department of Agriculture and Fisheries for Scotland
- DANI= Department of Agriculture, Northern Ireland
- DEm = Department of Employment
- DEn = Department of Energy
- DOE = Department of the Environment
- DES = Department of Education and Science
- DHSS = Department of Health and Social Security
- DT = Department of Trade
- DIN= Department of Industry
- DPCP= Department of Prices and Consumer Protection
- FCO = Foreign and Commonwealth Office
- HO = Home Office
- IR = Inland Revenue
- LCO = Lord Chancellor's Office
- MOD = Ministry of Defence
- ODM = Ministry of Overseas Development
- NIO = Northern Ireland Office
- SDD = Scottish Development Department
- SED = Scottish Education Department
- SHHD = Scottish Home and Health Department
- SO = Scottish Office or more than one of the Scottish Departments
- WO = Welsh Office

1976-77 = Financial year

1976-1977 (and 1976/7) = Part or all of 2 calendar years

SUBJECTS ATTACHED TO LEAD DEPARTMENT

<u>Lead Department</u>	<u>1974-1975</u> <u>Completed but not yet submitted</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Ministry of Agriculture Fisheries and Food	(b) Farm structure policy	Fisheries (DAFS, DANI, PCO)	Fisheries, continuing from 1976 DAFS, DANI, PCO	Fisheries continuing from 1976 (DAFS, DANI, PCO) Animal Health Policy (DAFS)
Cabinet Office			*Government B and D Post (a) Rothschild: (Din, DES, DMSS, MOD, DOE, MAFF, DEN, SO)	
Civil Service Department (f)			Investment In Computers For Administrative Purposes: 1977 but dependent on the comple- tion of the Procurement Review. (Relevant user Departments)	
Department of Education and Science	Postgraduate Loans	Finance and Control of Non- University Higher Education in England and Wales. Started in 1975, completion delayed (VO). School Building continuing from 1975 (SED, VO, DOE) Student Residence (SED).		
Scottish Education Department		Financial Control and Institutional Structure of Higher Education Sector. Started in 1975, completion delayed.		Non-Teaching Costs
Department of Employment (e)				
Department of Energy			Energy Conservation. Final decision on this PAR to be taken later. (Din, DOE)	

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Lead Department

1974-75
Completed but not yet submitted

1976

1977

1978

Department of Environment (d)

Review of Housing Finance:
continuing from 1975 (SO,
WO, IR, DHSS, DEa, DIn)

Transport Policy Review,
continuing from 1975. (SO,
WO, MOP, DIn, DT, DEa)

Cost in Use Implications of
Capital Investment in Buildings.
(PSA), continuing from 1975.

Review of working of Rent Acts
(SO, WO, IR)

Anti-Pollution Policy
(Provisional) (SO, WO,
DIn, DEa, DHSS, DT, DEa)

Settlement Patterns in Declining
Areas. (provisional) (SO, WO,
DIn, MAFF, DEa, Forestry Comm).

Foreign and Commonwealth
Office

Projecting Britain Overseas:
continuing from 1975 (DT, HM30,
CoI)

Ministry of Overseas
Development

Aspects of British Policy for
Overseas Development Following
Entry into Europe. (MCO, DT,
DIn)

Department of Health
and Social Security

Priorities Within the Health and
Personal Social Services: contin-
uing from 1975. (SO, WO)

NHS Capital
Programme (provisional)
(DOE)

NHS Manpower
Supply and Demand (provisional)
(DEa)

Home Office

Custodial Care of Offenders:
continuing from 1975 (ICO,
MOD, DHSS, DEa, NEO, SO, WO)

Urban Deprivation (provisional)
open data (DOE, SO, WO, DEa,
DHSS)

Fires:
(DEa, DOE, MAFF, SO, WO, DIn,
Forestry Comm)

Fires:
continuing from 1976
DEa, DOE, MAFF, WO, WO, HIn,
Forestry Comm).

Department of Industry (e)

Regional Industrial Policies:
continuing from 1975
(DEa, DOE, SO, WO, CEO)

Industrial R and D (a)
(provisional)

Lead Department	1974-75 Completed but not yet submitted	1976	1977	1978
Department of Prices and Consumer Protection		*Advisory Services For Citizens: continuing from 1975. (LCO, DOE, HO, DMS, DO, WO, CSO, DE)		
		Economic Effects of Food Subsidies (provisional) (MAFF)	Economic Effects of Food Subsidies (provisional): continuing from 1976. (MAFF)	
Treasury		*Distributional Effects of Expenditure Programmes: continuing from 1975- (DPCP, DOE, DSA, IR, GSO, Din, MAFF, DMS, HO, SO, WO)		
		*Relative Needs for, and (c) Standards of Public Services in England, Scotland, Wales and Northern Ireland (SO, WO, NIO, DMS, DES, HO, DOE, DE)	*Relative Needs for and Standards (e) of Public Services in England Scotland, Wales, and Northern Ireland continuing from 1976 (SO, WO, NIO, DMS, DES, HO DOE, DEs).	

NOTES

- (a) The precise arrangements for the two R and D PARs (CFRS and D.In) will need to be worked out between these two Departments when it is clearer who will be responsible for the various elements in the Zuckerman review.
- (b) The case for two further MAFF studies will be considered next year:- Hill Farming and Agricultural Strategy.
- (c) Review of counter cyclical measures, employment and investment, will be considered next year, whether for one centralised study or otherwise.
- (d) The prospects for a study of Inter urban passenger transport, now potentially within the field of the proposed National Transport Council and for the work on it being undertaken by DOE, will be kept under review.
- (e) Departments associating with the Treasury PAR on relative needs for and standards of public services in England, Scotland, Wales and Northern Ireland have expressed reservations on the possible manpower demands.
- (f) The case for a study on Civil Service Training will be considered later in the light of the current Management Review of the Civil Service Department.

Policy Studies Other Than PAR's Planned For 1976-1978

- | | |
|-------------------------------------|--|
| Ministry of Agriculture | <ul style="list-style-type: none"> (a) Common agricultural policy review. (DAFS also note this review). (b) Upland and marginal farms - review. (c) Policy review on agricultural and horticultural cooperation. (DAFS also note this review). (d) Review of UK animal health derogations secured before UK accession to the European Community. |
| Central Policy Review Staff | <ul style="list-style-type: none"> (a) Review of Overseas Representation |
| " Interdepartmental | <ul style="list-style-type: none"> (b) Joint Approach to Social Policy Studies (also any follow up studies to the Review of the Social Services). |
| Civil Service Department | <ul style="list-style-type: none"> (a) Management Reviews in Civil Service Department and Ministry of Defence. (b) Review of computer procurement policy. |
| Department of Education and Science | <ul style="list-style-type: none"> (a) Education of the handicapped (Warnock Committee). (b) Government and management of schools (Taylor Committee) (c) Review of Research Councils budgets (d) Review of overseas students fees (with the Ministry of Overseas Development). |
| Department of Employment | <ul style="list-style-type: none"> (a) A study of the extent to which factors other than straight pay increases interact with any form of general incomes policy, voluntary or otherwise. Examples are payment-by-results and profit sharing schemes, productivity bargaining in a wider sense, incremental schemes, improvements in low pay, hours reductions holiday entitlements and fringe benefits of various kinds. |

Department of Employment (Con't)

- (b) Grouping of skills - An ongoing analysis of the components skills within a range of occupations designed to identify common elements which may be used to build basic training modules of general application.
- (c) An analysis of post war trends in employment, productivity, output, labour costs and prices by industry in the United Kingdom.
- (d) Monitoring and reassessing the longer term supply and demand situation for qualified manpower.
- (e) A study of employment in central and metropolitan areas.
- (f) A study and evaluation of resettlement facilities provided for physically disabled and socially disadvantaged people.
- (g) A strategic review by the Manpower Services Commission, the Training Services Agency, and the Employment Service Agency of the Manpower Services Commission's programmes and policies.

Department of Environment

- (a) Review of town expansion and overspill.
- (b) Committee of Enquiry into local government finance (Layfield Committee).
- (c) Review of the water industry.
- (d) Countryside review.
- (e) Study on the economics of open plan offices.
- (f) The study of inner city areas.

Foreign and Commonwealth Office

Department of Health and
Social Security

Review of Overseas
Representation (with CPRS).

- (a) Interdepartmental group on Poverty (with Treasury)
- (b) Review of possible misuse and abuse of unemployment benefit.
- (c) A review of the abuse of social security benefits by the voluntarily unemployed; the scope of the problem and possible counter measures.
- (d) Review of unemployment benefit provisions for seasonal workers.
- (e) Review of the possibility of providing earnings - related national insurance benefits for the self-employed.
- (f) Review of categorisation of earners for national insurance contribution purposes.
- (g) Study of the supplementary benefit appeal tribunal system.
- (h) Reviewing the entitlement of students to supplementary benefit.
- (i) Study of the implications of the Finer Committee proposals for administrative order as they affect the Supplementary Benefits Commission.
- (j) Reference to Occupational Pensions Board of equal status in occupational pensions schemes.
- (k) Reference to Occupational Pensions Board of transferability in occupational pensions schemes.

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Department of Health and
Social Security (Cont'd)

- (l) Possible reference to Occupational Pensions Board of the position of disabled person in occupational pensions schemes.
- (m) Review of the provisions for disabled workers.
- (n) Continuation of Health and Personal Social Services Programme Budget analysis.
- (o) Analysis of NHS plans in relation to Departmental priorities (follow up of Consultative Document).
- (p) The geographical allocation of NHS resources.
- (q) Review of services for the elderly.

Department of Industry

- (a) An interdepartmental review of shipbuilding policy.
- (b) A review of officials of aircraft industry policy.
- (c) Select Committee on Trade and Industry examination of the subject of Chrysler.
- (d) Review of Post Office (Carter Committee of Inquiry).
- (e) Select Committee on Nationalised Industry - British Steel Corporation and technical change.
- (f) Select Committee on Technology Science sub-committee - Science Policy.
- (g) A study of R & D proposed by Lord Zuckerman.
- (h) Major involvement with NEDC on industrial strategy, in particular in assessing the prospects for 30 or more industrial sectors, and with the new NED Committee on Finance and Investment.

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| Department of Prices and Consumer Protection | (a) The National Consumer Council Report on Fuel Costs and the poor. |
| | (b) The Flowden Report on the electricity industry. |
| | (c) The working party on metrological control systems. |
| | (d) Review of estate agents. |
| | (e) Review of the safety of consumer goods. |
| | (f) Review of the Trade Descriptions Act. |
| | (g) The National Consumer Council review on nationalised industries consumer councils. |
| Department of Agriculture and Fisheries for Scotland | (a) Enquiry into the future use and development of common grazings in the Highlands and Islands. |
| | (b) EEC veterinary steering group - Review of UK Animal Health derogations secured before UK accession to the Community. |
| Scottish Education Department | (a) Review of School/Further Education links for 14-15 age group. |
| | (b) Review of school building. |
| | (c) Review of White Paper policies and programmes to 1985. |
| Scottish Home and Health Department | (a) Working Party on Health Priorities |
| | (b) Programme Group on Health, Social Work and Related Services for the Elderly. |
| | (c) Programme Group on Health, Social Work and Related Services for the Mentally Disordered |
| | (d) Programme on Child Health |
| | (e) Working Party on Revenue Allocations to Health Boards and the Common Services Agency. |

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- Department of Trade (a) The airports review.
- (b) A Select Committee of the House of Lords concerned with commodity policy.
- H M Treasury (interdepartmental) (a) An interdepartmental review on Poverty (with DHSS).

Royal Commissions:

- (i) Royal Commission on the Distribution of Income and Wealth.
- (ii) Royal Commission on Environmental Pollution.
- (iii) Royal Commission on Civil Liability and Compensation for Personal Injury.
- (iv) Royal Commission on the Standard of Conduct in Public Life.
- (v) Royal Commission on the Press.
- (vi) Royal Commission on the Legal Profession.
- (vii) Royal Commission on the NHS.

Other Studies:

- (i) The NEDO Enquiry into Nationalised Industries.
- (ii) Chancellor of the Duchy - The financial position of the Arts.

PAR OPTIONS

The following list sets out subjects which have been considered as possible PAR reviews, but on which agreement has not been reached, for the reasons set down against each. They therefore represent possible options for studies, for Ministerial consideration, whether as PAR or otherwise. The Department appropriate to lead any review is noted in brackets after each title. The Departments concerned point out that, in addition to the considerations noted against each subject below, the heavy demands on manpower made by the PAR programme and other current studies is an added factor to be taken into account in considering the merits of these further possible studies.

- (1) Future development of Higher Education (Department of Education and Science, Scottish Education Department associating).

Total expenditure on higher education, including Universities, Colleges of Education, Polytechnics and other advanced/further education institutions in 1975-76 was £1621m. The review could consider relative rates of growth within the higher education sector of Colleges in the non-university field (for further education and teacher training), of traditional Universities and of the Open University.

The Department of Education and Science consider that this will not be a suitable subject for a PAR study. The subject is under constant study, and policy under continuous review, in the public expenditure context. As successive sacrifices of future higher provision are made to meet the requirements of public expenditure policy, the scope for expansion and for policy choice within this programme is reduced to near the point of elimination. The possibility of coherent longer term planning at present is further reduced by uncertainty about the outcome and implications of the Layfield Report and of devolution proposals; and in the opinion of the Department of Education and Science, there is no case for a PAR study until there is some prospect of a return to circumstances that make longer term planning possible in this area.

The Central Departments however would see some merit in a study. It cannot be expected that events will ever stand still for a FAR, and there could be some benefit from a view on options for guidance in relation to current changing circumstances.

(ii) Schools - Organisation, Control and Administration.
(Department of Education and Science).

Total expenditure on schools in 1975-76 was £5844m. The potential scope for study in this area is wide. It could be concerned with analysing the reasons for, and justification of, criticism from a variety of moderate sources (parents, employers etc) on the failure of the present system to respond sufficiently to social and economic objectives and change. It would not be concerned with curriculum prescription but questions would arise as to whether the present machinery for curriculum development and control is sufficiently responsive, and on options for improving it. This subject is also being put forward in the context of the CPRS review of the Social Services as justifying review. The DES does not accept the case for a study but is ready without commitment to discuss ^{the issues} on a bilateral basis with Central Departments.

(iii) 16-19 age group (Department of Education and Science).

This review would not be concerned with the extension of education/training of early school leavers which was a main subject of the recent "Getting Ready for Work" FAR; it would relate to educational arrangements for those who stay on at school past 16 or move into further education. The Department of Education and Science has doubts about this but would be ready to consider without commitment with the CPRS a possible area for study (including the scope if any for savings by avoiding overlaps or duplication).

(iv) Immigration Policy (Home Office).

This would be a review of policy on control of immigration related to the labour market, housing and other considerations; it could

examine the likely settlement patterns of additional immigrants and ways of influencing them.

The Department considers that a PAR review would be inappropriate at a time when it is intending to undertake its own domestic review of immigration law; they would be prepared to undertake a systematic analysis of all the issues in the course of their own review and to associate the Central Departments with it.

The Central Departments consider that the interests of many Departments are involved, that the review would have important implications for expenditure on Civil Service manpower and related administration, and that an inter-departmental review of a PAR character would be desirable to ensure that the policy options to be considered should not be unduly constrained.

(v) Police Manpower - no details of 1972 review (Home Office)

Total cost in 1975-76 was \$684m. The Home Office do not support this proposal; the last review produced only minor recommendations and left little over for further study; and no better ways have been found of measuring police effectiveness or of controlling establishments. The Central Departments consider however that the subject would well merit further study, in view of the recent rapid increase in police recruitment and the possibility of changes following the Layfield Report.

CP(76) 20

COPY NO 81

17 May 1976

CABINET

PROGRAMME ANALYSIS AND REVIEW AND LONGER-TERM
PUBLIC EXPENDITURE SAVINGS

Memorandum by the Central Policy Review Staff

1. Under the system of Programme Analysis and Review (PAR) Ministers agree each year a programme of policy reviews. These reviews are intended to look critically at specific areas of policy, to see whether the policy objectives are right, to examine options for changing the balance of policy to meet changing circumstances, to make existing programmes more cost-effective, and to identify possibilities for reducing expenditure in areas which have become of lower priority.
2. The PAR system is not designed simply, or indeed primarily, to save money. It is designed to keep policy objectives under review, and to ensure that objectives are effectively implemented.
3. But the basic concept of looking critically at specific areas of policy is clearly relevant when longer-term public expenditure savings are being discussed. It was therefore felt that the Cabinet's wish to examine ways of identifying long-term public expenditure savings (CC(75) 35th Conclusions, Minute 2) was best looked at in parallel with the PAR programme.
4. The Annexes to the Chief Secretary's paper set out 3 categories of policy review.
5. Annex I sets out the topics which have been agreed interdepartmentally for analysis under the PAR programme. Before approving the proposals in Annex I Ministers should consider whether it contains subjects to which they attach importance from a political point of view, and whether they wish to suggest changes in the timing proposed for the reviews.
6. Annex II lists policy reviews which are now being carried on or proposed, outside the PAR programme. Potentially, these reviews are just as important in terms of identifying longer-term public expenditure savings as the proposed PAR studies. In looking at Annex II, Ministers should therefore consider which of these policy reviews they regard as the most promising and important as sources of longer-term savings. The Cabinet may wish to invite the Departmental Ministers concerned to ensure that, wherever possible, the reviews listed in Annex II should explicitly consider possibilities for longer-term expenditure savings.

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7. Annex III sets out a further list of possible subjects for review. These have been proposed by the Central Departments, but the Departments concerned are reluctant to see them included in the PAR programme. Ministers will need to consider:-

a. whether they want any or all of the subjects listed in Annex III to be examined; and, if so, whether under the PAR programme or by some other means;

b. whether there are subjects which are not listed in any of the Annexes which they would like to see examined as potential sources of longer-term savings. Bearing in mind that large savings can only be secured by radical changes in policy, it would be extremely useful if Ministers could themselves indicate areas where they were prepared politically to consider radical changes in policy in order to secure longer-term public expenditure savings. At the same time, there is no point in embarking on reviews for their own sake. Subjects which from the outset appear likely to produce politically unacceptable results are better ruled out now.

8. Ministers will need to consider the timing of the proposed reviews. Clearly, they cannot all be done immediately; and none of them is likely to produce results which will affect the 1976 Public Expenditure Survey. But it will be important to ensure that a fair number of them are actually completed and considered by Ministers in time for the results to be incorporated in next year's public expenditure discussions.

9. Looking for long-term savings is not a once-for-all exercise. It is something which Ministers need to consider at regular intervals. An annual stocktaking at the same time as Ministers consider the annual PAR programme, seems the most straightforward way to do this.

10. The reviews set out in the Annexes to the Chief Secretary's paper will involve a fairly substantial block of work for Departments over the next three years. The Central Policy Review Staff considers it essential that the longer-term work of policy analysis and review should continue and indeed be given priority, even when Departments are under pressure to restrict their activities and save manpower. An adequate system for reviewing policy is all the more necessary when resources are very tight, and when a radical appraisal of Departmental activities is going on.

CONCLUSIONS

11. Ministers are therefore asked:-

1. To endorse the proposed PAR programme at Annex I of the Chief Secretary's paper.

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- ii. To take note of the policy reviews listed at Annex II, and
 - a. indicate those to which they attach priority as potential sources of long-term public expenditure saving;
 - b. invite the Departmental Ministers concerned to ensure that these reviews consider explicitly the scope for savings in the long term.
- iii. To decide which of the subjects listed in Annex III they wish to see reviewed.
- iv. To indicate areas of policy not included in the Annexes to the Chief Secretary's paper which they would like to see examined as sources of potential long-term savings.
- v. To indicate which reviews (whether in the PAR programme or outside it) they consider most urgent, and which they would like to be completed in time for the results to be incorporated in next year's Public Expenditure Survey.
- vi. To agree that the subject of potential long-term savings should be looked at annually, in conjunction with the annual review of the PAR programme.

Cabinet Office

17 May 1976

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CP(76) 21

COPY NO 81

17 May 1976

CABINET

POSSIBLE PHASING IN OF CHILD BENEFIT IN 1977

Memorandum by the Secretary of State for Prices and
Consumer Protection and Paymaster General and the
Secretary of State for Social Services

1. We have discussed with the Chief Secretary, Treasury, the schemes for phasing in child benefit in 1977 set out in paragraph 21 of the note by officials attached to CP(76) 18. We are all agreed that, although the first option in the table would be the simplest, it is too expensive and should be ruled out of further consideration.
2. The Chief Secretary reserves his position on whether the other two options are worth exploring. We consider that they are because:-
 - i. there are substantial administrative implications in postponing the scheme (see Annex 1 of the note by officials); and because of the series of commitments made by successive Ministers, and the political problems inherent in a decision not to fulfil a major Manifesto commitment (see Annex 3 of the note by officials);
 - ii. we accept that the introduction of either of these two schemes will bring criticism from the Opposition, from some of our own supporters and from the poverty lobby; but the general public will well understand that Government policy must recognise the constraints of public expenditure and of incomes policy. We will gain respect for introducing the CB scheme in a modest form rather than reneging on a major commitment entered into at the last election and enshrined in subsequent legislation.
3. Both schemes would need more manpower than the original Child Benefit scheme (see Annex 2 of the officials' paper): an increase in staff would be needed both by Inland Revenue and by the Department of Health and Social Security.

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4. We recommend that the Cabinet should choose as between the two cheaper options set out in paragraph 21. The first has the following advantages:-

- a. It minimises the fall in take-home pay.
- b. Its effect on net family income is presentationally simpler.
- c. It implies only one premium for single parent families.

The second has the following advantages:-

- d. It has the presentational advantage that first children do not get less.
- e. It gives more help to those below the tax threshold.
- f. It is cheaper.

5. We invite our colleagues to choose between the second and the third option and to decide whether the cost of either option should be reduced by avoiding special treatment for non-resident children as in paragraph 26 of the paper by officials.

S W
D E

Department of Prices and Consumer Protection

17 May 1976

CP(76) 22

COPY NO

20 May 1976

81

CABINETDEVOLUTION TO SCOTLAND AND WALES;
PROPOSED PARLIAMENTARY STATEMENT

Note by the Lord President of the Council

1. We are preparing the Devolution Bill for introduction at the start of the next Parliamentary Session. This entails developing in detail the schemes set out in the White Paper of November 1975 (Cmd 6348), considering possible changes to them in the light of the process of public comment which we invited, and settling questions which the White Paper left open.
2. To maintain the public momentum of our policy and to keep the political initiative, we need to make a very early statement - before the Spring Holiday if at all possible - on our main decisions so far. The Ministerial Committee on Devolution Strategy (DVY) has agreed on the desirability of this, and of including in the statement decisions not only on the programme of action but also on some substantial elements of the schemes.
3. I attach at Annex the draft of a Parliamentary statement which I think it important to make, if Cabinet agrees, on Tuesday 25 May. Since time is short, I am circulating it in advance of DVY consideration. An oral report on that consideration will be made to the Cabinet.
4. The first part of the statement (paragraphs 2-5) sets out decisions which DVY has already considered on the programme of action - one combined Bill for both countries, no referendum, no "draft" Bill this Session. All these decisions flow from the central and vital objective of carrying our devolution schemes into law next Session.
5. The second part of the statement (paragraphs 7-15) sets out decisions proposed on three areas of substance - the Scottish and Welsh Development Agencies; the universities; and the constitutional roles of the Secretaries of State. These are matters which have attracted great interest, especially in Scotland, and I would expect decisions in the sense of the text at Annex to be very well received, particularly by our supporters.
6. Subject to any points raised by DVY considerations, I invite the Cabinet to approve the statement at Annex.

M F

Privy Council Office

20 May 1976

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DRAFT PARLIAMENTARY STATEMENT

I wish to tell the House of decisions the Government has forward our policy on devolution to Scotland and Wales.

2. We are determined to introduce legislation affecting Wales at the beginning of the next session, and to ask 1 in that session. The announcement I made to the House starting to incur commitments on accommodation for t a sign of our resolve.

3. As my predecessor promised, we have considered having separate Bills for Scotland and Wales. We have single combined Bill. Separate Bills would demand too time for both to pass in a single session.

4. We have considered also holding a referendum on have been exceptionally wide opportunities, before and Election, for public discussion of our proposals and we decided firmly against any further special test of opinion.

5. We have decided not to publish a "draft" Bill in the since this would divert effort from the preparation of session.

6. I turn now to the substance of our devolution proposals inform the House of certain decisions we have reached on our White Paper, about the Development Agencies; the constitutional roles of the Secretaries of State.

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7. We have decided that responsibility for all operations of the Scottish and Welsh Development Agencies, and for all appointments to them, should be transferred to the devolved administrations. This includes responsibility for financing the Agencies from the resources controlled by the devolved administrations. To ensure that there can be no unfair competition with other parts of the United Kingdom the industrial investment operations of the Agencies will be subject to guidelines laid down by the Government from time to time. With this sole qualification, they will be wholly the responsibility of the devolved administrations. They will also retain their existing powers to act on behalf of the Secretary of State in selective industrial assistance cases.

8. We have weighed the divergent views on whether responsibility for the universities in Scotland and Wales should be devolved. We have decided to maintain the line taken in the White Paper, and the Bill therefore will not provide for the devolution of the universities.

9. We recognise however that the new administrations, with their wide responsibilities in the field of education, must be closely interested in the work of the universities. The University Grants Committee fully shares this recognition. Accordingly, the Government will take account of the views of the new administrations in making all appointments to the Committee; we will revise the Committee's terms of reference to underline the continuing need to take thorough account of the distinctive Scottish and Welsh education systems outside the university sector; the Committee itself will invite advisers from the administrations to sit with it at all levels of business, and particularly in special new sub-committees which it proposes to set up for Scotland and Wales; and it will at all times be ready to provide data, advice and evidence

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to the new administrations. These proposals will and flexible liaison in the proper planning of the educational institutions of each country and of the

10. I turn next to the constitutional roles of the Secretary of State particularly in Scotland. In the light of the recommendations of the Parliament and elsewhere we have made the following

11. Firstly, while our consideration of the details of the examination of the vires of Scottish Assembly Bills is not complete, we have decided that the Secretary of State should not have the power to reject Assembly Bills. In case of any doubt about the vires of Assembly Bills, the final decision will be for the Judicial Committee of the Privy Council.

12. Secondly, the Secretary of State will play no part in the appointment of the Scottish Executive. Formal appointment will be made by the Queen acting on the recommendation of the Assembly and on that of the Chief Executive in the presence of the Members. Assistants to the Executive will be appointed by the Executive.

13. Thirdly, the Secretary of State will have no role in the determination of the size of the Scottish Executive or the pay of its Members. These matters will be left to the Assembly, as will comparable ones in other countries.

14. We have not completed our detailed consideration of the powers other than Parliament's inherent power to make a major change in this field. Any general recommendations

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7their precise form and mechanisms, will be explicitly limited to
a situations where their use is necessary to prevent unacceptable repercussions
on matters for which the United Kingdom Government will remain responsible.
bWe have never envisaged using such powers simply because we might politically
cdislike what was being done, and the change we are making puts this beyond
doubt. I re-affirm also that whatever the form of any general powers they
a will, as the White Paper made clear, be subject to the direct and specific
control of Parliament, and not available simply at the whim of the Government.

A 15. The Secretaries of State for Scotland and for Wales will remain, in
t accordance with the Government's commitments, members of the Cabinet.
ti But these decisions make it plain that there is no possibility, however far-
etched, of their being autocratic supervisors of the devolved administrations.
a

16. These are the decisions we have taken so far. I shall make a report to
8 the House on further decisions before the summer recess.

u 17. The Government have listened carefully to the national debate on devolution,
and we have improved our schemes in the light of it. We now move forward,
as we promised, from the phase of discussion to the phase of legislation and
p fulfilment. This is what Scotland and Wales had a right to expect. The good
faith of the United Kingdom Parliament can strengthen and enhance the Union.

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CP(76) 23

COPY NO 81

24 May 1976

CABINET

WHITE PAPER ON THE CHILDREN AND YOUNG PERSONS ACT 1969

Note by the Secretary of State for the Home Department, the
Secretary of State for Wales, the Secretary of State for Social
Services and the Secretary of State for Education and Science

We attach for the information of our colleagues copies of the White Paper,
Cmnd 6494, on the Children and Young Persons Act 1969 in response to the
Eleventh Report of the Expenditure Committee for the Session 1974-75.
The White Paper is to be published at 2.30 pm on Wednesday 26 May 1976.

R H J
J M
D E
F W M

Home Office

24 May 1976



HOME OFFICE

WELSH OFFICE

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

DEPARTMENT OF EDUCATION AND SCIENCE

CHILDREN AND YOUNG PERSONS ACT 1969

**Observations on the Eleventh Report
from the Expenditure Committee**

*Presented to Parliament by the Secretary of State
for the Home Department, the Secretary of State
for Wales, the Secretary of State for Social
Services and the Secretary of State for
Education and Science
May 1976*

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HER MAJESTY'S STATIONERY OFFICE
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CHILDREN AND YOUNG PERSONS ACT 1969

INTRODUCTION

1. The Government welcome the Eleventh Report of the Expenditure Committee, published in September 1975, on the Children and Young Persons Act 1969. Since the Expenditure Committee first began to consider the subject in December 1973 the Government have themselves reviewed the working of the Act. Both studies were motivated by the same serious concern about juvenile crime, and about the operation of the law and the treatment system.

2. The greater part of the statement of the Government's views which follows is taken up, inevitably, with detailed comments on the Committee's individual recommendations, in which the Government put forward a number of specific proposals aimed at improving the operation of the Act. This does not mean that the Government see the response to the problem of juvenile delinquency exclusively or even primarily in terms of statutory arrangements for dealing with children who break the law and come before the courts. The Expenditure Committee make a similar point in the concluding passage (paragraph 167) of their Report, where they remark that no legislation can be expected to have a significant effect on the general level of delinquency and general juvenile misbehaviour. The underlying personal, social and environmental factors are too complex and too deep rooted to be readily susceptible to influence by legislative means. Other aspects of social and economic policy must play an important part—even though it may not be an easily demonstrated or measured part—in making or marring the adjustment of young people to the demands made on them, and the opportunities created for them—or, more importantly, not created for them—by society. The quality of parental care; the support that society gives—financially and in other ways—to parents; the kind of housing available for families, especially in our inner urban areas, and the environment in which it is set; educational provision; recreational and other leisure facilities; the job opportunities available to young people, especially those who leave school early and with few skills: all these aspects of our national life, and others besides, undoubtedly have a bearing on juvenile behaviour. All are matters of Government concern, difficult though it may be, especially in our present constrained circumstances, to bring forward proposals for rapid improvement. To do more than list all these factors would be beyond the scope of the present statement. Nevertheless, they are part of the wider context that must not be forgotten in a quest for an improvement of the statutory arrangements for dealing with juvenile offending.

3. As regards these statutory arrangements, the Government's broad conclusion, which is in line with the Expenditure Committee's, is that, though much remains to be done to make the Act fully operative and effective, and although a small number of highly publicised cases have given cause for concern, the framework provided by the Act for dealing constructively and humanely with children in trouble remains a fundamentally sound one. At the same time, the Government fully recognise and share the widespread anxiety that is felt, especially by magistrates,

about the continuing problem of how to cope with a small minority, among delinquent children, of serious and persistent offenders. It is in this area, as the Expenditure Committee observed, that present measures under the Act are felt to be falling short.

4. There is, and has for a long time been, a basic dilemma here in our policy towards juvenile delinquency (and, indeed, it is reflected in penal policy generally). On the one hand there is a strongly felt and understandable demand for the public to be protected from serious and persistent, albeit youthful, offenders. On the other hand there is a widespread revulsion against holding young people in secure custody, especially custody of the kind that resembles prison. This reluctance is reinforced by the accumulated evidence over the years that custodial treatment has very disappointing results.

5. The 1969 Act did not create this dilemma. The provisions in it which would do most to shift the balance away from custodial sentences have not yet been implemented and, for the most part, must for the present remain so. The courts still have available to them the sentence of borstal training for young persons aged 15 and 16, and detention centres for boys aged 14 and above. They can still send boys and girls aged 14 and above to prison service establishments on remand. The Government accept these facts with reluctance, especially in view of their serious consequences for the planning and provision of the services which are the responsibility of the Home Office Prison Department. However, the Government attach particular importance to the phasing out of remands of juveniles to prison establishments at the earliest opportunity and propose to end such remands for girls of 14 almost immediately. Particulars of the Government's proposals are given in paragraphs 13 to 21.

6. The Act has been much criticised for what is seen as the loss of control over juvenile offenders represented by the former approved school order, for which the care order as administered by local authorities is felt by many magistrates and others to be an inadequate substitute. This criticism tends to overlook the fact that approved schools were not secure; the considerable amount of absconding that took place from them; the poor "success rate" measured by reconvictions; and the strong criticism expressed of the isolation of the schools from the mainstream of child care. Nevertheless, the Government acknowledge that magistrates in particular do not feel full confidence in the care order, particularly for those minority of cases where they feel society needs to be protected from serious and persistent offenders. The Government's proposals in response to the Expenditure Committee recommendations 3 and 4 accept that the courts have a claim to a greater say in what becomes of such children whom they place in local authority care. Proposals to this effect are in paragraphs 23 to 30; the working of the arrangements proposed would be reviewed after a year. The position should also be eased by the increase in the amount of local authority secure accommodation assisted by direct grants under the new power in the Children Act 1975, and by concerted efforts to make the best use of the accommodation available (paragraphs 41 to 43).

7. Additionally, in comments below on particular recommendations the Government propose to seek improved measures for the enforcement of unpaid fines (paragraphs 32 to 34), and to improve the effectiveness of supervision orders (paragraph 59). They stress in paragraphs 61 to 62 the importance attached to intermediate treatment and the need to press ahead with its development.

8. All these proposals will, the Government hope, serve to reassure magistrates and others that the Government are determined, even within present financial constraints, to make adequate provision for the enforcement of the law and the firm handling of difficult juvenile offenders. The Government are equally determined to provide adequate provision for the welfare of the children themselves, which is largely entrusted by the Act to local authority social services departments. Here the Government fully acknowledge the difficulties that local authorities face and have faced ever since the Act came into operation in 1971. Since that time local authority social services departments and the local authority system itself have been reorganised. As the Expenditure Committee point out, it was only in 1973 that the bulk of the former approved schools became community homes under the control of local authorities; the buildings were often in the wrong place and in poor condition; and authorities have had little time to assimilate this major addition to their social services responsibilities. There is no doubt that to enable them to carry out their duties under the Act local authorities needed and still need extra resources, in terms both of buildings (in particular, secure accommodation) and of staff (both for field and for residential work). Local authorities have wished ever since 1971 to invest more in capital schemes for the care of children than central government's loan sanction priorities allowed. From April 1975 the decision was made to give loan sanctions according to local authority priorities rather than to reflect in a rigid formula the priorities of central government. This has resulted in a marked shift in priority towards a proportionately greater share for children of a reduced personal social services capital budget.

9. As regards resources, it will be appreciated that most of the Expenditure Committee's recommendations relate to the provision and development of various forms of treatment and care which are the responsibility of local authorities. Whatever views the Government may express, the final decision on these matters rests with the authorities themselves, and in any event it must be accepted that, in present circumstances, constraints on resources will constitute an obstacle to rapid implementation. The Government have agreed that authorities should not be pressed to undertake tasks which require resources to be used at a greater rate than provided for in public expenditure planning; and the recent Public Expenditure White Paper (Cmd 6393) shows that the total of local authority expenditure will be falling over the next few years, though within this there will be a growth of personal social services revenue expenditure of 3.8 per cent. in 1976/77 and in the following three years of 2 per cent. per annum. Capital expenditure has, however, had to be considerably reduced from the level originally planned for 1976/77. The

personal social services budget is already under great pressure from an increasing elderly population with a 23 per cent. growth over the next 10 years in the number of elderly over the age of 75. The children's services are also under pressure: the number of juveniles under 17 found guilty of indictable offences, or who have admitted such offences without court proceedings being taken, has grown from 118,883 in 1970 to 184,491 in 1974—an average annual increase of 11.6 per cent.; the number of children staying in care has recently been rising at the rate of about 2.5 per cent. a year; and we are likely to see an increase in the time spent on cases of non-accidental injury.

10. Against this sombre background the Government see the task of improving the working of the Act as one which has to be undertaken within broadly the present legislative framework, and within human and material resources which, though much increased since the Act came into effect, cannot continue to grow as fast as many would wish. The Government do not believe that a solution lies in changes in the powers of the courts that would erode the responsibilities of local authorities to provide for the treatment and control of young people committed to their care. Nor, even if there were an unrestricted supply of additional resources for the implementation of the Act, would the Government think it right that it should be devoted to a massive programme of residential provision—though there are particular gaps in provision, detailed below, the filling of which deserves a high priority. On the contrary, the Government share the Committee's view (paragraph 167) that there should be, within the framework of the Act, a major shift of emphasis towards non-residential care including supervision, intermediate treatment and fostering.

11. Above all, in the Government's view, the task is one that calls for greater mutual understanding, consultation and co-operation among all those who share responsibility for helping children in trouble and protecting and reassuring the community. Specific proposals in response to recommendation 36 (paragraphs 80 to 83) outline arrangements for consultative machinery at local level, buttressed by a new national advisory body to stimulate and advise on local machinery and to supply a continuing evaluation of the working of the Act. Consultative machinery cannot solve all problems, especially where there are real differences of perception of objective, and dilemmas that cannot be simply resolved: but it can go a long way to relieve anxiety and remove misapprehension, and ensure that energy and resources are applied to the common task.

12. To sum up, the Government see the overriding need as being a renewed and sustained effort to make effective use of existing—and by no means negligible—powers and resources, with a particular emphasis on improved mutual understanding; increased community involvement; and a greater acceptance of parental responsibility, and of the part which can be played by teachers, social workers and others. There is no panacea, except a recognition that everyone in the community can help or hinder, individually or collectively, through the part they play in handling the problems of particular children.

OBSERVATIONS ON INDIVIDUAL RECOMMENDATIONS

- 1. That the practice of remanding young persons to adult prisons shall cease forthwith (paragraph 23).*

13. The Government accept this recommendation in principle and are determined to implement it in practice. It is already the case that all but a tiny minority of those young persons of 14, 15 or 16 who are remanded to prison service establishments go to remand centres rather than "adult" (ie local) prisons. Indeed, on 31 March 1976 there were only 6 boys and 2 girls on remand before trial in local prisons; and this is about an average figure. The majority of young persons are held before trial in remand centres: on the same date, the remand centres held 118 unconvicted boys and 3 unconvicted girls. They stay in remand centres, on average, for about four or five weeks—although because of congestion in the courts it can sometimes be a good deal longer than that.

14. Remand centres are used primarily for young men and women between the ages of 17 and 20, but they have always provided special facilities for those under 17 and still do so. Remand centres are in almost all circumstances more suitable for juveniles than the local prisons, and arrangements are already in hand to ensure that the need for an occasional remand to a local prison is still further reduced. New remand centres for young men (each providing 60 places) at Rochester and Norwich will be open within the next 12 months; and the availability of these places will still further reduce the number of boys under the age of 17 who have occasionally to be held in local prisons. Work is also proceeding on a new remand centre in the East Midlands, at Glen Parva, and there are plans for further accommodation in the South East. All of these centres will be capable of providing special facilities for the under 17s if necessary. But the provision of new places at Rochester and Norwich should, in itself, be enough to ensure that only in West Wales and the Welsh Border, where the courts are served by Shrewsbury local prison, will it be necessary occasionally to commit a boy to a prison establishment other than a remand centre. New committal arrangements will be notified to courts to ensure that this is the case. If, in any circumstances, a boy between the ages of 14 and 16 is received on remand at Shrewsbury (or, for exceptional reasons, at any other local prison), the prison will be required to report this fact at once to the Home Office, where consideration will immediately be given to the possibility of arranging a transfer to a remand centre. As is already the case under existing reporting arrangements, a transfer to a remand centre will be arranged as a matter of course, unless there is good reason to believe that the move would cause serious inconvenience to the boy's family, friends, social worker or legal adviser.

15. In short, therefore, the position about untried boys of 14, 15 and 16 is that until such time as their remand to prison service establishments can be phased out completely (in accordance with the provisions of the 1969 Act) those who are so remanded will be held in remand centres rather than local prisons unless there are exceptional circumstances justifying the other alternative.

16. As regards girls, the only local prison which receives girls under the age of 17 on remand is Holloway, where the reception of juveniles is notified in accordance with the arrangements already described. But this local prison covers such a large part of the country (almost the whole of England and Wales south of the Wash and excluding the West Country) that transfer to a remand centre (ie Pocklington or Risley) is often judged impracticable. Furthermore, it would be uneconomic and prodigal of scarce resources to consider providing more remand centres for girls who, in accordance with the principles of the 1969 Act and the spirit of the Expenditure Committee's report, ought not to be in the prison system at all. The Government must, therefore, rely on local authorities to make it possible to end remands of girls to Holloway. Local authorities in the areas which it serves have, in fact, a number of building projects providing secure accommodation in observation and assessment centres, either exclusively for girls or for both boys and girls, already under construction or about to start. Nineteen extra secure places in these centres should be coming into service during 1977. Meanwhile, thanks to the co-operation of the London Borough of Hillingdon and subject to the agreement of the London Regional Planning Committee, certain works are to be undertaken at an observation and assessment centre in Hillingdon. When these are completed in two or three months' time it should no longer be necessary, at least as far as the London Region is concerned, to remand girls to Holloway save in exceptional circumstances. They have also agreed for a limited time to take, whenever possible, girls from elsewhere until the other facilities currently planned are built. The Government hope that this, together with what is said about boys in paragraphs 14 and 15 above, will make it possible to comply substantially with this recommendation.

17. That covers the position on remands to "adult" prisons, but it cannot be too strongly emphasised that it is Government policy to phase out the remand of juveniles to any prison service establishments, including remand centres, by stages as soon as the local authorities bring into use alternative facilities. As a first step, the remand of 14 year old girls to prison service establishments (including remand centres) will cease as early as possible this year.

18. The future programme for phasing out will inevitably depend upon progress by local authorities in providing the additional facilities required, and this depends on their giving these facilities a high priority in their loan sanction capital programme. The power taken by the Government in the Children Act 1975 to make direct grants for this very expensive accommodation should speed this process. However, in view of the severe constraints on public expenditure, the Government accept that local authorities cannot be expected to cope with the very large number of juveniles (nearly 4,000 in 1974) who are remanded before trial to prisons or remand centres, and that the phasing out time-table will have to be subject to the fullest consultation with local authorities.

19. The Government share the Committee's concern that certificates of unruliness, authorising committal to a prison service establishment, should

not be issued unless they are necessary, particularly in view of the fact that only about half the young persons remanded in this way in fact receive custodial sentences. They have even considered the possibility of requiring local authorities to pay for juveniles remanded to prison service establishments: but this would be a cumbersome process and would require legislation. They would prefer, therefore, to rely on the powers taken in the Children Act 1975 to prescribe in regulations, criteria which are to be met before any certificate is given. Consultation on the form and content of these regulations has begun. This includes a survey conducted during February by questionnaire to the courts, seeking information about the circumstances of offences and the characteristics and previous history of the accused in cases leading to the issue of an unruly certificate. The draft regulations will be subject to the usual process of consultation: the Government have it in mind that they shall, *inter alia*, require the court before issuing a certificate to be satisfied by a written statement from the local authority that there is no suitable accommodation available within the community homes system safely to contain the young person until his date of re-appearance. The Government also intend to invite local authorities to establish procedures to limit applications for unruly certificates, perhaps by requiring such applications to be approved personally by, for example, the chairman of the authority's social services committee.

20. The Bail Bill now before Parliament, which provides for a statutory presumption in favour of the grant of bail to unconvicted persons, will apply to juveniles. This measure, when enacted, should result in some reduction in the number of children and young people committed on remand to local authority care and, by releasing places in residential observation and assessment units, should have some effect in easing local authority problems generally in providing for juveniles on remand.

21. The Government hope that, by attacking the problem on this wide front, worthwhile progress can be made in implementing the intentions of the 1969 Act with regard to prison service custody during the next 12 months. But the immediate ending of all juvenile remands to prison department establishments (ie remand centres as well as prisons) would not be practicable except by asking the community to tolerate the risk of a substantial number of serious offences being committed by juveniles awaiting trial and of their failing to appear for trial. This would not only defeat the ends of justice and be publicly unacceptable but could be more damaging to the welfare of the young people themselves than a remand to a prison department establishment.

2. That more educational resources be allotted to remand centres to which children of compulsory school age are remanded (paragraph 23).

22. The Government accept this recommendation. Most young people in remand centres, who are there, in the average case, for no more than 4 or 5 weeks, already receive more than the two hours education a day mentioned in the Committee's report as the provision in some centres; and some receive as much as six hours a day, five days a week. There are,

however, isolated cases where only two hours education a day is provided and some where only four hours is provided in a whole week. This must be a matter for particular concern in the small number of cases where remands extend for long periods. It is recognised that more educational resources are needed to provide full-time education for all those of compulsory school age who are remanded to remand centres and their provision will be provided by a redeployment of the prison department's educational service wherever possible. The quality and quantity of education provided in remand centres is, of course, directly related to the number of young people present there and as this number is reduced it will be possible to provide better educational services for those who continue to be committed.

3. *That when a care order is made agreement should be reached in court between the magistrates and social workers concerned on what should be done with the child. If the agreed course should prove impossible or undesirable the social worker should notify the court (paragraph 24).*

4. *That when a juvenile already the subject of a care order appears before a court charged with an offence the court shall have the power to make, if it thinks fit, a "secure care order" requiring the local authority to place the juvenile in secure accommodation for a period not less than that specified in the order (paragraph 25).*

23. These two recommendations reflect the Committee's concern about how decisions are reached on the treatment provided for children who are put into the care of local authorities by magistrates, especially about the treatment of the small minority of children who commit very serious offences, some of them repeatedly. The Magistrates' Association in their evidence to the Committee emphasised their inability to protect the public from what they described as "a minority of tough, sophisticated young criminals".

24. The Government see, first and foremost, a need for better co-operation and understanding between the courts and the local authority social workers and have consistently encouraged all authorities concerned with the Act to set up the necessary machinery. In their view, this is the only way to remove the uncertainty which exists among some magistrates about the basis on which social workers reach their decisions; the point is dealt with comprehensively in the reply to recommendation 36. The liaison arrangements referred to there should include regular opportunities for magistrates and social workers to meet to discuss the treatment outcome of individual cases or groups of cases.

25. As regards proceedings in court, the Government would be unwilling to contemplate a procedure which would blur the lines of responsibility between the court and the local authority. A juvenile court is not, and cannot be, a child welfare department, and it is of great importance that local authorities should accept and shoulder undivided responsibility for

looking after difficult or dangerous young people who have become their charge by reason of the court's decision. Moreover, the Government see drawbacks in the particular form of consultation enjoined in recommendation 3 which goes much further than the need to improve the courts' and the social workers' understanding of each other's roles. By restricting the local authorities' discretion it would undermine the concept of the care order, and limit the authorities' responsibility for determining and providing the proper treatment of young people placed in their care. The court is not a suitable setting for a detailed discussion of what should happen to juveniles. The social worker appearing in court would rarely be able to commit the local authority to a course of action in respect of a particular child at the time when the child is before the court, that is in advance of the post-trial observation of the child and full assessment of his needs.

26. At the same time, the Government recognise that many juvenile court magistrates have much experience of the problems and needs of juvenile offenders, and also that in the process of the court hearing, which includes the consideration of detailed reports about the offender, the court can form its own considered view in the light of all the circumstances of the offence and the offender about a suitable disposal.

27. With these considerations in mind the Government take the view that when a care order has been made the magistrates should be able, in the minority of cases which cause them special concern, to make a recommendation to the local authority concerned about what should be done with the child, including a recommendation that he or she should be placed in secure accommodation. This should be possible whether or not the boy or girl was already in care when the case was heard.

28. Since such a recommendation would constitute a contribution to the assessment process it would be inappropriate to announce it in open court; it should, instead, be conveyed by the clerk of the court to the local authority. Such recommendations would carry weight with the local authority who, following post-trial observation of the child and full assessment, would notify the court of their decision and the reason for it. The decision regarding placement and treatment under a care order would, however, remain wholly within the discretion of the local authority.

29. The Government also suggest that magistrates, in these and other cases of particular children in whom they are interested or about whom they feel special concern, should notify the local authority that they wish to receive within a stated period a report on the arrangements that have been decided upon. Because of the pressure on local authority social service departments it will be essential that arrangements of this kind should not be introduced without consultation between the magistrates and the local authority concerned and that they (like the power to make a recommendation) should be used selectively. If the magistrates wished to do so they would raise individual cases on which they had received reports at the next consultative meeting in the area. The matter would not be brought back to the court unless the child committed another offence, and in these cases

the court would be free to comment on the full circumstances surrounding the case and on any disagreement between the court and the local authority.

30. If the best use is to be made of these procedures it will be important to ensure that they are used sparingly and operated with the minimum administrative complexity. With this in mind the Government would propose to review the operation of these arrangements after a year.

5. That consultation between police and social services departments should be intensified in those areas where it is weak (paragraph 35).

31. The Government welcome this recommendation (which relates to consultation before a decision is taken whether or not to prosecute a juvenile). It reinforces advice relating to local liaison and co-operation given by the Government to the field services operating the Act. The great majority of police forces have special arrangements for dealing with juveniles, and the emphasis of the Act on consultation between the police and the social services departments of local authorities has proved a powerful stimulus to the setting up of juvenile bureaux. The staff of a juvenile bureau are responsible for gathering information about juveniles suspected of having committed offences from the relevant agencies, i.e. the social services department, the probation service and the education service, and an officer from the bureau usually visits the child's home. In the light of the information gathered, the officer-in-charge of the bureau decides whether proceedings should be brought, a formal caution administered or no further action taken. It is usual practice for the police to inform the local authority of the names of juveniles cautioned so that any necessary support or voluntary supervision may be given. The machinery for consultation between police, social services departments and other services concerned, is essentially a matter for local arrangement and will be a suitable matter to be considered within the framework of the consultative machinery, proposals for which are fully described in the comment on recommendation 36.

6. That there should be a sanction for non-payment of fines in the shape of an attendance centre order, the possibility of which should be made clear at the time the fine is imposed (paragraph 38).

32. The Government share the Committee's concern regarding sanctions in the event of non-payment of a fine imposed on a juvenile. But the Committee's recommendation presents a problem. The junior attendance centre system covers only the main centres of population; and because travelling must be kept within reasonable bounds, coverage of all smaller towns and rural areas would not be practicable even if resources for expanding the system were amply available—which is not the present position (cf comment on recommendation 10). Moreover, there are no junior attendance centres for girls; the extension of the system to include girls is not at present in contemplation since, the question of resources apart, the numbers are not such as to make centres even in large cities a viable proposition. The Government doubt whether a fine enforcement

sanction available only in respect of boys, and even for them not in all parts of the country, would be accepted as equitable.

33. There is no entirely satisfactory solution to this problem, but with a view to ensuring that some further action is available to the courts in all cases of persistent non-payment of fines by juveniles, the Government propose that a court should be given the power by legislation in these circumstances, either to order the defaulter to attend an attendance centre (where one is available) or to require the defaulter's parents to pay the fine or ensure that their child does so. This would mean giving the court a power either to bind over the parent to ensure that his child complies with the court order (similar to the bind-over power in section 7(7)) or to transfer the fine to the parent or guardian of the child concerned. In the latter case, the parent would become subject to the ordinary procedures for fine collection and enforcement, and the protection for the person liable to pay which they embody. It would always be open to the court to require the parents to pay, if this seemed appropriate, even where an attendance centre was available.

34. Before resorting to any of these measures of enforcement outlined above, the court would have had to bring the juvenile defaulter before it for an inquiry into the reasons for non-payment, and would need to be satisfied that the default resulted from a refusal, and not an inability, to pay the fine. Before making the defaulter's parents responsible for payment, the court would have to be satisfied that in all the circumstances the requirement was a reasonable one.

7. We recommend that the transfer of responsibilities from the probation service to the local authority social service departments be halted until such time as the latter have adequate trained and experienced staff to handle the problem (paragraph 39).

8. That courts be enabled to nominate either probation service or social service department as supervisor irrespective of the age of the child. We realise that this may need legislation (paragraph 39).

35. The transfer of responsibilities for supervising children (ie juveniles under the age of 14) from the probation service to the local authority social service departments has already been halted for the present because some local authorities are not able to undertake the additional commitment with their existing resources. However, any prolonged delay would have serious repercussions for the development of the work of the probation service in relation to older offenders. A similar consideration arises on recommendation 8. Both recommendations rest on the view formed by the Committee that, at least at present, the probation service is better experienced and better equipped to deal with delinquency than local authority social workers. In the Government's view the answer here lies in building up the training, skills and experience of the local authority service. To give the courts a free choice between the two services in every case of a child who

requires supervision could inhibit the local authority service from gaining necessary and valuable experience in supervising juvenile offenders. It would place on the probation and after-care service an additional burden which it could not shoulder without detriment to its existing planned commitments (themselves increasing) in respect of older offenders.

- 9. That courts should be enabled to impose sentences of detention in a detention centre for any period between two days and three weeks in addition to the existing sentences of three and six months (paragraph 46).*

36. The Government are not persuaded that there is a place, in the range of disposals available to the courts when dealing with juveniles, for shorter periods of detention than the present minimum three-month period, reduced as it is to six-and-a-half weeks through the award of one-half remission of sentence. As doubtless the Committee recognised, there are strong arguments against a very short period of custody, especially for young offenders. The Government consider that it is wrong to impose a custodial sentence so short that it is likely to be seen, either by the offender or by the staff of the establishment concerned or by both, as having only a punitive intent. Moreover, the introduction of offenders with very short sentences into an establishment catering primarily for offenders serving rather longer sentences could have an adverse effect on, and distract attention from, those in the latter category.

37. There would in any event, be substantial practical difficulties in providing a period of custody anything like as short as the two-day lower limit proposed by the Committee. The existing junior detention centres have wide catchment areas, leaving some courts several hours journey from a centre. The cost of transport and (more particularly) escort staff would be disproportionate if the period of stay were very short. Moreover, the existing stock of places (which in present circumstances and against other pressing demands for prison department resources cannot be increased) is scarcely adequate for existing demands. It follows that juveniles serving very short sentences could be accommodated only if these sentences displaced, and were not additional to, the existing three-month sentences; and even then it is likely that extra staff would be required to cope with the extra work involved in receptions and discharges.

38. The Government believe, therefore, that it would be both unrealistic and undesirable to empower the courts to impose sentences of detention on juveniles which in practice would run for less than six weeks.

- 10. That attendance centres be retained and that, where possible, the system be extended (paragraph 49).*

39. The Government's existing policy for junior attendance centres is to see them as a useful sanction and the Expenditure Committee's endorsement of this policy is welcome. The system would already have been expanded in the past two years, had resources been available. Plans for

expansion in a number of areas have been drawn up which can be implemented if resources become available.

- 11. That capital expenditure plans of local authorities for community homes should be submitted for approval through the Regional Planning Committees which should append their observations as to the impact of the proposal on regional plans (paragraph 54).*

40. The procedure recommended is, in fact, that adopted by the Government in the preparation of the 1975/76 capital programme. Applications by local authorities for inclusion of projects in the programme were submitted simultaneously to the appropriate Regional Planning Committees (RPCs) and the Department of Health and Social Security. Regional priorities were, following consultations within RPCs; notified by them to the Department. A national programme was then prepared by the Department on the basis of local authority and regional priorities. A similar practice was followed in Wales by the Welsh Office. The preparation of the programme for 1976/77 has followed a like pattern.

- 12. That priority should be given to ensuring that there is some secure accommodation in every area; RPCs should devote consideration to the possibility of making existing accommodation secure as a temporary measure (paragraph 81).*

41. Regional planning committees and local authorities are already aware of the need for more, and a more even spread of, secure accommodation, as the present building programme shows. It is because of the shortage of such accommodation, particularly in observation and assessment centres, that there is often no alternative to a remand to a Prison Department establishment for a boy or girl of 14, 15 or 16. It is the Government's declared policy that this undesirable practice should be ended, and steps already taken and plans for further action to achieve this are described in the reply to recommendation 1. But the abolition of this practice could be hastened by a concerted effort on the part of all the agencies concerned to provide secure remand facilities, reserve them for cases where the need is indisputable and keep such remands as brief as possible. There is no doubt that the shortage of secure accommodation is also reflected in the increasing number of 14 year old boys in detention centres and of 15 year olds in borstals, and in the numbers receiving more than one such sentence.

42. The high cost of secure accommodation and the number of trained experienced staff it needs have deterred some local authorities from undertaking to provide it, particularly since it is seldom that an authority requires more than a few places for its own use. The Government will make the fullest possible use of the power in the Children Act 1975 to make direct grants for the provision of secure accommodation in order to remove this difficulty and so encourage authorities to provide more secure places as quickly as possible. The new power, which will cover revenue commissioning costs where appropriate, will be used positively to remedy the current uneven distribution of this type of accommodation and to encourage co-operation across local authority boundaries.

43. The Government would be glad for local authorities to consider the possibility of adapting existing buildings, but previous experience of adapting buildings for this purpose has been discouraging.

13. We recommend the construction of secure wings in ordinary community homes which could be used for remand as well as for treatment places (paragraph 81).

44. This is a matter for the local authorities. It is Department of Health and Social Security and Welsh Office policy that additional secure places for remand purposes should be provided as part of, or in the grounds of, existing or new observation and assessment centres and that additional secure places for long-term treatment should be similarly provided in community homes with education on the premises. Regional plans generally conform with this policy. However, any attempt to provide remand and treatment facilities within a single unit would present difficulties in terms of the staff, facilities and types of treatment required, since the needs of children requiring long-term treatment in security are different from those of children on remand. In addition, the stability of homes which seek to provide long-term treatment is likely to be jeopardized by frequent short-lived visits of highly disruptive children.

14. That more strenuous efforts should be made to bring back into the service professionally qualified or experienced staff on a part-time basis with flexible hours (paragraph 88).

45. The Government welcome this suggestion and will certainly continue to encourage local authorities and voluntary organisations responsible for community homes to make it easier to employ professionally qualified or experienced staff on a part-time basis. The use of part-time residential staff has, of course, to be carefully planned in the interests of the children in view of the higher degree of continuity essential in residential care.

15. That social workers should be encouraged to move from one field to the other as circumstances allow (paragraph 96).

46. The Government share the view of the Committee that the movement of social workers between residential care and field work should be encouraged. Such movement will be stimulated by the policy of the Central Council for Education and Training in Social Work (CCETSW) to integrate the training of field and residential social workers which the Government support. Movement will also become easier when more combined field and residential work courses leading to the Certificate of Qualification in Social Work are set up. Progress will, however, depend on the availability of resources.

16. That residential staff should not necessarily live on the premises (paragraph 96).

47. The Government will encourage local authorities and voluntary organisations to consider whether an approach on these lines could help to solve their problems in staffing community homes. It will, however, be for individual

authorities and organisations and the heads of homes to decide upon the implications, in terms of management and the quality of treatment, of a reduction in the number of staff required to live in, bearing in mind, for any particular establishment, the needs of the children and the physical arrangements for their accommodation and control. Providing staff accommodation has sometimes been found to be an aid to recruitment, and the lack of it has, it is said, led some homes to reduce the number of places available for children. However, it cannot in general be necessary for a high proportion of staff to be resident, as distinct from being available during the night for the care and supervision of the children.

17. That the present capital programme should stand, but RPCs should undertake a fundamental examination of their programmes and resources before any more new buildings are proposed (paragraph 96).

48. The Government accept that the present regional plans, approved in 1973, now need revision. Discussions have already taken place with Regional Planning Committees on the form revision should take and the policy priorities to be taken into account in it, as a preliminary to the issue of guidance.

49. The Committee also refer to the plans in the 1975/76 capital programme, for building over 2,000 new places in community homes. In the event the changed economic conditions necessitated a reduction in this programme. Nevertheless, while some authorities are not going ahead with projects that carry expensive overheads, high priority must continue to be given to completing those additional places in community homes which provide observation and assessment, education on the premises and secure accommodation which were proposed in the 1973 regional plans. It is also essential that better use should be made of the existing accommodation. While the pressure on such accommodation continues to be heavy the Regional Planning Committees have a crucial co-ordinating role. The appendix sets out the numbers of additional places in community homes, broken down by regional planning areas, to be provided in projects already submitted by local authorities.

50. As the Committee point out, a critical constraint in residential work, and also in field work with children, is the shortage of staff, especially those with the necessary training and experience. In recent years it has been increasingly difficult to staff residential establishments of all kinds, probably because of improved working conditions in other sectors. The Committee suggest that the fundamental difficulty is that young staff are unwilling to live in and work unsocial hours. These are management problems but the solutions are expensive. As the Committee point out, it would be folly to build homes that cannot be staffed.

18. That some social workers should be encouraged to specialise in the field of juvenile delinquency (paragraph 97).

51. This is a matter for the local authorities and CCETSW. It is also in line with a recommendation of the Working Party on Manpower and Training for the Social Services, for the development of post-qualification training to

ensure adequate specialist expertise in the personal social services. While the Government support the Committee's recommendation in principle, they feel that the need is less for specially trained social workers working full-time with children in trouble or at risk, than for social workers dealing with such children to have ready access to specialist advice and expertise within the social services department. They therefore accept the need for suitable training and other arrangements to be made to enable some social workers to gain experience in this field.

19. That attention be given to ensuring that social workers are trained in court procedure (paragraph 97).

52. This is primarily a matter for the local authorities, but the Government agree that social workers who are likely to have to appear before a juvenile court should receive training in court procedures. Some training in court procedure is already given to social workers on most qualifying courses and although their lack of experience in this field was once a serious problem the situation is gradually improving. Two papers published by the CCETSW in 1974 and recommended to local authorities by DHSS have made a significant contribution to this. The CCETSW are at present considering in what way the training currently provided can be developed further.

20. That the community homes for each RPA should recognise a responsibility to find a place within the area for even the most difficult child and their heads should form a committee to decide to which home such a child should be sent (paragraph 103).

53. The Government share the Committee's concern about children who are difficult to place, and DHSS Ministers have on a number of occasions, in particular at conferences with Regional Planning Committee (RPC) Chairman, urged those RPCs which have not already done so to make regional arrangements for placing such children.

54. There are grounds for thinking that, despite calls for more accommodation, some specialised community homes are not being used to their full capacity and that their use is not confined to children who need to be placed in them. Despite heavy investment and increased demand the numbers actually accommodated in these community homes have not risen. Some authorities providing homes have not clearly defined the roles and functions of those homes and have allowed the heads to exercise a discretion on admission that goes beyond a necessary professional discretion. There is a problem here, as the Committee themselves recognised, since they specifically refrained from recommending that heads of homes should lose the right to refuse to take a child. The problem is, of course, greatest for those authorities which do not have sufficient community homes places of the right type to meet their needs.

55. Where the problem is purely a local one the solution, in large measure, lies in social services departments developing stronger controls over the specialised community homes for which they have recently become responsible. Where the problem is one of sharing between two or more authorities the need is clearly for closer co-operation under the umbrella of the RPC. There is a

growing awareness of this problem within regions, some of which have already taken steps to solve it which are producing positive results. A committee of heads to decide which of them will take a child in need of treatment would be one way of dealing with part of the problem. On the other hand, the heads will not always be aware of the full circumstances surrounding a particular child's admission and a better solution could be a panel representing a number of interests including the heads. Different areas may need different solutions and it is for local authorities, through RPCs, to choose the best strategy for their purpose.

21. *That more should be done to encourage RPCs and local authorities to produce more imaginative plans and to stimulate the development of intermediate treatment in those areas where it is inadequate.*

56. This is the accepted policy of the Government, who recognise that the difficulties in the residential sector already referred to underline the importance of developing non-residential treatment. The 1969 Act itself enables local authorities to develop intermediate treatment—intermediate that is between helping a child in his home and removing him from it. There is a growing understanding of, and enthusiasm for, the new techniques that are being evolved. Progress has been slow, however, and the numbers provided for in this way are still totally inadequate.

57. The Government are promoting the growth of intermediate treatment and, to this end, a circular will be issued to local authorities later this year in which RPCs and authorities will be urged to bring intermediate treatment schemes up to date and to widen the range of facilities which they embody. In the meantime, a series of conferences on intermediate treatment is already taking place within regions at which field workers exchange ideas and compare and discuss various schemes of intermediate treatment. In addition the Social Work Service is concentrating on the development of intermediate treatment in areas where the need is greatest and is studying and disseminating information about schemes and projects of special interest.

22. *That the Department should make it clear to the local authorities that money can be spent on intermediate treatment for children in care and children at risk, whether or not they are subject to a court order, and that the local authority may make facilities available for children under supervision who express a willingness to take part in intermediate treatment (paragraph 117).*

58. The Government welcome this suggestion. There appears to be no legal barrier to doing what the Committee suggest; indeed some authorities already do so. Discussions will be held with the local authority associations to agree what needs to be done to assure the other authorities that they may safely follow suit, where resources allow.

23. That:

- (a) *When making a supervision order the court shall have the power to specify conditions with which the subject of the order must comply (such conditions being similar to those attaching to a probation order).*

- (b) *For a breach of any of these conditions the supervisor shall be able to bring the juvenile back to court which shall have the power to deal with the matter, if it thinks fit, by way of a fine or an attendance centre order, whilst continuing the supervision order.*
- (c) *When the court proposes to make a supervision order, the conditions of the order and the possible consequences arising from a breach of those conditions shall be explained to the juvenile, and his consent and that of his parents or guardians obtained before any such order is made (paragraph 119).*

59. The Government fully share the Committee's view of the importance of supervision as a means of dealing with juvenile offenders without removing them from home. Like the Committee, the Government are anxious to increase the effectiveness of the supervision order and, as a consequence, the courts' confidence in it. The Government recognise that a power to include conditions in a supervision order, and to impose sanctions for breaches of the terms of the order, could have a part to play in attaining this object. At the same time it is necessary to keep in mind the possible effect of such changes (which would require legislation) on the way in which supervisors carry out their duties under the Act, and the Government would clearly need the considered views of local authorities and others. It would also be necessary to consider the likely effectiveness of sanctions for breach of a supervision order. With these considerations in mind, the Government will seek views on the Committee's proposals, and on the general question of supervision, from local authorities and others concerned.

- 24. *That community homes, particularly those with education on the premises, should be used for day, as well as for residential care (paragraph 123).*
- 25. *That local authorities should make greater provision for day care in their budgets (paragraph 123).*

60. The suitability of a community home as a day care centre would depend upon the circumstances of the home and it must be for local authorities to decide whether a particular home could effectively be used for day care. Subject to this the Government encourage the use for day care of community homes which are observation and assessment centres where children usually stay for only a short period; indeed some recently provided centres include facilities for day assessment. The provision of day care in other kinds of community home is still in an experimental stage. In general a community home with education on the premises is intended for those very difficult children whose needs require concentrated care away from home in order to equip them for return to their home and perhaps to prepare them to undertake a day care programme. To provide for these children and to take in other children on a daily basis would make heavy demands on staff and might detract from the standard of care provided for the residents. These difficulties need further examination; the Government will encourage local authorities to continue to experiment with the mixed use of suitable homes in order to test the practicability of providing day care in long-term residential settings.

- 26. *That urgent attention should be given to non-residential forms of care: intermediate treatment, day care, supervision and fostering.*

61. This recommendation is primarily for implementation by local authorities. The Government regard it as a key one. The development of non-residential forms of care and treatment must be seen as a priority. ("Non-institutional treatment" might be a better term, since short periods of residential care combined with supervision and other help in the community is one promising alternative to long-term care in an institution). Institutional care is now so expensive that it ought to be reserved for children whose needs cannot be met in any other way. The Government are helping in various ways, including grants under the Urban Aid programme, grants to voluntary organisations and promotional work. Guidance on financial aspects is being prepared. A firm indication of the Government's commitment to intermediate treatment was given in the joint circular on the Rate Support Grant Settlement 1976/77. The need now is for vigorous local action. The Government hope that local authorities will interest themselves through corporate management in the co-ordination of services for this purpose, as well as consulting other agencies.

62. The Government, therefore, take a keen interest in, and are encouraging the development of, intermediate treatment and are keeping in close touch with such experimental projects as the Hammersmith Teenage Project organised by the National Association for the Care and Resettlement of Offenders and with the experiments in Kent and Reading in professional fostering. Efforts will be made to encourage authorities generally to follow the example of the most progressive in developing these alternative forms of care. A Working Party on Fostering Practice was established by DHSS in 1974 and has produced a "Guide to Fostering Practice" which will be published in the near future. In addition DHSS and the Central Office of Information have produced new leaflets and posters which have been issued to local authorities to help them recruit new foster parents.

27. That experiments in fostering disturbed juveniles should be set up in each Regional Planning Area. Particular efforts should be made to recruit to this work those women social workers who have left their jobs to raise families (paragraph 129).

63. The Government will commend this recommendation to local authorities. It has been estimated that about 5,000 children in the care of local authorities, who are now living in residential accommodation, could benefit from fostering if suitable foster parents could be found. The problem is particularly difficult in relation to very disturbed children because they require from foster parents a profound appreciation of their special needs. Most authorities pay enhanced rates of boarding out allowance for such children as a means of compensating for the additional skill or emotional and physical wear and tear that fostering them demands.

64. The Working Party on Fostering Practice, in their guide, suggest recruiting as foster parents for disturbed children those who already have appropriate experience, such as married women who were formerly social workers, teachers or nurses, and who now wish to resume work in their own home.

28. That in cases where the main cause of concern is a child's failure to attend school the education welfare service should be able to be designated supervisor. To this end we recommend that education welfare officers should receive more training (paragraph 136).

65. This recommendation is accepted in principle. There is no legal obstacle to education welfare officers undertaking supervision by arrangement with the local authority even though the supervision of that work is the responsibility of the social services committee of the authority whereas the oversight of the work of such officers is usually the responsibility of the education committee of the authority or in inner London boroughs the Inner London Education Authority.

66. The practicalities of involving education welfare officers in the work of supervision are for assessment by authorities in the light of the staff available, of the circumstances of individual cases, and of management implications, but the Government see no objection in principle to the use of education welfare officers for this purpose; on the contrary, the practice has much to commend it. The Government do not, however, propose to bring forward legislation to empower the court to insist on the use of education welfare officers in specific cases; in their view the choice of supervising officer is best left to the local authority.

67. The promotion and provision of training for education welfare officers is for CCETSW and for local authorities who, through the Local Government Training Board, have endorsed the training proposals in the Ralphs Report. This report proposes the development of elements designed to meet the needs of the education welfare service within basic qualifying courses in social work and this is being considered by the CCETSW. The report also makes recommendations for in-service training on which action has already been taken by the Local Government Training Board.

29. *That the attention of local education authorities should be drawn to the Home Office view, expressed in the Guide to the Act that "A child of compulsory school age who, despite the action already taken, is not being educated is clearly not receiving the care or control he needs" (paragraph 137).*

68. As is explained in paragraphs 90 to 91 of the Home Office Guide to Part I of the Act, it was intended that the Act should give legal endorsement to what had already been the administrative practice, in not bringing proceedings in the juvenile court until efforts had been made to resolve the situation without recourse to them.

69. It was foreseen in consequence that evidence to establish the care or control test might often consist, as is put in the Guide, of "an account of the unavailing efforts which have been made to secure the child's attendance at school by other means, and of the reasons why any further efforts are unlikely to be any more successful".

70. It was not envisaged that in every such case a care order would result. The Act provides for a number of other possible outcomes—such as an order binding over the parents, or a supervision order, with or without intermediate treatment—one of which might well be more appropriate in an individual case in dealing with the complex problem of truancy. Nor was it envisaged that a

community home with education on the premises was necessarily the right place for a child whose main difficulty is failure to attend school.

71. The Government recognise that there is some uncertainty about the interpretation of the care or control test in relation to truancy and intend to discuss this with representatives of the interested bodies, and to consider the need for further guidance in the light of these consultations.

30. *That school heads should be informed as of right of every child who comes to the attention of the police or local authority (paragraph 138).*

72. Attention was drawn, in paragraph 98 of the Home Office Guide to Part I of the Act, to the need for close liaison between social services departments, education departments and schools. The spirit of the present recommendation is, therefore, welcome; some head teachers are known to feel strongly that existing liaison arrangements are less than adequate. The Government are not persuaded, however, that a system of compulsory notification would constitute the most appropriate way of bringing about the necessary degree of co-operation; a statutory requirement on the police, for example, to notify head teachers of every child who came to their attention would seem to represent a considerable burden of work, and it is not clear that the benefits would be commensurate. The Committee's objectives would best be met, in the Government's view, through locally agreed procedures which are fully accepted by all the services concerned as meeting their legitimate requirements, and it is hoped that authorities, in consultation with the police, will re-assess the adequacy of present arrangements within their areas in the light of the concern which the Committee has voiced. The Government will consider whether a re-statement and expansion of the existing guidance would be helpful.

31. *That a unit be set up to monitor the working of the Act. If staff with the necessary expertise are not available in the Department of Health and Social Security they must be seconded from the Home Office Research Unit (paragraph 145).*

73. The Government accept the need to monitor the working of the Act more effectively. They propose that, at the national level, standing inter-departmental machinery should be set up to do this and to co-ordinate the research programmes of the Departments concerned. Its functions would include the servicing of the National Advisory Council referred to in the answer to recommendation 36, in particular by assisting the Council in its tasks relating to the arrangements for local consultation proposed there.

74. The Home Office Research Unit is currently responsible for research into the operation of juvenile courts and other matters affecting children and young persons for which the Home Office is responsible. When other Home Office responsibilities for children and young persons were transferred to the Department of Health and Social Security a number of related research projects on the residential treatment of juvenile offenders were in progress and responsibility for them was left with the Home Office Research Unit. The last of these has now been completed and the Department of Health and Social Security

are commissioning new projects in this field. A group of Home Office, Department of Health and Social Security and Welsh Office officials meet at intervals to co-ordinate the research programmes of the three departments. Officials also attend from the Department of Education and Science and Scottish Office.

75. With the agreement of the local authorities the method of collection of national statistics and other data on the exercise of their responsibilities for treatment under the Act is being re-organised. A new system of returns of information about children in care was introduced from 1 April 1976. The new return will be a considerable improvement because it will show the ages, reasons for being in care and time in care, of children in various types of accommodation. The Home Office, the Department of Health and Social Security and the Welsh Office are considering how best to ensure that this and other information needed for improved monitoring is collected and made available. It is hoped that new arrangements for collecting data about the use being made of community homes which will provide a common data base for the Government, Regional Planning Committees and local authorities, will also come into operation this year.

32. That the staff of community homes should be enabled to undertake the after-care of children where appropriate (paragraph 149).

76. The Government consider that social work support and after care is of vital importance and that there should be full co-operation between the staff of the community home and the field social workers in the child's home authority. The community home staff need feed back about the child's progress after discharge just as the field social worker responsible for the case needs full reports about the child's progress in the home. It is for local authorities to consider how this necessary co-operation is achieved, and the recommendation will be brought to their attention.

33. That police and Directors of Social Services should meet together in each Region with a view to evolving procedures to reduce the amount of paper work involved in each case and to shorten the interval before a child appears in court (paragraph 157).

77. The Government share the Committee's concern about present delays in bringing juveniles before the courts, particularly in London. Consultations between the Inner London juvenile courts, the Metropolitan Police and directors of social services have already achieved some improvement, and delays now are due primarily to staff shortages and pressure of work in social services departments and in police juvenile bureaux. The liaison arrangements referred to in the reply to recommendation 36 would be an appropriate means of considering these matters.

34. That the issuing of explanatory leaflets in easily comprehensible language to children appearing before juvenile courts and to their parents should be standard practice (paragraph 158).

78. The Government welcome this recommendation, which reflects existing court practice in a number of areas. Consultations have already begun with magistrates' courts on extending it.

35. *That a pilot duty solicitor scheme be established in a juvenile court in one of the major urban areas in order to obtain a clearer idea of the effectiveness and cost of such a scheme (paragraph 159).*

79. Duty solicitor schemes are organised by individual local law societies, under the aegis of the Law Society, not by central government. A scheme specifically for juveniles is to be introduced at the Balham juvenile court, serving the London boroughs of Wandsworth and Lambeth, in June this year. If successful, it will be extended to other inner London boroughs. Of the other 74 voluntary duty solicitor schemes, half say that they provide services for the juvenile court. There is also power under section 2 of the Legal Aid Act 1974, in cases where a legal aid order has not been made, for a solicitor within the precincts of the court to appear for an accused person and to be paid under the legal aid scheme if the court approves. As a respondent, a juvenile is already entitled to legal aid on his own application, or on that of his parent, while a court itself may grant legal aid without any application. Section 21 of the Powers of Criminal Courts Act 1973 provides that a juvenile cannot be sent to a detention centre, or sentenced by the Crown Court to borstal training, unless he has been legally represented. In 1973 nearly 16,000 juveniles were granted legal aid, and only just over 1,000 applications were refused. Although this represents only a fraction of the total number of cases, many involve non-indictable offences, and most are dealt with by way of absolute or conditional discharge or a fine. The Government consider that the law is adequate to make legal aid and advice and legal representation available for juveniles where it is required, and that it cannot be claimed that in serious cases any substantial number of juveniles fails to obtain these services. The explanatory leaflets referred to in the reply to recommendation 34 should help to ensure that juveniles and parents are not left in ignorance of their entitlement in respect of legal aid and legal representation, and it is hoped that the development of duty solicitor schemes for juveniles will improve the situation still further.

36. *That liaison committees representing magistrates, teachers, social workers and probation officers should be set up in every local authority in respect of children and young people to discuss not only the progress of individual children in care or under supervision, but also more general matters such as the development of intermediate treatment. These committees should be able to require police officers to attend where appropriate (paragraph 161).*

80. The Government wholly share the Committee's view of the importance of the closest co-operation at local level among all those who share responsibility for the care and control of young people who get into trouble with the law. As the Committee recognised, there are clear indications that some at least of the present shortcomings in the operation of the Act are attributable to failures of communication and the lack of smoothly working machinery to ensure that each partner in the business of dealing with juvenile delinquency understands—even if he cannot always share—the objectives, priorities, constraints and problems of others concerned in the same task.

81. To this end, local consultative machinery is needed—and exists already in many places—to bring together, on equal terms, juvenile court magistrates, representatives of the local authority, and practitioners such as the heads of community homes, the police (including juvenile bureaux where they exist), teachers, field social workers (including education welfare officers) and representatives of voluntary organisations. The task of these local bodies will be to concern themselves generally with the detailed operation of the Act in the area where their members exercise responsibility, with a particular emphasis on mutual understanding and making the most effective use of the powers and resources available. One example of a particular role that they might play is in relation to the proposals outlined above (in relation to recommendation 3) for juvenile courts to be able, in selected cases, to make treatment recommendations and call for reports from the treatment authority.

82. The Government would not wish to prescribe any single pattern of consultative machinery: what will suit one area will not suit another, and it would in any event be wrong to disrupt, in the interests of narrow uniformity, existing arrangements which are judged by all concerned to meet the need. However, to assist and stimulate the improvement of communication at all levels, the Government intend that the Ministers concerned shall hold informal discussions at national level with the Magistrates' Association, the local authority associations and other national bodies, about the implementation of the Committee's recommendations, including their implications for resources. A particular objective in these discussions will be to consider the establishment of a national advisory council to ensure continued consultation at national level over the whole field. This National Advisory Council, in addition to providing a forum for the provision of advice to Ministers, would have as an important function the encouragement of the local liaison arrangements referred to above, and the formulation of advice regarding the forms that these might best take, drawing upon the existing experience of areas where fruitful discussions have already taken place between the services concerned.

83. The national advisory body might also wish to advise on the desirability of consultative machinery at regional level alongside the Regional Planning Committees (RPCs). Although some RPCs have made extensive use of the power of co-option, it seems likely that, elsewhere too, magistrates and representatives of other agencies and professions could make a useful contribution to regional planning.

37. That the Home Office should examine the legislation with a view to defining more clearly where the responsibility lies for offences committed by a child in local authority care (paragraph 164).

84. There has been a number of court decisions in recent years about the extent of a local authority's responsibility for the payment of a fine or compensation under section 55 of the Children and Young Persons Act 1933 in connection with an offence committed by a juvenile while subject to a care order. These touch upon two main points: first, whether the local authority is responsible, as far as the payment of a fine is concerned, for a juvenile who is in care but, by decision of the local authority, residing in a home not run by the authority

concerned or is with his parents; secondly, the nature of the responsibility for control of the child or young person when he is in a home maintained by the local authority.

85. Interpretation of the relevant statutes is a matter for the courts. The Government does not at present consider that an amendment to the statutes is called for, but will continue to keep under review the development of case law in this area.

38. That both individuals and voluntary organisations be encouraged to co-operate in intermediate treatment (paragraph 165).

86. This recommendation is accepted. The circular shortly to be issued to local authorities on intermediate treatment will emphasise the need to tap resources in the community suitable for providing intermediate treatment including facilities provided by voluntary organisations and the expertise and enthusiasm of individual volunteers. Authorities will be urged to seek the co-operation of such organisations and individuals.

39. That attention be given to the possibility of setting up Youth Advisory Centres on the Amsterdam pattern in this country (paragraph 166).

87. There are a number of voluntary organisations which provide advice, counselling and "drop-in" services in London and other areas, some of which are assisted by grants from public funds. Advice is also provided by Family Service Units and detached youth workers and through voluntary attendance at intermediate treatment centres. Voluntary organisations providing such services for young people include GALS (Girls Alone in London Service), Centre Point, Open-door, the London Youth Advisory Centre and the Samaritans. Central Government departments follow these initiatives with interest and are keeping their development under review.

40. That children in community homes be enabled to earn extra pocket money by helping with the running of these homes.

88. This is a matter within the discretion of the local authority or voluntary organisation responsible for the home as part of their general responsibility to ensure that the home is properly conducted. Their attention will be drawn to this recommendation.

community homes: building projects financed by loan

The tables below show the numbers of new places in community homes which on 14 May 1976 the local authorities were in the process of providing, and the stage reached in that process. The DHSS* is responsible for the allocation of the sums available for loan finance for capital projects for the personal social services including projects for children. The allocation procedure falls into three parts.

(a) *The issue of the Department's list of projects provisionally approved*

The Department selects from lists of projects supplied by local authorities, taking account of local, regional, and national priorities and according to the total sum likely to be available, those projects which on the basis of the information then available, would be likely to be approved. The next stage is for the local authority to formulate the proposal in greater detail and at an acceptable cost.

(b) *The approval in principle of an individual project with the determination of a cost limit*

Once sketch plans and cost limits are agreed the project is approved in principle, and the local authority can complete preparations in full detail and obtain tenders.

(c) *Final approval*

When a tender is received which they propose to accept, the local authority apply for final approval which enables them to raise a loan to the agreed cost of the project and start construction.

A project that has been approved in principle but has not reached final approval at the end of the financial year will, if the local authority so wish, have first call on the programme for the following year. Otherwise it will lapse.

The DHSS* are not directly involved in the planning or construction stages.

*The Welsh Office are the responsible department for such matters in Wales.

A. COMMUNITY HOME PLACES IN BUILDING PROJECTS WHICH HAVE RECEIVED FINAL APPROVAL
(as at 14.5.76)

Regional Planning Area	*O & A Centres Places		†C.H.E. Places		Ordinary CH Places		Total Places	
	Ordinary	Secure	Ordinary	Secure	Ordinary	Secure	Ordinary	Secure
1	30	3	—	36	61	—	91	39
2	147	11	20	—	60	—	227	11
3	103	2	16	—	50	—	169	2
4	68	—	24	—	75	—	167	—
5	74	7	—	—	54	—	128	7
6	55	6	—	—	106	—	161	6
7	43	9	26	3	26	—	95	12
8	215	34	48	2	267	—	530	36
9	61	5	38	—	12	—	111	5
10	18	2	—	—	—	—	18	2
11	24	—	—	—	—	—	24	—
12 (Wales)	57	6	29	9	118	—	204	15
TOTALS	895	85	201	50	829	—	1,925	135

*Observation and assessment centres.

†Community home with education on the premises.

B. COMMUNITY HOME PLACES IN BUILDING PROJECTS WHICH HAVE RECEIVED APPROVAL IN PRINCIPLE
(as at 14.5.76)

Regional Planning Area	*O & A Centres Places		†C.H.E. Places		Ordinary CH Places		Total Places	
	Ordinary	Secure	Ordinary	Secure	Ordinary	Secure	Ordinary	Secure
1	-	-	25	-	-	-	25	-
2	27	3	-	-	8	-	35	3
3	104	10	-	-	76	-	180	10
4	-	-	-	-	-	-	-	-
5	-	-	-	-	42	-	42	-
6	24	6	-	-	8	-	32	6
7	59	12	-	-	-	-	59	12
8	-	4	-	-	24	-	24	4
9	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-
11	24	-	-	-	-	-	24	-
12 (Wales)	-	-	-	-	56	-	56	-
TOTALS	238	35	25	-	214	-	477	35

†Community home with education on the premises.

*Observation and assessment centres.

RESTRICTED



European Communities No. 14 (1976)

Developments
in the
European Communities
November 1975–April 1976

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
1976*

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DEVELOPMENTS IN THE EUROPEAN COMMUNITIES
NOVEMBER 1975-APRIL 1976

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DEVELOPMENTS IN THE EUROPEAN COMMUNITIES

NOVEMBER 1975-APRIL 1976

Section I. Introduction

1. This is a report in the series presented to Parliament by the Government in accordance with the recommendation of the Select Committee on European Community Secondary Legislation in its second report of the 1972-73 Session. The report published in November 1975* covered the period up to 31 October 1975. This report records developments during the period to 30 April 1976. The aim is to describe major decisions reached by the European Communities during this period and to refer to major work in progress.

Section II. Political Co-operation

2. The nine countries of the Community have continued to co-ordinate their position and policies on foreign policy matters. Useful consultation has taken place between the Nine on the follow-up to the Conference on Security and Co-operation in Europe and co-operation has continued on a close and daily basis at the United Nations. The Nine have continued to keep in touch with the parties involved in the situation in Cyprus.

3. On 23 February 1976, Foreign Ministers issued a statement of principles on Angola and Southern Africa in which they condemned external military intervention in Africa and expressed *inter alia* the readiness of the Nine to develop a co-operative relationship with African states and the right of the peoples of Rhodesia and Namibia to self-determination and independence. Following this, on 1-2 March the Heads of Government of the Community, meeting in the European Council, issued a public statement expressing their support for British policy on Rhodesia and urging the White Rhodesian population to accept a peaceful transition to majority rule. They reiterated their determination to continue to apply Security Council resolutions concerning Rhodesia (including those on sanctions).

4. The Nine are continuing to consult closely on Southern African issues and are examining actively ways in which the Community and Member States can make a positive contribution to developments in that region, for example by co-ordinating their additional bilateral aid programmes.

5. The Nine continue to attach great importance to the Euro-Arab Dialogue as a means of building a constructive relationship with the Arab states. It is hoped that the first meeting of the General Commission in Luxembourg in May will give further impetus to the work at expert level in a number of economic, technical and cultural fields.

6. At its meeting in Rome in December 1975 the European Council adopted a proposal by the United Kingdom that Community Ministers of the Interior (or Ministers with similar responsibilities) should meet to discuss matters of common interest, in particular with regard to law and order. Preparations have been made for a first meeting of Ministers, which it is hoped to hold within the next two months.

* Cmd. 6349.

Section III. External Relations: Trade and Aid

Multilateral Trade Negotiations

7. Work on the liberalisation of tariff and non-tariff barriers to trade is continuing in the GATT Multilateral Trade Negotiations (MTNs) in which the Commission represents the Community on the basis of the mandate adopted by the Council of Ministers in February 1975 and in the light of regular co-ordination meetings with the Member States. At the Conference of Heads of State and Governments at Rambouillet in November 1975 it was agreed that the negotiations should aim at achieving the maximum liberalisation of trade and that they should be completed by the end of 1977. This agreement was subsequently endorsed by the Trade Negotiations Committee, the supervisory body of the MTNs.

8. Particular attention is being paid in the negotiations to the problems facing the developing countries. On 5 April the Council of Ministers adopted a broadly-based Community offer containing significant improvements in access to the Community market for tropical agricultural products of interest to these countries. It is envisaged that the concessions in the offer will be implemented from 1 January 1977.

Mediterranean Countries

9. In January the Community concluded new trade agreements with Algeria, Morocco and Tunisia which were formally signed in the capitals of the countries concerned on 25-27 April. They will replace the provisions of the trade agreements signed by Morocco and Tunisia in 1969 with the Community of Six; and they include financial protocols providing for Community aid in the form of grants and loans over the next 5 years.

10. On 9 December 1975 under the Community's "overall approach" to relations with the countries of the Mediterranean basin, the Council of Ministers agreed on a mandate for negotiations with Egypt, Syria, Jordan and Lebanon. Negotiations with the first three of these countries started at the beginning of February, and it is hoped that agreements on lines broadly similar to the new agreements with the Maghreb countries will be concluded within the next few months.

11. In December the Community negotiated new agreements with Malta extending the existing Association Agreement to the new Member States and enlarging its provisions. These agreements and the related financial protocol were signed in Brussels on 4 March.

Spain

12. The Council of Ministers agreed at its meeting on 2 March that negotiations for a trade agreement between Spain and the enlarged Community, which were broken off in October 1975, could be resumed.

Greece

13. In January the Commission put forward their opinion, in accordance with Article 237 of the EEC Treaty, on Greece's application for full Community membership. At their meeting on 9 February, Foreign Ministers of the Community pronounced unanimously in favour of the application, and decided that preliminary work should be undertaken rapidly in order to allow negotiations with Greece to be opened as soon as possible.

Portugal

14. Negotiations have continued on revisions to the free trade agreement between Portugal and the Community. The Council of Ministers has agreed that the agreement should be extended to cover employment matters, social security, and technological and financial co-operation.

Trade and Economic Co-operation Agreements

15. The Community initialled a commercial co-operation agreement with Pakistan in March. Its provisions are similar to those of the agreement with India which was signed in 1973.

Iran

16. In March the Commission reported to the Council of Ministers on the outcome of exploratory talks with Iranian Ministers and officials on Iran's future relations with the Community, and prepared proposals for an EEC/Iran commercial and economic co-operation agreement. These proposals are currently under consideration in the Community.

Canada

17. Negotiations started in March between the Community and Canada on a framework agreement for economic and commercial co-operation.

Textiles

18. The Community has negotiated further agreements under the GATT Multifibre Arrangement with the Republic of Korea, Malaysia, Japan, Colombia and Brazil. Other outstanding negotiations with its major suppliers of low-cost textiles should be concluded in the near future. A number of these agreements were debated in House of Commons Standing Committees on 14 and 28 January 1976.

State Trading Countries

19. In February the Council for Mutual Economic Aid (CMEA) put forward on behalf of its member states (Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Poland, Romania and the Soviet Union) a draft of a possible agreement with the Community. This followed the Community's offer in November 1974 to engage in trade negotiations with each of the state trading countries for the conclusion of agreements to replace the bilateral trade agreements negotiated by individual EEC countries, which have virtually all been terminated. At its meeting on 2 March, the Council of Ministers took note of the CMEA proposals, which are now under study.

Generalised Scheme of Preferences

20. In November 1975 the Council of Ministers agreed on the 1976 arrangements for the Community's Generalised Scheme of Preferences, which provides concessions on access into the Community for imports from all the developing countries. These arrangements included a number of improved concessions both in the industrial sector where ceilings and quota limits have been increased and in the agricultural sector where the preferential rates of duty applied to most products have been reduced. Some agricultural products of major interest to the Asian Commonwealth countries have been included in the Scheme for the first time.

CIEC/UNCTAD

21. The Heads of Government agreed at the meeting of the European Council on 1-2 December on arrangements for Community representation at the Ministerial meeting of the Conference on International Economic Co-operation, which was held in Paris from 16-18 December. While the Community spokesman will normally be the Presidency or Commission, these arrangements provide for individual members of the Community Delegation to be invited by the Presidency to comment on specific questions in the context of the mandate, provided that such statements do not conflict with the agreed Community position. The same procedures apply to Community participation in the four Commissions of the Conference—on energy, raw materials, finance and development—which were set up by the Ministerial Conference. The Commissions have met three times, in February, March and April. The work of the Commissions has been kept under review by the Council of Ministers (Foreign Affairs). While the countries of the Community are to be separately represented at the fourth meeting of UNCTAD, to be held in Nairobi in May, preparations for this, as for the CIEC, have been closely co-ordinated within the Community, which regards both bodies as important in the continuing dialogue between industrialised and developing countries.

The Lomé Convention

22. The Lomé Convention has now been ratified and formally came into force on 1 April 1976. The Convention, which runs to 1980, provides for trade, financial and technical co-operation between the Community and 46 African, Caribbean and Pacific countries (the ACP countries). Its trade provisions, which were brought into effect on an interim basis on 1 July 1975, give the ACP countries improved access to the markets of the Nine; similar benefits have been extended to most of the United Kingdom's remaining dependent territories.

23. Work is already well under way to identify projects in the developing countries which will be eligible for finance from the 3,150 million units of account (mua) allocated to the fourth European Development Fund. The ACP countries' export earnings are being assessed to establish which countries are eligible to receive payments under the Community's Export Earnings Stabilisation Scheme (STABEX). Discussions are also taking place within the Community and with the ACP countries to establish the Centre for Industrial Development provided for under the chapter of the Convention dealing with industrial co-operation.

Other Aspects of Community Aid Policy

24. The Council of Ministers (Development) met on 8 April but no agreement was reached on the release of 20 mua included for the non-associated developing countries in the 1976 Community budget by the European Assembly, or on a Community contribution to the International Fund for Agricultural Development. The failure to agree on aid to the non-associates was disappointing and the United Kingdom will continue to pursue this aim. There have also been continuing discussions on harmonisation and co-ordination of Member States' bilateral policies.

Section IV. Agriculture and Fisheries

25. The United Kingdom has continued to seek improvements in the operation of the common agricultural policy in order to keep down the cost to the Community budget and the level of prices in the interest of the consumer and, where possible, to discourage the production of surpluses.

26. The Commission's proposals for Community agricultural support and prices in 1976-77 were presented in December 1975 and were debated in the House of Lords on 3 February and in the Commons on 12 February. Agreement on the prices for the 1976-77 farm year was reached by the Council of Ministers (Agriculture) at its meeting on 2-6 March. As a result of these decisions United Kingdom farmers will receive support in 1976-77 which should help to ensure a substantial recovery in agricultural output. When taken together with the next transitional step required under the Accession Treaty and the increases in United Kingdom prices arising from the domestic 1976 Annual Review, the total effect on the cost of living by the first quarter of next year is estimated to be an increase of about 1p in the pound.

Monetary Arrangements

27. During this period the monetary compensatory amounts financed by the Community (which partly shield the United Kingdom consumer from the effects of any fall in the market rate for the £ on the price of imported food) rose from 6.4 per cent to 19.2 per cent, which is equivalent to an estimated annual import subsidy of over £200 million. At its meeting on 29 April, the Council of Ministers considered the cost to the Community budget arising from changes in the market rates for sterling and the lira. It agreed that the representative rate for the lira should be adjusted by about 6 per cent, and that the monetary compensatory amounts payable on imports into the United Kingdom and Italy from the other seven Member States would be paid in the exporting country. These payments will continue to be an effective subsidy on the foods we import.

Milk Products

28. Over-production of milk products continues to be one of the major problems facing the Community. At its meeting in March the Council of Ministers agreed that the target price for milk in 1976-77 should rise in two stages, giving an average increase for the year of about 6 per cent. This increase will however be lower in some major producing countries because of the monetary changes made as part of the price-fixing package, and it will also be offset by deductions made from the intervention price for skimmed milk powder. For most countries the decisions amount to a reduction in support levels in real terms.

29. The Council also agreed a number of measures aimed directly at reducing surpluses in the milk sector. At its meeting in November it adopted two proposals, one suspending the inward processing arrangements for butter and butter oil, and the other releasing intervention stocks of skimmed milk powder for incorporation into animal feed for export. Subsequently, as part of the price-fixing package, the Council agreed to

dispose of a quantity of skimmed milk powder by a temporary scheme of deposits to ensure its use in animal feedingstuffs. It also agreed to increase the amount of skimmed milk powder which the Community makes available for food aid. A proposal to aid storage of certain other protein products was brought forward but it was the subject of an adverse opinion from the European Assembly and has not so far been adopted. This proposal and the scheme for incorporating skimmed milk powder in feedingstuffs were debated in the House of Commons on 12 April.

30. The Council intend to reach a decision in the autumn on the way in which Community milk producers should make a financial contribution to restoring the balance in that sector.

31. The Council also agreed a measure to control the fat content of whole milk on a basis which will enable United Kingdom producers to continue selling whole milk with a fat content which has not been standardised.

Beef

32. At its meeting in March the Council agreed that the possibility of paying a slaughter premium to producers should be maintained. In addition, the Commission undertook to produce by November a detailed report on the respective merits of the premium system and intervention arrangements. The Council also agreed at its meeting in December to the allocation of the GATT tariff quota for frozen beef for 1976.

Cereals

33. At its meeting in March the Council agreed arrangements for a two-tier system of intervention for wheat so as to achieve a better relationship between the support prices for different feed grains. As a result there is to be separate support for breadmaking and feed wheat with the effective intervention level for feed wheat in 1976-77 equivalent to that for barley, and about 8 per cent lower than the basic intervention price for wheat in 1975-76. Wheat of breadmaking quality will attract a higher intervention price than feed wheat during 1976-77; thereafter the Council intend to support it by means of a reference price. Discussions are continuing at a technical level on a suitable test to distinguish between breadmaking and feed wheat.

Wine

34. The Council has again devoted much time to the long standing problems in the wine sector, and eventually agreed at its March meeting on arrangements for tackling the immediate problems created by surpluses and on long term measures for improving the structure of the industry. Suitable arrangements were agreed to safeguard the British wine industry.

Potatoes

35. The Council considered a number of measures to alleviate the shortage of potatoes in the Community. In January it agreed to suspend the Common Customs Tariff on new and main crop potatoes until the end of March. These suspensions were subsequently extended to 20 May and

30 June respectively. The Council also adopted at its meeting in February a regulation imposing an export tax on potatoes exported to third countries. The Commission submitted in January a proposal for a regulation to establish a common organisation of the market in potatoes.

Mutton and Lamb

36. The Council had a preliminary discussion at its meeting in December of a proposal which the Commission submitted in September for a regulation to establish an interim common organisation of the market in sheepmeat. The United Kingdom stressed that any such regulation would need to take fully into account the wide differences which exist between the circumstances obtaining in the Member States most directly concerned, and the heavy dependence of the Community on third country imports especially from New Zealand. The Council agreed that officials should consider the proposals further and report back.

New Zealand Dairy Products

37. At its meeting in November the Council agreed that the price received by New Zealand for butter and cheese should be increased by 18 per cent from 1 January 1976; and at its meeting in April it resumed discussion of the Commission's recommendation on access for New Zealand dairy products in 1978 to 1980.

Sugar

38. The Council agreed at its March meeting to increase the minimum sugar beet price by 8 per cent for the 1976-77 year. This is well below the substantial price increase paid to Community producers in 1975-76, after a period in which the sugar market had suffered a serious deficit in supplies. The Council also agreed that measures should be taken to contain Community production by reducing the size of maximum quotas; and that the cost of disposing of Community sugar surpluses should again be borne by the producer through the reintroduction of the levy on production between basic and maximum quotas. At its April meeting, the Council agreed upon a negotiating mandate for the opening of discussions with the ACP sugar producing countries on prices for 1976-77.

Agricultural Structure

39. At its meeting in January the Council had a preliminary discussion on Commission proposals covering producer groups, aids for the processing and marketing of agricultural produce, aids to young farmers and afforestation.

Fisheries

40. Following the Council's agreement in April 1975 that the Common Fisheries Policy should be reappraised to take account of the new circumstances arising from the likely extension of fisheries jurisdiction the Commission produced an analysis of the problem and, in a communication to the Council, proposed that the fisheries resources in waters of Member States should be shared on the basis of a quota system, with reserved belts of 12 miles width for coastal states. This matter is now before the Council.

The Government, while accepting the communication as a basis for discussion, are seeking significant improvements notably with respect to the coastal arrangements. The United Kingdom also pressed at the Council of Ministers in April 1976 for measures to strengthen the fish market in the Community, and the Commission agreed to produce proposals as soon as possible.

Section V. Economic and Monetary Questions

The 1976 Budget

41. The draft 1976 Budget established by the Council of Ministers on 29 September was debated in the House of Commons on 6 November and in the Lords on 7 November. It was returned to the Council with the Assembly's observations and proposals on 14 November. The Assembly proposed increases in provision totalling 441 mna (approximately £180 million) above the level of the draft budget (7,472 mna; about £3,100 million). Following discussion by the Council of Ministers on 3 December these increases were reduced by 335 mna (about £140 million); the Budget was finally adopted on 18 December.

42. The Budget as adopted amounts to 7,577 mna (about £3,150 million), an increase of approximately 21 per cent over the 1975 Budget. The increase is partly due to inflation and partly to expansion of existing Community policies. Expenditure on the Guarantee Section of the European Agricultural Guidance and Guarantee Fund has been increased by some 920 mna (about £380 million), expenditure on the Regional Development Fund by 150 mna (about £60 million) and expenditure by the European Social Fund by 75 mna (about £30 million).

The Community Budget Timetable

43. In March it was decided that, experimentally, the timetable for consideration of the 1977 Budget should be advanced. This was in response to a proposal made by the United Kingdom Government in order to allow more time for consideration of the preliminary draft budget. Under the revised timetable the preliminary draft budget is expected to be presented to the Council of Ministers on 15 June, instead of by 1 September as under the present timetable.

Broader Budgetary Issues

44. In accordance with the decision of the European Council on 1-2 December in Rome Foreign and Finance Ministers held their first annual Joint Meeting on 5 April 1976 to take an overall look at budgetary problems in the context of the Community's general policies and to establish expenditure priorities. The discussion will form the background to the preparation of the 1977 Budget.

Financial Control

45. The European Council on 1-2 December 1975 also discussed the United Kingdom's suggestions for improving financial control within the Community together with related suggestions put forward by the Federal German Chancellor and the Commission. The European Council broadly

endorsed these suggestions. In particular it invited the President of the Council of Ministers and the President of the Commission to examine with the President of the Assembly the role which the Assembly might play in controlling Community expenditure; it agreed to make every effort to ensure early ratification of the Treaty setting up a European Court of Auditors; it welcomed the Commission's decision to strengthen the powers of the Member of the Commission responsible for the Budget; and also set general terms of reference for the proposed annual joint meeting of Foreign and Finance Ministers. The full text of the United Kingdom's proposals and the statement from the European Council were later published as a White Paper "Financial Control in the European Community".*

46. In March the Assembly's Budgets Committee reactivated its Sub-Committee on 'control of implementation'. This sub-committee, with new terms of reference, is intended to fulfil within the Community the role performed in this country by the Public Accounts Committee.

Economic and Monetary Co-operation

47. At their regular meetings Community Finance Ministers have discussed the economic situation, in particular the problem of the persistent high level of unemployment brought about by the recession; the need to implement fully the co-ordinated measures to stimulate economic activity decided in the summer, and to make further progress in combating inflation. Guidelines for economic policy in 1976 consistent with these objectives were adopted by Ministers in the course of formal examinations of the economic situation in November 1975 and in March 1976.

48. Finance Ministers also met informally in December 1975 in preparation for discussion of reform of the international monetary system at the meeting of the International Monetary Fund Interim Committee in January. On 15 March the Council, acting under the powers which enabled the Community to raise loans for on-lending to Member States in balance of payments difficulties as a result of the oil crisis, authorised the Commission to borrow \$1,000 million on behalf of Italy and \$300 million on behalf of Ireland. The total borrowing would be raised by a combination of public bond issues and private placings with banking syndicates. Following a series of disturbances in the exchange markets during March the French franc withdrew from the Community exchange system (the Snake).

Unemployment

49. High unemployment is affecting all Community countries, and in February the Economic and Social Committee adopted an Opinion. The subject was discussed by the Council of Ministers in March and, at the suggestion of the United Kingdom, by the European Council in April. Finance Ministers devoted a special informal meeting to the subject on 26 April and the matter was further discussed by Social Affairs Ministers on 30 April. There was agreement in the Community on the importance of bringing down unemployment. Discussion on both short and medium term aspects of this problem will be carried forward and will include consultations at an early date with representatives of employers' organisations and trade unions.

* Cmd. 6360.

Taxation

50. A Council of Ministers (Fiscal) was held on 24 November 1975 to discuss the Commission's Action Programme for Taxation and the draft Sixth Directive on VAT. In general the Council welcomed the Commission's Action Programme as a useful summary of future work, although views about the timetable differed. On the Sixth Directive, the Council discussed some of the points of particular difficulty for Member States and supported greater flexibility in the approach to these problems. In particular they recognised the importance of allowing Member States to continue to operate their existing zero rates. Further discussion will be necessary before final agreement can be reached. This is to some extent linked with the detailed mechanism for the implementation of the VAT element of the "own resources" system for which fully detailed proposals have not yet been submitted to the Council.

51. In February 1976 a draft Fifth Directive on Tobacco Taxation was published. Earlier Directives provide for a first stage in the harmonisation of excise duty on cigarettes, terminating on 30 June 1977, during which the specific (per cigarette) element of the duty may range between 5 per cent and 75 per cent of the total duty, the remaining element to be levied as a percentage of retail selling price. The United Kingdom has a derogation until the end of 1977, but has begun to move towards the harmonised system with the proposal in the 1976 Budget to introduce a 20 per cent ad valorem duty on cigarettes. The new draft Directive envisages a second stage of harmonisation during which the specific element will range between 15 per cent and 50 per cent of the total duty and VAT combined.

Section VI. Regional and Industrial Affairs

Regional Development Fund

52. By the end of April 1976, the Commission had committed £56.5 million from the Fund as contributions towards the costs of projects in the United Kingdom. The United Kingdom's share of the Fund for 1975 and 1976 totals £93 million.

53. The United Kingdom has submitted under the Fund Regulation its second annual statement of the problems of the Assisted Areas and the measures intended to deal with them.

Company Law Harmonization

54. Consideration continued of the Second draft Directive on the formation and capital of companies and the Fourth draft Directive on company accounts. Work also began on the Commission's proposal for a European Companies Statute, but this may take some years to complete. In November 1975 the Commission published a consultative "Green Paper" on Worker Participation and the Structure of Companies on which interested parties were invited to submit their views. Following this they intend to communicate to the Council a revised version of the Fifth draft Directive on the structure of companies. The Commission's proposals for harmonisation of company law have been the subject of reports by the Security Committees in both Houses of Parliament.

Removal of Barriers to Trade

55. The programme for the elimination of technical barriers to trade in the industrial sector continues to make steady progress. The Council adopted five further Directives at the turn of the year, concerning anchor points for car seat belts, statutory plates and inscriptions on cars, pre-packaged products, electrical equipment for use in explosive atmospheres and fertilisers. Discussions on a further 18 Directives are well advanced.

Aircraft Construction Industry

56. The Council of Ministers has yet to consider the preliminary Commission report on the aircraft construction industry following on the Council Resolution of 4 March 1975 calling for concerted action and consultation between Member States on industrial policy in this sector.

Data Processing

57. The Commission's first proposals to the Council of Ministers for projects in the application of data processing are still under discussion. They were debated in a Standing Committee of the House of Commons on 26 January. Discussions are also in progress on the Commission's Communication to the Council on a medium-term programme with a broader strategic approach and a second series of projects.

State Aid

58. The Treaty of Rome requires that Member Governments should notify the Commission in advance of their plans to grant or alter aid to industry. The Government has continued to inform the Commission about both individual and sectoral aid proposals prior to their implementation. These have included the measures of assistance already announced for the clothing industry, for the machine tool industry, for Chrysler (United Kingdom) Limited and for the shipbuilding industry.

European Investment Bank and ECSC Loans

59. The European Investment Bank has since 1 October 1975 approved loans in the United Kingdom to the value of £140.9 million. In December 1975 a loan to the British Steel Corporation was for £17.5 million towards a new coatings complex at Shotton; two loans of £10.0 million each were approved for the South of Scotland Electricity Board and the North of Scotland Hydro-Electricity Board, both for construction of high voltage power lines; a £6.3 million loan was approved towards the construction of special coal wagons by British Rail; a £16.9 million loan was approved for the Shetlands Islands Council for an oil tanker harbour at Sullom Voe; and a £1.0 million loan was approved for British Olivetti's typewriter factory at Glasgow. In February 1976 loans of £20 million were approved to help finance the construction of pipelines to transport North Sea gas, and £17.3 million for the Post Office's telecommunications programme in Scotland. In March loans totalling £13 million were approved for the National Water Council, £9 million to help finance water supply schemes in the North West, and £4 million for the Kielder Water Scheme in Northumbria. In April loans of £17.3 million were approved for the British Gas Corporation for gas pipelines in Southern England, and £11.6 million for British Rail for their Advanced Passenger Train project.

60. Loans are also made available to Member States under the European Coal and Steel Community Treaty. Loans totalling £236.2 million have been approved for the United Kingdom steel industry since October 1975, and loans to the value of £40.9 million have been approved for the coal industry.

Section VII. Environment and Transport

Environment

61. At the Council of Ministers on 8 December 1975 agreement was reached in principle on the Directive on dangerous substances in the aquatic environment. This Directive will now permit the system of applying quality objectives to certain controlled substances as an alternative to the system of fixing emission limit values provided that the Member State can satisfy the Commission that these objectives are being met. The Directive is expected to be adopted shortly.

62. Also on 8 December the Council adopted a Directive on the quality of bathing water and decisions on Community participation in the Rhine Convention against Chemical Pollution and in the Barcelona Convention on the Protection of the Mediterranean against Marine Pollution, and on establishing a common procedure for a European inventory of sources of information.

63. In November 1975, the Council adopted a Directive on the sulphur content of gas oil.

64. The Commission submitted to the Council in March their proposals for a second Environment Action Programme but no discussion has yet taken place in the Council.

Transport

65. In recognition of the difficulties facing the United Kingdom over the implementation of the Regulation dealing with drivers' hours, the Commission authorised a six-month deferment from 1 January 1976. The Council of Ministers is considering a new proposal on drivers' hours, to amend the existing Regulation.

66. A comprehensive review of the operation of the freight market within the Community was presented in late 1975 for discussion during the course of this year. The review included a proposal about the Community quota system. In the meantime, the Council of Ministers decided to continue the quota at its 1975 level for a further year.

Section VIII. Social Affairs

Social Action Programme

67. Further measures in the Community's Social Action Programme have been adopted. In December 1975 the Council of Ministers approved a Directive implementing the principle of equal treatment of men and women

in access to employment, vocational training, promotion and working conditions. At the same meeting a Resolution was agreed on an Action Programme for migrant workers and members of their families. This Action Programme was debated in the House of Lords on 11 December and in the Commons in Standing Committee on 14 January 1976.

68. In December the Council of Ministers also approved an amendment to the Regulation concerning freedom of movement for workers within the Community. Under the new Regulation, workers in one Member State who are nationals of other Member States are eligible to occupy management posts in a trade union. In February 1976 the Council of Ministers adopted a Regulation on the compilation of statistics on foreign workers, the purpose of which is to obtain from all Member States data that will allow employment markets within the Community to be assessed.

69. In April the Social Affairs Council approved the guidelines for a second Social Budget as well as adopting rules of procedure of the Advisory Committee on Safety, Hygiene and Health at work and amending the regulations governing social security for employed persons moving within the Community, consequent on certain changes in national laws. The Council also discussed the adoption of a common Community position on some of the major points to be dealt with at the Tripartite World Conference organised by the ILO, which will take place in Geneva in June 1976.

70. Seven United Kingdom projects have been approved under the programme of pilot schemes and studies to combat poverty. Under this programme, agreed by the Council of Ministers in 1975, the Commission meets half the cost of the projects. The United Kingdom projects include family and community centres, two social surveys and a scheme to provide lay representation before tribunals.

Social Fund

71. The United Kingdom's allocation from the Social Fund for 1975 was £45.9 million, 29.4 per cent of the total allocation to all Member States. The assistance granted to workers in the textile industry was continued and extended from 2 January 1976 to cover workers in the clothing industry also.

Consultation with Representatives of Employers and Unions

72. A conference attended by Finance Ministers as well as Social Affairs Ministers, representatives of both sides of industry and the Commission, was held on 18 November 1975. The exchange of views covered the economic and social situation in the Community with special reference to the problems of unemployment and inflation. A meeting of the Standing Committee on Employment was held on 4 December.

Section IX. Education

73. The Ministers of Education of the Nine met in December and approved a Resolution which provides a framework for the development of educational co-operation in the Community. The Resolution sets out an action programme whose implementation will be overseen by an Education

Committee. The aims of the action programme include the development of closer relations between the educational systems of the Nine and the promotion of mobility for teachers, students and researchers within the Community. The Ministers identified the transition from education to work as a priority area.

Section X. Research

74. Ministers responsible for research met in December and considered the Commission's outline proposals for the next phase of Community policy for science and technology and the next multiannual programme of the Joint Research Centre (JRC).

75. In February new research programmes for fusion, radiological protection, environment research and the Community Bureau of Reference were agreed. The Commission's proposals for fusion research also included the construction of a major tokamak device, the Joint European Torus (JET). There was a wide measure of agreement in the February Council on the need for JET as the next step towards fusion power but several Member States including the United Kingdom were unable to accept the Commission's proposal that it should be built at Ispra, the main establishment of the JRC. This was debated by the House of Commons on 16 March when there was strong support for siting the device at Culham.

Section XI. Energy

76. At the meeting of the European Council on 1-2 December, the Heads of Government agreed that "the Commission will propose and the Council will decide as soon as possible appropriate mechanisms to protect existing sources and ensure the development of alternative sources of Community energy on reasonable economic conditions". The Commission responded with outline proposals including, *inter alia*, a Community system for a minimum import price for oil, aimed at safeguarding the Community's energy investments against a severe drop in the price of imported oil, and measures designed to support the coal industry in the Community. The Commission also revived proposals for measures to be taken in the event of oil supply difficulty. These proposals were debated in the House of Commons on 16 March. The Council of Ministers (Energy) on 25 March were unable to reach agreement and will return to the proposals.

77. The Council agreed on other proposals, including recommendations on the rational use of energy and a second allocation of Community funds to support technical projects in the oil and gas sectors.

Section XII. Institutional Matters

The Tindemans Report

78. On 30 December M. Tindemans, the Belgian Prime Minister, submitted to Heads of Government the report they had invited him to prepare in order to clarify the concept of European Union.

79. The Report's proposals are concerned with the next few years and do not attempt to define any final phase of European development. M. Tindemans put forward a number of proposals relating to the field of external relations and suggested priority areas in which the Nine should agree to develop a common foreign policy. On economic and monetary affairs he suggested a new approach to integration in which Member States able to make progress should do so, while helping others to catch up; he drew attention to the need for related Community action in the fields of industry, energy, research and regional and social policy. He advanced ideas on how to make the Community more attractive to its citizens and proposed a number of changes in the working of the Community's Institutions.

80. A first general discussion of the Report took place at the meeting of the European Council on 1-2 April. It was agreed that Foreign Ministers should study the recommendations in the Report and make proposals for decisions to be taken by the European Council before the end of the year.

Direct Elections to the European Assembly

81. The European Council decided at its meeting in Rome on 1-2 December 1975 that elections to the European Assembly should take place on a single date in May or June 1978, but that any country which at that date was unable to hold direct elections should be allowed to continue to appoint its representatives from amongst the members of its national Parliament. The United Kingdom Government made it clear that it accepted the Treaty commitment to the introduction of direct elections, but required a further period for internal consultations before adopting a position regarding the date of the first direct elections. The European Council also set itself the aim of finalising a draft Convention on direct elections at its next meeting on 1-2 April. Although some progress was made, work on the draft Convention was referred back by the Heads of Government to Foreign Ministers. The European Council agreed to work for a conclusion at its next meeting in July, if Foreign Ministers had not been able to reach one in the meantime.

82. Meanwhile the Government initiated consultations with political opinion in the United Kingdom. In February a Green Paper* was presented jointly by the Foreign and Commonwealth Secretary and the Home Secretary. This was debated on 29-30 March in the Commons and on 29 March in the Lords and the Government announced their proposal for a Select Committee to be set up.

Budgetary powers of the European Assembly

83. The United Kingdom ratified on 29 March the Treaty of 22 July 1975† which provided for certain changes in the procedures for establishing the Community budget, in which the Assembly is involved, and for the setting up of a Community Audit Court. The Treaty will enter into force after all Member States have ratified it. There are no other proposals to extend the Assembly's budgetary powers before the Council.

* Cmd. 6399.

† Cmd. 6252.

Uniform Passport and Passport Union

84. On 1/2 December the European Council agreed that national passports in a uniform style should be issued from 1978. The United Kingdom made it clear that their introduction here would depend on the conclusion of the review of nationality. Work has continued on the form of the passport but a decision has not yet been taken by the Council. The Council will also follow up in more detail its initial consideration of the obstacles in the way of setting up a passport union at an unspecified future date.

Right of Establishment

85. Work has continued on the mutual recognition of qualifications and the co-ordination of other measures to enable professional people to be employed or to practise anywhere within the Community, in particular in relation to general nursing and architecture.

Protection of Fundamental Rights

86. In January the Commission submitted to the European Assembly a report on the protection of human rights within the Community legal order. The report describes how the principles currently applied in this field have developed, particularly through decisions of the Court of Justice; explains the measures taken by the Commission to ensure that fundamental rights are protected in its own decision-making procedures; and suggests that the Court's method of deriving legal principles from the constitutional traditions common to Member States is more suited to the present stage of the Community's development than any attempt to draw up a definitive catalogue of human rights. The Commission propose that the Assembly and the Council should join with the Commission in a solemn declaration affirming their respect for fundamental rights in the Community. A Council working group has been set up to consider the report.

European Court of Justice

87. The Government have continued to exercise their right to submit observations to the Court on cases raising questions of interest to the United Kingdom. During the period under review, the Government have submitted observations in seven cases.

Section XIII. Parliament and the European Communities

88. The first Report of the Select Committee on Procedure of the House of Commons on European Secondary Legislation, published on 25 April 1975, was debated on 3 November 1975. Following the debate a number of changes were agreed in the House's procedures for considering proposals for Community Secondary Legislation and other documents, including the introduction of arrangements under which documents of secondary importance but nevertheless warranting debate could be referred to a Standing Committee for debate as in the case of United Kingdom Statutory Instruments. During the debate the Lord President of the Council undertook that where proposals involving major policy developments had completed the usual scrutiny procedures the House would be provided with information on substantial

amendments agreed in the course of Council discussions, in such a form as the confidentiality of Council proceedings permitted, so that a second stage of scrutiny and, if necessary debate, could take place.

89. From 1 November 1975 to 30 April 1976 the House of Commons Scrutiny Committee considered and reported on 256 Community documents and the House of Lords Committee on 332. Of these the House of Commons Committee identified 56 as raising issues of sufficient importance to warrant debate and the Lords Committee correspondingly identified 15 documents. Over the same period a total of 31 documents were debated by the Commons including 12 in Standing Committee and 24 by the Lords. Some of these debates have been referred to in earlier paragraphs.

90. There have been regular monthly Ministerial statements on business in the Council of Ministers for the following month to accompany the written forecast deposited in the House.

14 May 1976

MEETINGS OF THE HEADS OF GOVERNMENT OF THE NINE EEC MEMBER STATES

<i>Date</i>	<i>Location</i>	<i>Ministers attending</i>
1-2 December 1975	Rome	The Right Hon. Harold Wilson, M.P. Prime Minister The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs
1-2 April 1976	Luxembourg	The Right Hon. Harold Wilson, M.P. Prime Minister The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs

MEETINGS OF THE COUNCIL OF MINISTERS

<i>Date of Council</i>	<i>Session</i>	<i>Ministers attending</i>
5-6 November 1975	Foreign Affairs	The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs The Right Hon. Roy Hattersley, M.P. Minister of State for Foreign and Commonwealth Affairs
10-11 November 1975	Agriculture	The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
17 November 1975	Finance	The Right Hon. Denis Healey, M.P. Chancellor of the Exchequer
24 November 1975	Finance (Fiscal)	The Right Hon. Edmund Dell, M.P. Paymaster General
3 December 1975	Finance (Budget)	The Right Hon. Joel Barnett, M.P. Chief Secretary, Treasury
8 December 1975	Environment	The Right Hon. Denis Howell, M.P. Minister of State for Sport and Recreation
9 December 1975	Foreign Affairs	The Right Hon. Roy Hattersley, M.P. Minister of State for Foreign and Commonwealth Affairs
10 December 1975	Education	The Right Hon. Fred Mulley, M.P. Secretary of State for Education and Science
10-11 December 1975	Transport	Dr. John Gilbert, M.P. Minister for Transport

<i>Date of Council</i>	<i>Session</i>	<i>Ministers attending</i>
15 December 1975	Research	Mr. Alexander Eadie, M.P. Parliamentary Under-Secretary of State, Department of Energy Mr. Neil Carmichael, M.P. Parliamentary Under-Secretary of State, Department of Industry
15 December 1975	Finance	The Right Hon. Edmund Dell, M.P. Paymaster General
15-16 December 1975	Agriculture	The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
18 December 1975	Social Affairs	Mr. John Fraser, M.P. Parliamentary Under-Secretary of State, Department of Employment Mr. Michael Meacher, M.P. Parliamentary Under-Secretary of State, Department of Health and Social Security
19-21 January 1976	Agriculture	The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
19-20 January 1976	Foreign Affairs	The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs
9-10 February 1976	Foreign Affairs	The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs
16 February 1976	Finance	The Right Hon. Denis Healey, M.P. Chancellor of the Exchequer
16-18 February 1976	Agriculture	The Right Hon. William Ross, M.P. Secretary of State for Scotland The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
24 February 1976	Research	Mr. Alexander Eadie, M.P. Parliamentary Under-Secretary of State, Department of Energy Mr. Neil Carmichael, M.P. Parliamentary Under-Secretary of State, Department of Industry
1-2 March 1976	Foreign Affairs	The Right Hon. James Callaghan, M.P. Secretary of State for Foreign and Commonwealth Affairs The Right Hon. Peter Shore, M.P. Secretary of State for Trade

RESTRICTED

<i>Date of Council</i>	<i>Session</i>	<i>Ministers attending</i>
2-6 March 1976	Agriculture	The Right Hon. John Morris, Q.C., M.P. Secretary of State for Wales The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
15 March 1976	Finance	The Right Hon. Denis Healey, M.P. Chancellor of the Exchequer
25 March 1976	Energy	The Right Hon. Anthony Wedgwood Benn, M.P. Secretary of State for Energy Mr. John Smith, M.P. Minister of State, Department of Energy
5 April 1976	Joint Foreign Affairs/Finance	The Right Hon. Roy Hattersley, M.P. Minister of State for Foreign and Commonwealth Affairs The Right Hon. Joel Barnett, M.P. Chief Secretary, Treasury Mr. John Tomlinson, M.P. Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs
5-6 April 1976	Agriculture	The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
6 April 1976	Foreign Affairs	The Right Hon. William Ross, M.P. Secretary of State for Scotland The Right Hon. Roy Hattersley, M.P. Minister of State for Foreign and Commonwealth Affairs The Right Hon. Joel Barnett, M.P. Chief Secretary, Treasury Mr. John Tomlinson, M.P. Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs
8 April 1976	Development	Mr. John Grant, M.P. Parliamentary Secretary, Ministry of Overseas Development
29 April 1976	Agriculture	The Right Hon. Fred Peart, M.P. Minister of Agriculture, Fisheries and Food
30 April 1976	Social Affairs	Mr. John Grant, M.P. Parliamentary Under-Secretary of State, Department of Employment

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CABINET

DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

Memorandum by the Secretary of State for Foreign and
Commonwealth Affairs

1. At its meeting on 26 March Cabinet had before it a memorandum (C(76) 44) by the then Foreign and Commonwealth Secretary setting out the current state of the negotiations in the Community. Cabinet agreed to the setting up of a Select Committee on Direct Elections. It further agreed that in continuing negotiation at Community level our representatives should have sufficient freedom for manoeuvre to avoid attracting odium, whilst making it clear that there would need to be adequate representation for the United Kingdom and its constituent parts, and that no final decisions could be taken until the report of the Select Committee had been considered by Parliament.
2. During the debate on direct elections on 29 and 30 March, the Prime Minister (then Foreign and Commonwealth Secretary) in his opening speech made the offer of setting up a Select Committee to consider the question of direct elections. This was generally welcomed in all quarters of the House, although the actual setting up of the Committee was unfortunately delayed until 17 May by a small group of Members who persisted in trying to amend the Motion (despite considerable efforts by the Government to meet their point of view). The Committee have since met twice and will have further meetings this week at which they will decide whether they are able to produce an interim report on the specific questions of numbers and distribution of seats, the issue on which negotiations in the Community are being most actively pursued.
3. The European Council of 1-2 April, while agreeing on certain minor questions in particular the electoral period (from a Thursday to the following Sunday inclusive) and the counting of the vote (to begin after all Community polls were closed), made no progress on the central question of numbers. This was largely because of a surprise initiative by President Giscard who, for his own internal political reasons, proposed that for the first elections the present number and distribution of seats of

the Assembly should be retained. This proposal has very little attraction for us since it would mean a continuance of the heavy over-representation of the smaller Member States and would be less advantageous from the point of view of the representation of Scotland, Wales and Northern Ireland than the Assembly's own original proposal. But the proposal gained a good deal of momentum as a possible way of breaking the deadlock, and we came under some pressure after the European Council to settle on that basis. We resisted this pressure and have been successful recently in directing attention to other proposals which come nearer to meeting our requirements. We have also had some success in bringing home to the rest of the Nine the seriousness of our political need to ensure adequate representation for Scotland and Wales.

4. Of the proposals now under active consideration, a Belgian compromise proposal tabled after the European Council and envisaging an Assembly of 401 (of which 79 seats would go to the United Kingdom) is the best from our point of view. No other proposal gives us as many seats or so favourable a comparison with the smaller Member States. The Luxembourg Presidency have also put forward a compromise based on doubling the numbers in the existing Assembly with some adjustments. It would produce an Assembly of 366 (with 72 seats for the United Kingdom). No United Kingdom proposal has been put forward but in order to illustrate Her Majesty's Government's position (as set out in paragraphs 18-19 of the Green Paper Cmnd 6399) United Kingdom representatives circulated before the European Council a set of illustrative tables showing the results of combining an initial allocation of 3, 4 or 5 seats per member State with a pattern of seats distributed strictly in accordance with population. A solution based on these tables would be rather more favourable to us than the Belgian proposal and, perhaps for this reason, they have not aroused much interest in the Community.

5. There is now a good deal of pressure in the Community to reach a settlement on the question of numbers by mid-June, ie before the Italian elections. Foreign Ministers are to have another round of negotiation on 12 June. It is not yet possible to say whether a consensus can emerge in that timescale. Much will depend on the French showing some signs of flexibility. So far there has been no indication of this, but Chancellor Schmidt, following a message from the Prime Minister and discussions with Herr Genscher in London, has agreed to bring some direct influence to bear on President Giscard. It is therefore not impossible that the French will make an early move, though I think it rather unlikely. If not, the Prime Minister will have the opportunity of ascertaining what degree of flexibility exists on the French side when he sees President Giscard during the State Visit from 22 to 25 June. It seems most likely that any real movement in the French position will be left until the European Council meeting on 12-13 July. This still remains the target date for reaching agreement in the Community on direct elections as a whole.

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6. It will be vital in the run-up to the European Council to ensure that the Select Committee feel that they are in close touch with the negotiations and are not presented with a fait accompli. Mr Hattersley, as a member of the Committee, will keep them as fully briefed as possible and will encourage them to report at least on the size and distribution of seats in the Assembly by mid-June, and if possible in time for the meeting on 12 June, if their work is sufficiently advanced. I would avoid coming to a decision in the Community at this meeting unless the Committee have reported and their views are consistent with the consensus that seems to be emerging. If such a situation should develop offering a reasonably satisfactory solution from the United Kingdom point of view, it would seem right to agree ad referendum to Cabinet and subject to the views of Parliament as a whole.

CONCLUSIONS

7. I invite the Cabinet to agree that the Prime Minister and I should continue to negotiate along the lines set out in the Green Paper. In particular we should look for a solution to the problem of the number and distribution of seats which would avoid an unreasonable discrepancy between the ratio of seats to electors in the smaller Member States and in the larger ones and which would be defensible to opinion in the different parts of the United Kingdom. We should naturally take the fullest account of any recommendations or reports produced in this period by the Select Committee, and would not reach any settlement in the Community at the Foreign Ministers' meeting on 12 June unless the Committee had already reported in a way that gave the Government the necessary negotiating flexibility.

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Foreign and Commonwealth Office

7 June 1976