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CP(76) 26

COPY NO 81

7 June 1976

CABINET

THE TINDEMANS REPORT

Note by the Secretary of State for Foreign and Commonwealth Affairs

1. Memorandum C(76) 38 and its annexed papers were circulated as the basis for discussion by Cabinet on 26 March. The Tindemans Report was not in the event considered on 26 March and these papers remain a valid basis for discussion.

2. Since then there have been some minor developments in Community handling of the Report. The European Council on 1 and 2 April had a general discussion and asked Foreign Ministers to take charge of the detailed follow-up work. Agreement was reached at the informal meeting of Foreign Ministers in Luxembourg on 14 and 15 May that the Ministers would themselves work through the report chapter by chapter, devoting some time to it each time they meet. These discussions will be prepared by a specially convened group of officials, one from each Member State. So far discussion has only covered Chapter I in general terms and the beginning of the external affairs chapter (Chapter II).

3. Cabinet is asked to endorse the line in C(76) 38, for use not only in the continuing discussion in the Community, but also as an expression of the Government's general approach to the Report in the debate on Community matters which is due to take place in the House of Commons in June. This debate is expected to cover the Tindemans Report (which has been recommended for debate by the Scrutiny Committee), the routine six-monthly report on developments in the Community and the question of Greek membership.

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Foreign and Commonwealth Office

7 June 1976

CP(76) 27 COPY NO 81

8 June 1976

CABINET

THE EEC UNIFORM PASSPORT

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. We need to determine our negotiating position in discussing the design of the proposed uniform European Economic Community (EEC) passport with the other Member States.

BACKGROUND

2. It was agreed by the European Council in December 1975 that a uniform passport should be issued by Member States from 1978. This followed the decision by EEC Heads of Government in December 1974 that a Working Party should be set up to study the possibility of establishing a passport union and, in anticipation of this, the introduction of a uniform passport. The idea of passport union was not new. There were suggestions that such a union should be created shortly after the United Kingdom's accession to the Community, and at that time the idea was seen in the context of a possible EEC citizenship - which is no longer in prospect. The present proposal came from Chancellor Schmidt. Work on other aspects of passport union (which Herr Schmidt and others saw as leading to the eventual abolition of passport controls other than those on the perimeter of the Community and to uniform visa and aliens legislation) continues. But it is accepted by the Working Party that real progress bristles with difficulties: and we are not committed to reaching any conclusions within a set time. What we face now is the limited problem of the form of the passport. The passport will still be a national document issued by each Member State on its own authority. But the design would be uniform and would be intended to create a sense of identification with the Community on the part of the holder. As the passport would be used world-wide its use would remind other countries of the existence and coherence of the EEC.

3. In agreeing that the passport should be issued from 1978 the then Prime Minister made it clear that we would not be able to introduce it before the United Kingdom's projected nationality legislation came into force. This is not likely to be before 1979. This reservation on our part has been accepted by our partners.

4. Some progress has been made at official level in clarifying the issues which require decision by the Council. So far the British representative has had to reserve our position and there is some danger that the views of the other Eight will have hardened to the point where a contrary view on our part will be an isolated one. The design of a new British passport is however likely to be a sensitive issue for public opinion, and we shall need to negotiate hard for what we decide we want. Although the design of the passport is a matter for executive decision, Parliament may need to be consulted later if it is decided that the design should be laid down in an EEC instrument.

CONSIDERATIONS

5. Six sample passport covers have been produced by the Stationery Office following alternative layouts suggested by the Foreign and Commonwealth Office. Copies of these samples will be available for inspection by members of the Cabinet at the meeting. Photocopies are attached to this paper lettered A to F.

6. The words "European Community". The other Member States wish to place these words above the name of the issuing State on the cover of the passport and it may be very difficult at this stage to persuade them to change. Since the passport will remain a national passport, the name of the issuing State indicating the nationality of the holder will be the feature of the cover most important to the British holder.

7. The Royal Arms. The Royal Arms traditionally appear on the cover of a British passport and we should wish to preserve the dignity of the Arms and preferably also their paramountcy in relation to the name of the Community, and even more in relation to any Community symbol. Sample D achieves this best.

8. Community symbol. No symbol has yet been officially adopted by any of the Community institutions. The Commission have circulated a set of four designs to which we are not in any way committed (attached). But choice of a Community symbol goes beyond the design of a passport, since once a symbol is adopted for any purpose, it will tend to be used for others and needs to be considered in that light. The symbol based on a map of the Community, on sample passport E, is merely illustrative. It would raise problems relating to, for example, Berlin, and new Member States. The symbol on sample F is based on one of the designs short-listed by the Commission in a competition it held some years ago. The problems in

achieving agreement on a common design for the passport would be reduced if we could avoid the use of a symbol at all, at least at this stage.

9. Colour. The samples have been made up in a colour which originally found some favour among the other Member States. The Dutch have however obtained acceptance by the other Eight for a deep lilac colour. This was chosen because it is distinctive and unlike colours already in use for Members' national passports. A sample of the lilac colour will be available at the Cabinet meeting.

10. Languages. The international practice has for many years been to use the national language (or languages) plus French and/or English. The Germans and the Italians want all official Community languages to be used inside the passport. This would be clumsy and might encourage States outside the Community to depart from the international usage. The other Members, apart from Germany and Italy, share our view on the preservation of the international practice. The Presidency have proposed that page 1 should be in all six official languages and this might be acceptable as a compromise. A specimen in this form produced by the Federal German Government will be available at the meeting.

11. Materials and "windows". The passport would be the same size as now but would have 32 pages instead of 30; this would cause no difficulty. Some of the Eight may argue for standardisation of materials, but many Members will wish to adopt safeguards against forgery, such as the use of their own security paper and watermarks. While the adoption of a passport in a uniform style is desirable, it is essential that we retain freedom to incorporate those security precautions which we consider necessary. Other EEC countries do not have "windows" in their passports and it is unlikely that there will be sufficient room for them anyway.

DECISIONS SOUGHT

12. The Cabinet is invited to decide whether, in negotiating with the other Members of the European Community, I should be guided by the following:-

a. I should seek the adoption by the Nine of a design as in sample D (although recognising that the other Eight have already expressed a preference for sample A or B).

b. If I am unable to persuade the other Members to change to design D, I should accept design B, on the condition that in the British version the Royal Arms are given prominence.

c. A Community symbol should not be incorporated in the design of the cover, at least at this stage.

d. We should accept the deep lilac colour proposed by the Dutch.

e. We should resist any departure from the international practice of using the national language (languages) plus English and/or French, although we need not object if the Germans or the Italians wish to add each other's language in their version of the passport.

f. We need to preserve the freedom to retain our safeguards against forgery.

A C

Foreign and Commonwealth Office

8 June 1976

A

EUROPEAN COMMUNITY

UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

PASSPORT

B

EUROPEAN COMMUNITY

UNITED KINGDOM OF
GREAT BRITAIN
AND NORTHERN IRELAND

PASSPORT

C

PASSPORT

UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

EUROPEAN COMMUNITY

D

PASSPORT

UNITED KINGDOM OF
GREAT BRITAIN
AND NORTHERN IRELAND

EUROPEAN COMMUNITY

E

EUROPEAN COMMUNITY

UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

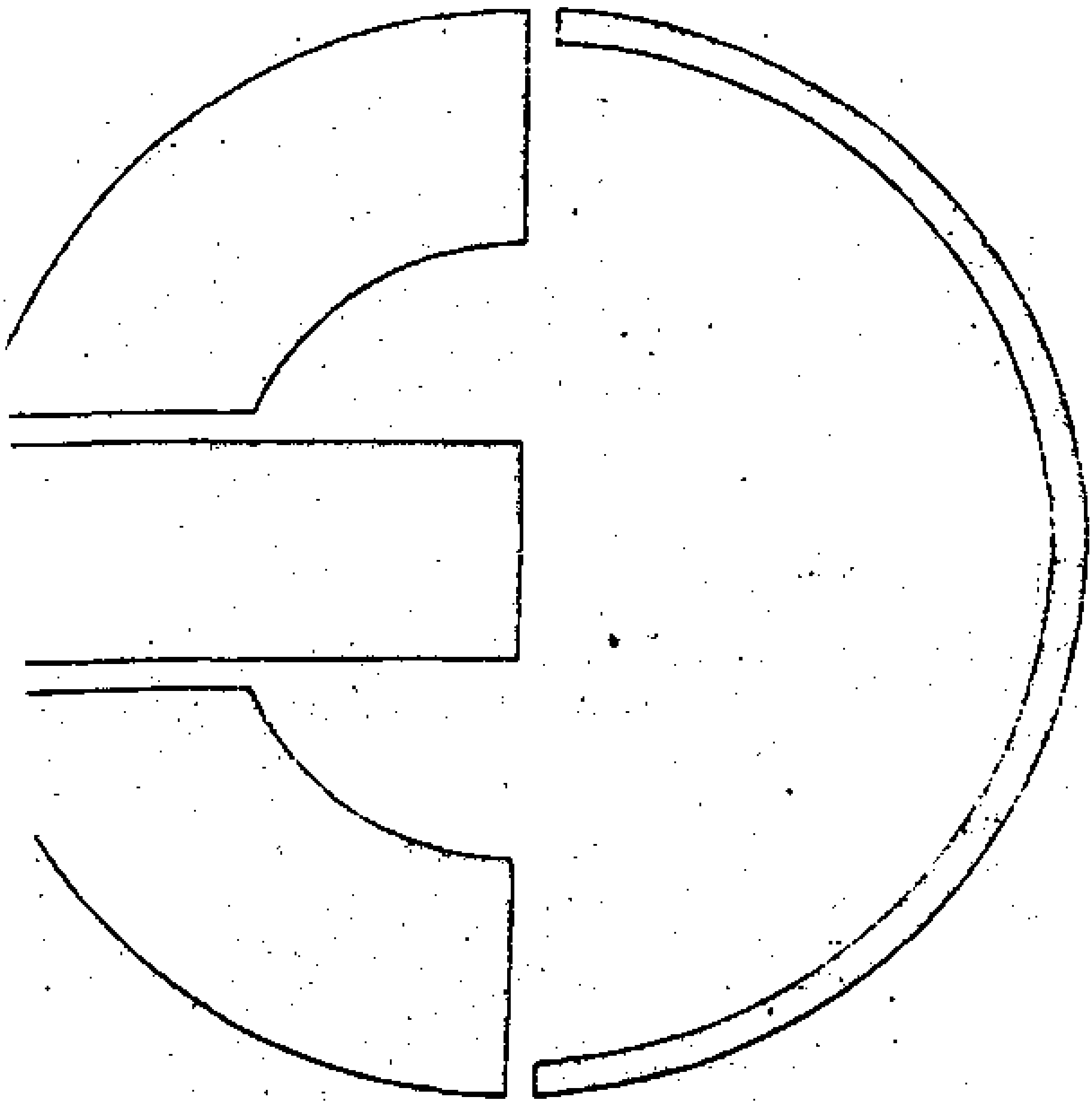
PASSPORT

F

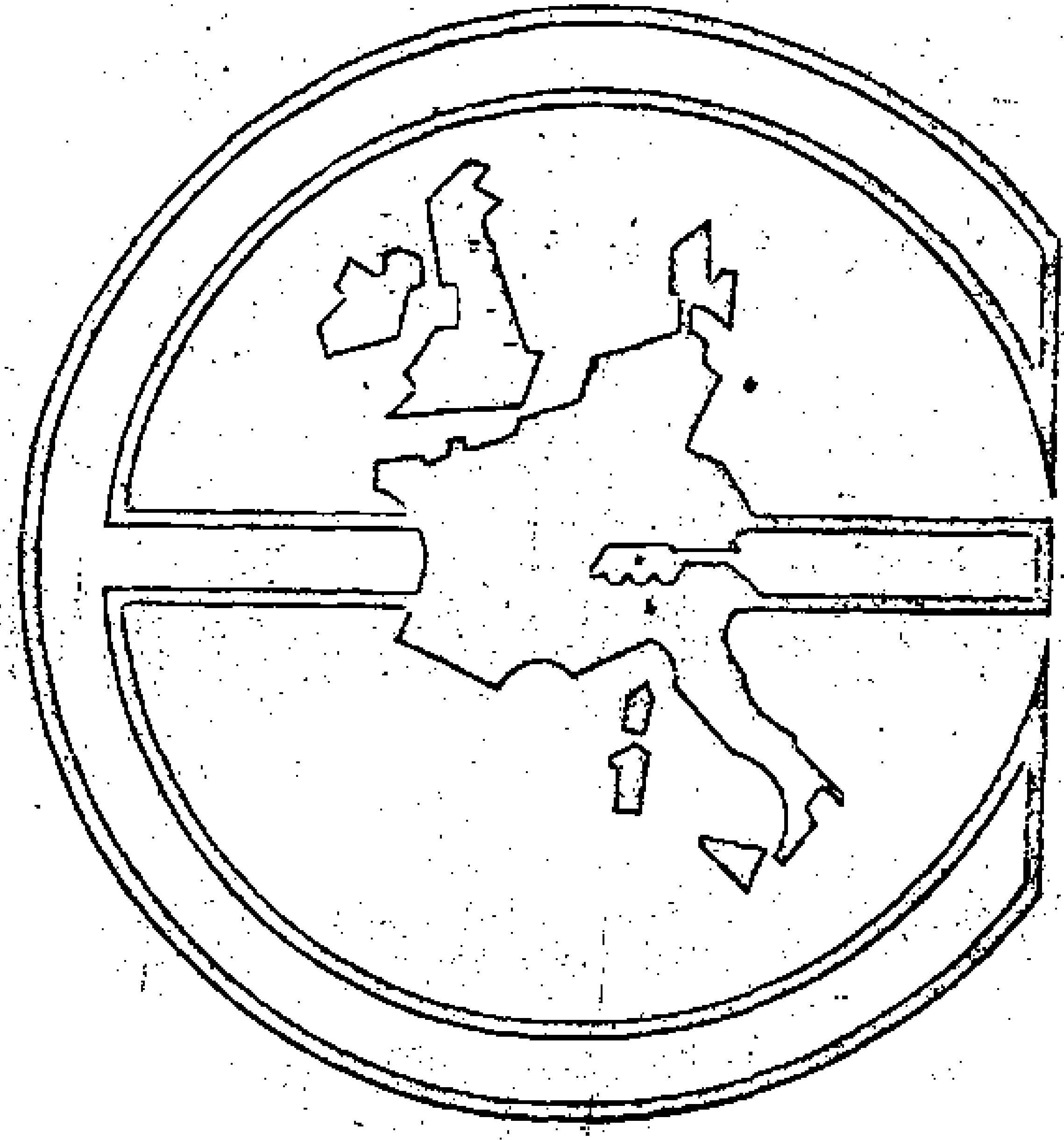
UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

MEMBER OF THE
EUROPEAN COMMUNITY

PASSPORT

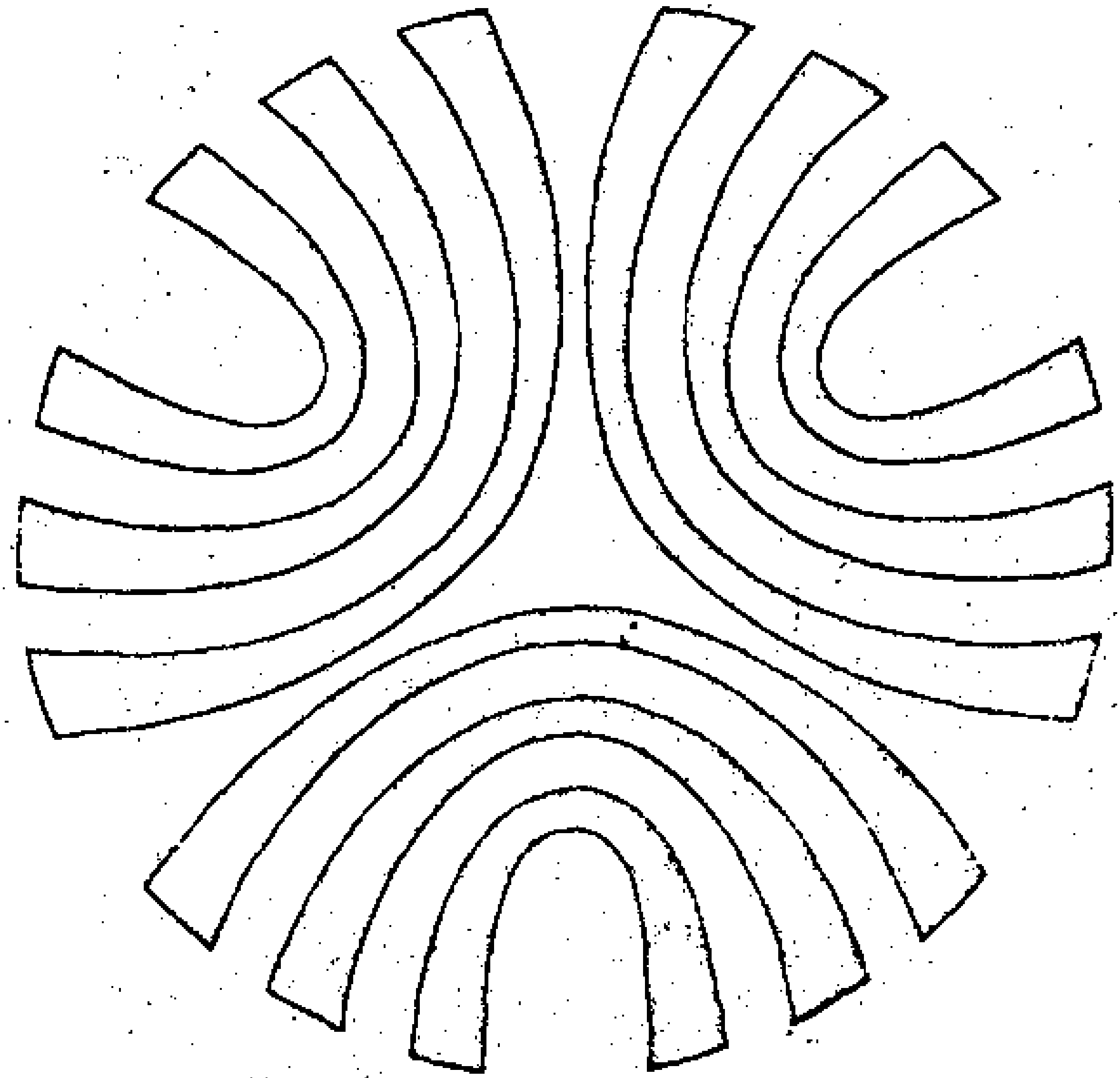


1. Lettre E exprimant l'union de plusieurs éléments ouverte sur le monde et s'y inscrivant.

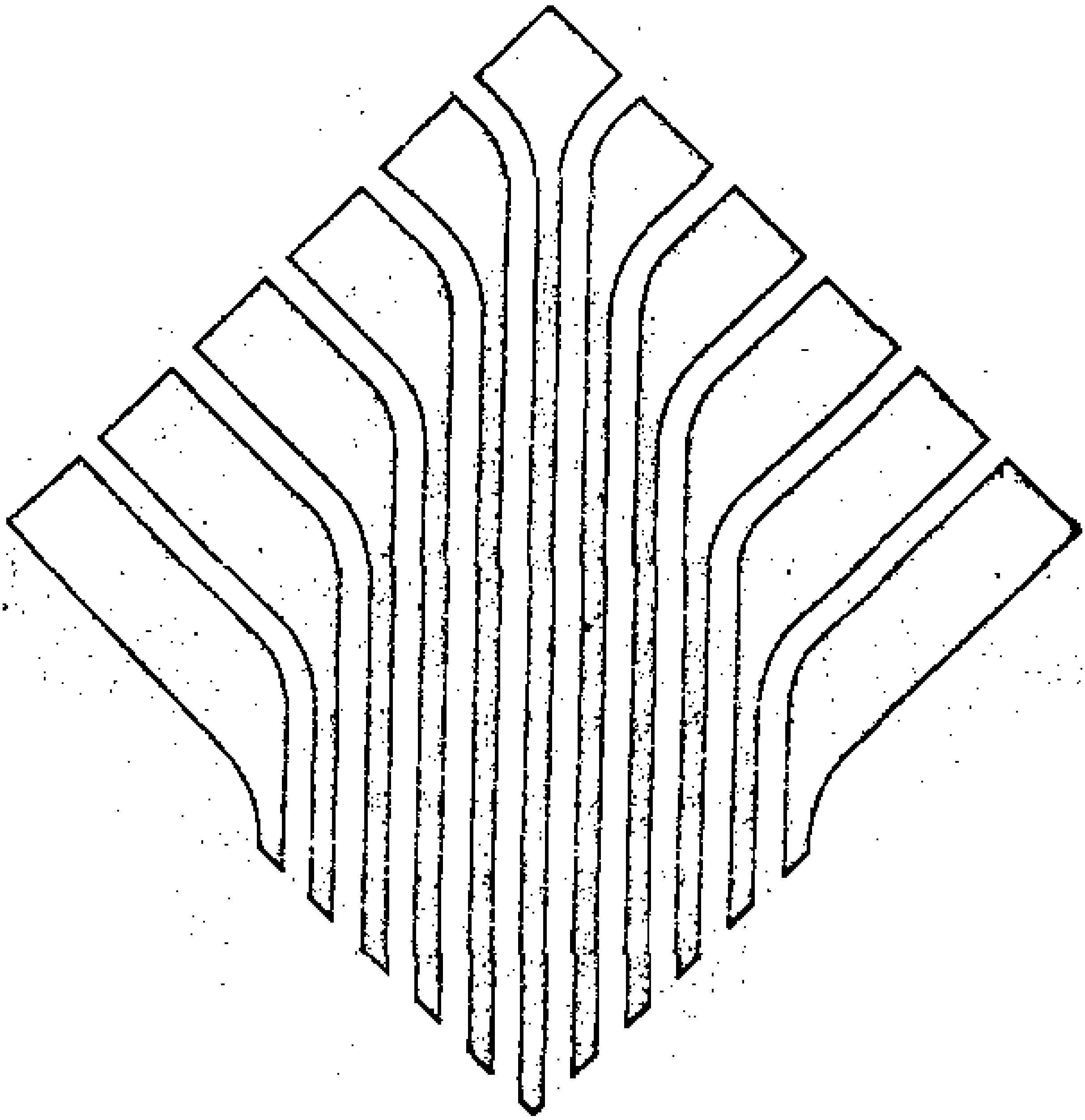


2. Carte stylisée de la Communauté Européenne s'inscrivant à l'intérieur d'une lettre E en forme de cercle ouvert.

/76 (UP 7) (Annexe)



3. Motif abstrait formé d'éléments exprimant à la fois le regroupement, le rayonnement et l'ouverture.



4. Graphisme évoquant l'idée de croissance et d'union en évolution, dont la forme d'ensemble peut avoir une certaine ressemblance avec un écusson héraldique traditionnel.

CP(76) 28 COPY NO 81

8 June 1976

CABINET

ENLARGEMENT OF THE EEC

Note by the Secretary of State for Foreign and Commonwealth Affairs

1. My predecessor circulated a paper on enlargement of the European Economic Community (C(76) 37) on 19 March for discussion by Cabinet on 26 March. In the event, however, the paper was not taken.

2. The passage of time since March has meant that a few changes need to be made and these are underlined in the new version (CP(76) 29) which I now circulate for Cabinet on 11 June.

A C

Foreign and Commonwealth Office

8 June 1976

CP(76) 29 COPY NO 81

8 June 1976

CABINET

ENLARGEMENT OF THE EEC

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

INTRODUCTION

1. When Cabinet discussed the Greek application for membership of the European Economic Community (EEC) on 5 February (CC(76) 4th Conclusions, Minute 2) it was argued that there would be advantage in considering the whole question of the enlargement of the EEC, including the implications of Greek membership for considering later applications from such countries as Turkey, Spain and Portugal. When and how these applications will be made - and the associated questions of how the Community will evolve over the next five years or so - remain highly uncertain. So I think that there are limits to how far we can take our study. But I think we need to face squarely the fact that the admission of Greece would mark a decisive moment in the development of the Community: it could lead to the accession of other Member States and to a movement away from the relatively cohesive and integrated organisation which is the Community's objective. So I set out in this paper some implications as a general introduction to the subject.

TIMING

2. When, first of all, can we expect the Greeks in, if their negotiations are successful? The EEC Council of Ministers (Foreign Affairs) may be asked to approve the formal opening of negotiations by the summer break at the end of July. But effective negotiations will hardly start until the autumn. Our accession negotiations in 1970-72 took just over 18 months. It is true that the Greek application will raise fewer problems. But there will still be a range of complex and difficult points on which not only will the Greeks negotiate toughly, but agreement will be difficult to achieve among the Nine. Greek accession will not get the same priority as the previous enlargement negotiations because of many other urgent items on the agenda of the meetings of the Foreign Ministers of the Nine. So unless the Greeks pursue tactics of blandly accepting all

Community requirements I would expect the negotiations to take most if not all of 1977 and 1978. And with a year for ratification this would mean Greek entry - still with a transitional period, but taking as we did a full part from the beginning in the institutions of the Community - in the second half of 1979 or in 1980.

3. What of the other candidates? Article 237 of the Treaty of Rome provides that "any European State may apply to become a member of the Community". In recent years an additional qualification has been added by consensus that candidates must share the democratic ideals of the Community or be "pluralist democracies". There is room for argument about how these concepts should be defined, but all Member States would agree that candidates must have Governments based on free elections and properly elected Parliaments. Over the next few years the only candidates who seem likely to apply (and it is by no means certain that they will qualify) are Spain and Portugal. Turkey, Norway, Sweden and even Switzerland, Malta and Cyprus are conceivable candidates in the longer run.

SPAIN

4. Spain (population 35 million and a Gross Domestic Product (GDP) per head of $1,750 almost on a level of that of Greece) is, it is hoped, about to resume negotiations for a trade agreement with the Community to take account of the accession of the three new Member States. But this agreement will contain no provision for eventual Spanish membership.

5. Since Franco's death Spanish Ministers have made it plain that their aim is to achieve membership. This clearly depends on progress towards real democracy in Spain. It is a matter of judgment whether, and if so when, Spain could achieve a system of government which could reasonably be regarded as a pluralist democracy. They are likely to have serious problems with the Communist Party as well as with the Francoist "bunker", with the Catalan and Basque separatist movements, and with the problems of establishing a working system of free political parties and trades unions. They themselves are hopeful that they may be in a position to apply for membership of the Community after elections next year. Even if all goes well, it would not be surprising if this timetable slipped.

6. Assuming that a working pluralist democracy is established, none of the other Member States would see any valid reason for refusing to entertain a Spanish application. The Spanish economy is more soundly based than that of Greece and more likely to withstand the strains of membership. France and Germany would both be strongly in favour. There would be sound foreign policy reasons for wishing to help a democratic Spanish Government of the day to defend the new Spanish democracy and for ensuring that Spain was firmly anchored to Western Europe. This is likely to be the strong United States view. The political costs abroad of a British veto would be high. Nor should we forget the effect on Gibraltar.

7. On the most optimistic assumptions about Spanish progress towards democracy, it seems unlikely that negotiations for entry could begin before 1979, with a consequent likely date for membership of 1982 or 1983. Whether Spain will adhere to this optimistic timetable it is difficult at present to assess. (Spain hopes to put in an application in 1977 and enter by 1980, but 1980 is hardly realistic for entry.) But unless there is visible progress towards free elections and all that goes with it, things will move much more slowly or even grind to a halt.

PORTUGAL

8. Portugal (with a population of 9 million and a GDP per head of $1,250) has a free trade agreement with the Community, amendment of which is under negotiation. The Portuguese Foreign Minister has said that Portugal is not interested in full membership at the moment. But important voices in the main democratic parties (the Socialist Party and the Popular Democratic Party) have talked about following the Greek example and if they form a minority Government after the Presidential elections on 27 June, the Portuguese Socialist Party may decide to apply for membership. They are talking of getting in ahead of Spain. After the turmoil of the past two years, the Portuguese situation looks more hopeful. By the summer there is a reasonable chance that a pluralist democracy may be established, albeit in hostile economic circumstances that may make it very hard for democracy to survive. The Portuguese economy, relatively weak before the end of the Right Wing dictatorship, has deteriorated further and is far from being strong enough to thrive on full membership at the end of the decade. If they are wise, the democratic Portuguese leaders will make haste slowly and we must encourage them to do so, while nevertheless extending sufficient encouragement and help towards membership in the long run to give embattled democracy the support and encouragement it will need.

TURKEY

9. Turkey is a less likely candidate in the next few years. It has an association agreement with the Community similar to that with Greece which envisages eventual full membership. It provides for the achievement of a full Customs Union, though not until 1992, compared with 1984 for Greece. Turkey is much larger than Greece (population 38 million but far poorer - GDP per head of $540). Politically Turkey has maintained for some years a balance between democratic form and military influence on government which has papered over the social, economic and political backwardness of much of the country. Turkish Ministers accept that Turkey is not sufficiently advanced economically to proceed to full membership in the near future. But they will be conscious that Greek progress in that direction will put them at a disadvantage; in the short term they will seek financial aid from the Community, improved access for their exports to the Nine and involvement in the political consultation process to balance Greek progress towards full membership. And they will not abandon their long-term claim of full membership.

OTHER CANDIDATES

10. Other candidates do not seem likely over the next five years or so. The Norwegians with their new oil prosperity will not wish to repeat the traumatic experience of their referendum. And it hardly seems likely that the European neutrals (Sweden, Finland, Switzerland and Austria) will want to join in the next few years. Austria is formally precluded from doing so by the terms of the State Treaty, and Finland is precluded in practice by the nature of its relationship with the Soviet Union.

11. To sum up, there has been some tendency to exaggerate the likely speed with which the Community may be enlarged. Greece is likely to join at the end of the decade. Spain might conceivably join shortly thereafter. Portugal might join two or more years later. Turkey is unlikely to be in a position to join before the late '80s. In the '80s Norway, Sweden and even Malta or Cyprus might change their minds, but the likelihood at the moment does not seem great that any of them will apply in time to join before the mid-'80s.

EFFECTS

12. What would be the effect of this pattern of enlargement? I attach at Annex A some indications of the size of United Kingdom trade, and that of the Eight with the candidate countries and the proportion these represent of industrial and agricultural production of the Nine. And I attach at Annex B a note by officials drawn up last autumn which analyses the implications of Greek accession. We shall in due course need to set similar studies in train on Spain and Portugal. But in summary the implications of enlargement seem to me to fall under four main headings.

a. POLITICAL

13. A rebuff to the Greeks would have endangered the stability of the Karamanlis Government and increased the threat of a Communist or military takeover, thus weakening the Southern Flank of the North Atlantic Treaty Organisation and endangering the stability of the Eastern Mediterranean. The admission of Greece should contribute to the opposite results. On the other hand the future of democracy in Greece will still be at risk even if they are full members of the Community. And a Communist or military takeover <u>after entry</u> would create serious problems for the Community. Could the other Member States freeze the membership of a member who left the democratic fold? Much would depend on the circumstances at the time and I do not think that we can come to a conclusion in advance. (The same applies to existing members, <u>eg Italy</u>.) Greek membership will cause awkward political problems for the other Member States if by that time Greco-Turkish relations have not improved and if the Cyprus problem remains unsettled. Greek membership will not add anything substantial to the weight of the Nine in international affairs.

14. The pros and cons of admitting or vetoing a democratic Spain point strongly, as for Greece, against a veto. The same danger of a failure of democracy would be present. On the other hand, Spanish relations with third countries would not cause such problems and a democratic Spain would add considerably to the weight of the Nine in the Community's relations with certain parts of the world. Much the same goes for Portugal, which would however add less political weight.

b. ECONOMIC

15. The admission of one, possibly two or even three, relatively poor, substantially agricultural Mediterranean countries would have considerable economic disadvantages for the Community as a whole and particularly for us as one of its weaker members. Our share of the Regional Development Fund and of the European Social Fund would be reduced. And the new arrivals would be substantial claimants on Community agricultural expenditure which would be bound to increase substantially. Greek accession alone could cost the Nine up to £150 million a year at 1975 prices (and the United Kingdom perhaps £25 million). And Spain in particular could be a major additional burden. Thus our net contributions to the Community budget will increase. And the possibility of our getting anything substantial out of resource transfers from the richer to the poorer members of the Community will be greatly diluted. At the same time some of our older and more vulnerable industries, especially textiles, would face damaging competition without the safeguards given by existing association agreements. And we would face protectionist pressures - in the form of resistance to cuts in Community tariffs on the products of Mediterranean agriculture.

c. POLICY MAKING

16. Over a whole range of Community policies, existing and emergent, the new entrants would pursue interests different from ours. In external trade they would join the more restrictive and inward-looking members of the Community (in particular France and Italy); in terms of agricultural policy they would join with the French and Italians in exacting as high a price as they could for the support of Southern European agriculture. They would try to squeeze as much as they could out of Community regional and social expenditure; and this would be a drag on the development of Community industrial policy and would make progress towards Economic and Monetary Union even less likely than it is now.

d. NATURE AND MANAGEABILITY OF THE COMMUNITY

17. But what will be the effect on the nature and manageability of the Community of the admission of one and possibly three Southern Mediterranean countries? Even now the Community has barely digested the three new members it took in 1973. Would a Community of 10 and even more so 12 - with the Commission suitably enlarged to provide for Greek,

Spanish and Portuguese Commissioners and with three extra languages - have got past the point of unmanageability? And to what extent would the centre of gravity of the Community be shifted towards the south where there are fundamentally different attitudes towards taxation and administration?

18. I think that we have to face the fact that there will be some substantial disadvantages both in the economic field and in terms of manageability of the Community. It will be a Community different from the one we joined and more difficult to manage. It can, of course, be argued - particularly if the Community's functioning continues to improve - that new members joining one by one at intervals over the next six or seven years or so could be assimilated. There will be a desirable side effect in the sense that the advent of between one and three new members over the next 10 years as different from the existing members as Greece, Portugal and Spain will reinforce the trend already evident away from a fully-fledged federation in Europe. And we need, of course, to remember that the disadvantages of a veto on Greece or a democratic Spain or Portugal would be very serious. But we should be clear that whatever the justification on balance for the admission of these new members and despite the fact that there are some mitigating factors, the disadvantages both for the Community and for the United Kingdom of their admission will be marked.

19. Should we therefore veto or openly delay the Greek negotiations and the possible accession negotiations for democratic Spain and Portugal later on? As I have said already the political arguments against this seem to me compelling. There are certain things which we could do. We need to insist on a full examination of all the detailed points of interest to us which will arise in the Greek accession negotiations and to ensure just as the French did in 1970-72 that full account is taken of our interests. And we can be confident that other Member States will also see difficulties for them and will be doing the same. Secondly, we need to set in train a study of the implications of the accession of Spain and Portugal on lines similar to the one we have done in relation to Greece. And, thirdly, this general problem may come up with the other Foreign Ministers of the Nine at the next very restricted Schloss Gymnich type meeting <u>in the second half of this year when Greek negotiations will probably be under way</u>. If so, my aim would be to try and bring home to the French and Italians some of the economic disadvantages attendant on the admission of Spain and Portugal and to my colleagues generally the difficulties of manageability which several new members would cause. But I would need to be careful not to appear to take the lead in opposing the admission of new members.

20. Another possible course would be to alter the decision-making machinery of the Community so as to put powers of decision in the hands of an inner group. This could take the form of the "directorate" which President Giscard has recently floated. Or it could be a version of the two-tier idea originally put forward by Herr Brandt and taken up again in the Tindemans Report. I do not think that ideas of this kind would work either.

For an inner decision-making group to consist of the major powers in the Community would be unacceptable to the smaller countries. For a directorate to consist on a basis of rotation of certain of the major countries and some of the smaller ones would run up against the obvious obstacle that neither France, Germany nor we ourselves could countenance exclusion even for a period. And if we sought to give second-tier membership to some of the new members this also would be fiercely resented and would not get general Community support for the practical reasons which I mentioned earlier that no-one would wish to damage their own interests in these countries by seeming to want to take the lead in condemning them to an inferior role.

21. A better course would be to intensify bilateral contacts at all levels between ourselves, the Germans and the French. The Germans and the French and the Germans and ourselves already have such contacts. I am taking steps to promote Anglo-French contacts of the same kind at official level and although it is more difficult to get on with the French than with the Germans I shall see what we can do to get it agreed that the French Foreign Minister and I should meet bilaterally about twice a year and with similar arrangements between President Giscard and the Prime Minister. It would be an illusion to imagine that, given our present economic difficulties, we can be as important to the French and the Germans as their relations with each other. But I think we can establish a better working relationship with the French if we put a bit of effort into it. And this could be combined with some simplifications of working procedures. Ways in which we could make the Community work better will be discussed during the consideration of the Tindemans Report which will, usefully from our point of view, probably be coming to the decision-taking stage during the British Presidency.

CONCLUSION

22. The admission of new members will not on balance be to our advantage. We can take some comfort from the fact that they will probably be joining one by one and at intervals over several years, and from the fact that their accession will strengthen the trend against European federation. If we can establish a sound working relationship over the next three or four years with the French as well as with the Germans and we can take some sensible steps to improve and streamline the decision-making processes and if we can meanwhile push Community policies firmly on to lines which better meet our requirements it may be that the Community would be able to assimilate the likely new members without its manageability getting out of control. But we shall have to face the fact that the economic disadvantages for us will be substantial, and that it will be difficult to run the Community in ways satisfactory to us. I do not think that outright veto or delay would be a practicable policy in terms of the admission of new members. But I

think that we ought to set on foot now a study of the implications of Portuguese and Spanish accession and that I ought to be prepared to discuss this question in confidence with my colleagues in the Community at the next Schloss Gymnich Foreign Ministers meeting.

A C

Foreign and Commonwealth Office

8 June 1976

ANNEX A

I. SOUTHERN EUROPEAN COUNTRIES' TOTAL TRADE (EXPORTS AND IMPORTS) WITH THE WORLD IN 1974 (US$ MILL[illegible]'S)

GREECE	SPAIN	PORTUGAL	TURKEY
6415.2	22438.9	6774.5	5309.0

PROPORTIONS OF SOUTHERN EUROPEAN COUNTRIES' TRADE WITH EEC MEMBERS IN 1974 (%)

	GREECE	SPAIN	PORTUGAL	TURKEY
BELG./LUX.	3.0	2.6	3.2	3.3
DENMARK	0.4	0.6	1.3	0.6
FRANCE	6.7	9.8	7.0	5.9
GERMANY	17.8	11.2	11.8	19.3
IRELAND	0.1	0.3	0.3	0.1
ITALY	8.6	5.4	4.6	6.8
NETHERLANDS	3.9	3.3	3.2	3.2
EEC 8	40.4	33.2	31.3	39.1
UK	5.0	6.4	13.8	6.6
EEC 9	45.4	39.5	45.1	45.7

Source: IMF/IBRD
DIRECTION OF TRADE

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

II. EEC countries' Total World Trade in 1974 (US$ millions) including Intra-EEC Trade

		Proportions of EEC countries' Total World Trade with Southern European countries in 1974 (%) including Intra-EEC Trade			
		GREECE	SPAIN	PORTUGAL	TURKEY
BELG./LUX.	57974.6	0.3	1.0	0.4	0.3
DENMARK	17595.6	0.4	0.9	0.6	0.3
FRANCE	99359.7	0.5	2.5	0.5	0.4
GERMANY	158823.0	0.9	1.6	0.5	0.6
IRELAND	6448.5	0.1	0.9	0.3	0.1
ITALY	71121.1	0.9	1.6	0.5	0.6
NETHERLANDS	67284.5	0.4	1.2	0.3	0.3
EEC 6	478607.0	0.6	1.6	0.5	0.5
UK	92766.0	0.4	1.5	1.1	0.4
EEC 9	571373.0	0.6	1.6	0.6	0.5

Source: IMF/IBRD DIRECTION OF TRADE

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Source: IMF/IBRD
DIRECTION OF TRADE

III. EEC countries' Total World Trade in 1974 (US$ millions) excluding Intra-EEC Trade

Proportions of EEC countries' Total World Trade with Southern European countries in 1974 (%) excluding Intra-EEC Trade

		GREECE	SPAIN	PORTUGAL	TURKEY
BELG./LUX.	18634.3	1.1	3.0	1.1	0.8
DENMARK	9799.3	0.8	1.6	1.0	0.5
FRANCE	49802.4	1.1	5.0	1.1	0.7
GERMANY	85505.0	1.6	3.0	1.0	1.2
IRELAND	1873.5	0.4	3.2	1.2	0.3
ITALY	40090.0	1.5	2.9	0.9	1.3
NETHERLANDS	23867.4	1.1	3.3	0.9	0.7
EEC 8	229571.9	1.3	3.4	1.0	1.0
UK	61793.0	0.7	2.3	1.6	0.5
EEC 9	291364.9	1.2	3.1	1.1	0.9

Source: IMF/IBRD
DIRECTION OF TRADE

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IV. LEVELS OF AGRICULTURAL AND INDUSTRIAL PRODUCTION IN 1975 (EEC 9 = 100)

	AGRICULTURE (a)	INDUSTRY (b)
BELG./LUX.	3.6	3.8
DENMARK	4.4	2.2
FRANCE (e)	29.0	26.2
GERMANY	19.9	36.1
IRELAND	2.5	0.4
ITALY	24.1	11.4
NETHERLANDS (d)	6.2	5.3
UK	10.3	14.7
EEC 9	100.0 = US$ 50.7 billions	100.0 (c) = US$ 502.5 billions

	AGRICULTURE (a)		INDUSTRY (b)	
	% of EEC 9 Total	US$ billions	% of EEC 9 Total	US$ billions
GREECE	6.5	3.3	1.0	5.2
PORTUGAL	3.6	1.8	1.0	4.8
SPAIN	15.3	7.7	4.3	21.7
TURKEY	10.7	5.4	1.2	6.0

Source: OECD Estimates

NOTES:

(a) Includes agriculture, hunting, forestry, logging, fisheries, viniculture, horticulture.

(b) Includes manufacturing, gas, water, electricity, construction, mining and quarrying.

(c) Totals do not add precisely due to rounding.

(d) Based on 1972 data.

(e) Based on 1974 data.

ANNEX B

GREEK APPLICATION FOR COMMUNITY MEMBERSHIP: PRACTICAL IMPLICATIONS FOR THE UNITED KINGDOM

1. This paper assesses the practical implications for the United Kingdom of Greek membership of the Community; and indicates the objectives we should pursue and the interests we should aim to safeguard in forthcoming Community work on the Greek applications.

I. BACKGROUND

a. The Greek Economy

2. Some basic facts on the Greek economy are summarised at Appendix A. The main points are -

a. Greece has a GDP per head of $1,790 (1973 estimate) - a little under half the Community average. Compare Ireland, the poorest existing member of the Community, with a GDP per head of $2,130; Spain with $1,750; Portugal with $1,250; and Turkey with $540.

b. In 1971 40 per cent of the Greek working population of 3.3 million were in agriculture - a high proportion as compared with other Southern European countries, except Turkey. The industrial sector remained relatively small, at some 17 per cent of total employment.

c. Services (including tourism and shipping) and remittances from workers abroad are of major importance to the economy, but are vulnerable to economic developments outside the Greek Government's control.

d. Over 50 per cent of Greece's visible import and export trade is with the nine EEC countries: Germany and Italy are the two largest suppliers, with market shares of 17 per cent and 9 per cent respectively. But Greece accounts for only 1 per cent of total EEC exports, and only 0.4 per cent of total EEC imports.

e. The value of United Kingdom exports to Greece in 1974 was £105 million; imports from Greece were worth about £68 million.

b. The EEC/Greece Agreement

3. The EEC/Greece Association Agreement (entered into force in 1962), was specifically designed to prepare Greece for full membership of the Community in the period up to 1984. Under its provisions all Greek industrial goods and a wide range of agricultural products already receive duty-free entry into the Six. Since November 1974 a large proportion of the Six's industrial and agricultural exports to Greece have also been duty-free. By July 1977 the new Member States will give and receive the same treatment as the original Member States. The remaining Greek duties on the enlarged Community's industrial goods will be progressively reduced, and abolished by 1984, when full Customs Union will be achieved. After 1977, when the safeguard provisions at present available to the three new Member States end, United Kingdom scope for taking action against imports from Greece will in effect be limited to the measures available under the EEC Treaty.

4. The Agreement also provides for the harmonisation by 1984 of agricultural policies between Greece and the Community, to enable Greece gradually to adopt arrangements on the lines of the CAP. Little progress has been made in this area so far.

c. Prospects for the Greek Economy

5. The Greek economy grew rapidly in the 1960s and early 1970s. There was nonetheless a considerable net outflow of labour abroad, mainly to Western Europe and particularly to Germany where over 200,000 Greeks were estimated to be working in 1974. Substantial continuing deficits in overseas trade were partly offset by workers' remittances from abroad and by earnings from shipping and tourism. In 1973-74 growth was checked first by economy measures to counter inflationary pressures, then by political instability, the Cyprus crisis, and a deteriorating balance of payments. Given the uncertain prospects for the invisible earnings on which Greece is heavily dependent the balance of payments is likely to remain a major constraint.

6. The aim of successive Greek governments has been to change the economy by programmes of agricultural rationalisation and industrial development. If this is to be achieved, a considerable adjustment will be required. The modernisation of agricultural production is likely to release a supply of relatively cheap labour into the manufacturing sector; this could provide a

stimulus but surplus labour will not be easily absorbed and the protection of employment in both industry and agriculture is likely to be a major continuing concern of Greek governments. The process of modernisation may be encouraged by the existing EEC/Greece agreement, and might be further accelerated by full membership of the Community. But it is uncertain whether the Greek economy as it stands could sustain the continuing impact of integration with the Community without special protective and support arrangements, although Greek Ministers and Officials have expressed their confidence in their ability to meet the remaining commitments under the Association Agreement on time and even to accelerate them.

II. ECONOMIC IMPLICATIONS OF GREEK ACCESSION

a. Trade and the Balance of Payments

7. Much of what would be involved in Greek membership of the Community - in particular free trade and the harmonisation of agricultural policies - is already provided for in the EEC/Greece Agreement, which has applied to the United Kingdom since 1 July 1975. In the longer term, full membership might tend to increase Greece's (already considerable) dependence on the Community of Nine as a trading partner. But the direct effects on visible trade - including our own trade balance - would be small. On the import side for example, access for most of our food imports from Greece (some £25 million worth of mainly Mediterranean produce) is already duty free. It is likely that the effects on invisibles would be equally slight. Greece does not compete significantly with the United Kingdom in the provision of financial and other services in international markets (other than shipping, which is mentioned below) and in any case the direct impact of Community membership on invisible trade - given the limited degree of harmonisation achieved in this field so far - is relatively modest.

8. On capital movements, there is no risk of any significant balance of payments cost from Greece's becoming a full member of the Community until we are in a position to meet our obligation to liberalise outward direct investments to other Member States, and then only if Greece should become much more attractive to United Kingdom investors. Net United Kingdom outward direct investment in Greece totalled only £4.0 million in 1973; net inward investments were even smaller. In the longer term, United Kingdom investment in

Greece may increase as a result of the recent discoveries of minerals (including oil); but this is difficult to quantify and may take place whether or not Greece joins the Community.

9. In two sectors - textiles and shipping - Greek membership of the Community might (though this is uncertain) have some adverse impact on United Kingdom interests. Details are at Appendix B.

10. Greek membership of the Community could have a significant impact in the field of commercial policy. From the United Kingdom standpoint it might well adversely affect the balance of economic interests in the Community as a whole. Following Greek accession, Greece, Italy and France could together be expected to form a "Mediterranean bloc" in view of their common interests in such commodities as wine, olive oil, tobacco and citrus; this would strengthen the pressure within the Community towards greater protectionism in agriculture, and would make it more difficult to obtain the further improvements which we are seeking in access for food imports from third countries. The special problem of agriculture apart, the Greeks might tend to side with those elements in the Community which are relatively uninterested in developing trade with third countries, and would be more concerned with retaining protected markets within the Community (although they will continue to attach importance to their trade links with their Balkan neighbours). Greek membership would therefore make it more difficult to ensure that the Community follows a liberal and outward looking approach in the GATT multilateral trade negotiations and in commercial policy generally.

b. Agriculture

11. The Community is already committed, under the EEC/Greece agreement, to discussions with Greece on the harmonisation of agricultural policies. Because of the backwardness of Greek agriculture, harmonisation will involve major improvements in the structure of holdings and Greece has already sought grants from FEOGA of 150 mua for this purpose. Under the Association Agreement the harmonisation process could extend over the period up to 1984 or even later; if Greece became a full member of the Community it is likely that a lengthy transitional period would still be required, but the pace of Greek adjustment to the CAP would almost certainly be accelerated with a consequential increase in the cost to Community funds and hence to the United Kingdom.

12. Many of the agricultural commodities of most interest to Greece - in particular wine, fruit and vegetables and olive oil (see Appendix A, Table 5) - are also of importance to sensitive producer interests in Italy and France. Negotiations on the transitional arrangements governing Greek accession to the Community in these areas are likely to be difficult. In general we can leave it to the other Member States directly concerned to make the running: but there is a real risk that Italy and France may demand compensation - in the form of increased subsidies from FEOGA, or of increased protection against imports from third countries, or a mixture of both - for the damage they would allege Greek membership would cause them. Any such compensation would involve additional costs to Community funds or to United Kingdom consumers, and we should need to resist it, or if necessary, to argue that we would require compensating concessions on access for food imports or the internal operation of the CAP to offset the costs we would face.

13. More generally, the strengthening of Mediterranean agricultural interests inside the Community as a result of Greek membership would make it more difficult for us to secure the improvements we are seeking in the operation of the CAP. In particular it would be harder to contain CAP price levels and FEOGA expenditure, especially for Mediterranean commodities like wine and olive oil. There would be a consequential cost - unquantifiable, but possibly significant - to United Kingdom consumers and to public expenditure, without commensurate benefits for our own agricultural producers.

c. Financial Aspects

i. The Community budget

14. Greece would be a substantial net recipient of funds from the Community budget if she were to become a full member of the Community. She would therefore impose a budgetary cost on the other Member States including the United Kingdom. The cost is difficult to quantify, and will itself depend on the outcome of the Accession negotiations with Greece; but on the assumptions outlined in Appendix C full Greek membership in 1980 or soon after could cost the Nine up to £150 million or so a year and the United Kingdom perhaps £25 million a year (in 1975 prices).

15. Greece's gross budget contribution would probably be quite large in proportion to her economic weight in the Community. In the longer term, full membership might tend to reduce Greek dependence on imports from outside the Community. But in the period up to 1980 (and perhaps for some time thereafter), she would be likely to pay heavy levy and duty payments on imports of beef and lamb, and third countries are likely to continue to supply a large proportion of her manufactured goods. This would mean paying the full CCT on these imports. In 1980, Greece's gross contributions could be about 3 per cent of the Budget while her share in Community GDP would be only some 2 per cent.

16. But Greece's budget receipts would probably be even larger. There are two reasons. The largest single item is likely to be payments from FEOGA, which would be substantial in view of Greece's large agricultural sector - perhaps up to £150 million a year by 1980. Secondly, with a very low standard of living, Greece would be likely to receive substantial payments from both the Regional Fund and the Social Fund - perhaps totalling some £110 million by 1980. These receipts could together amount by 1980 to 6 per cent or more of the budget. Details of the calculations are at Appendix C.

17. As a net recipient from the budget, Greece would not be eligible for receipts from the Budget Correcting Mechanism. But Greek membership would increase the size of the budget and thereby increase the maximum size of the Correcting Mechanism, which in turn could lead to slightly greater United Kingdom receipts.

ii. The Social Fund and the Regional Fund

18. The estimate of a new budgetary cost to the United Kingdom of around £25 million as a result of Greek accession to the Community takes account of the impact of Greek membership in two areas of Community expenditure - the Social Fund and the Regional Fund - in which we are at present significant net beneficiaries. Our net receipts from the Regional Fund are expected to amount to around £60 million over the three years 1975-77; our net allocations from the Social Fund in 1974 were over £13 million. In both areas there would be a risk, if Greece joined the Community, of a reduction in our share of receipts and/or an increase in our contributions

to help finance increased expenditure under the two Funds. Even if we were able to avoid a significant deterioration in our net position, Greek accession would increase the cost of the Fund to donor countries like Germany, whose resistance to further expansion of Community expenditure in these areas would be strengthened. So the prospects of a worthwhile net return to the United Kingdom in the longer term would be greatly diminished. This in turn would reduce the scope for alleviating the adverse impact of the Community budget on the United Kingdom through the development of Community expenditure policies from which we could expect to benefit.

19. It will be in the interest of all the existing member states to minimise the cost of Greek accession to the Community. We however will have a particular interest in pressing for the firmest possible safeguards for existing net beneficiaries from expenditure under the Social and Regional Funds. Specifically, it may be necessary to resist pressure to treat Greece as generously as say, Ireland. It is likely to be to our advantage to have the post-1977 shape of the Regional Fund (in particular the percentage 'key' by which the resources available are distributed) settled in advance of the confirmation of Greek membership.

20. A detailed assessment of the effect of Greek membership on the Social and Regional Funds is at Appendix C.

iii. The European Investment Bank and the European Monetary Co-operation Fund

21. The first financial protocol to the EEC/Greece Agreement provided for lending from the EIB to Greece in the period 1962-67. A second financial protocol is now under negotiation, which is likely to pre-empt a substantial proportion of the limited funds available for lending to non-member states.

22. While Greece remains a non-member of the Community her demand for EIB loans can be seen in the context of the Bank's capacity to lend to non-Members. There is no competition with funds destined for the United Kingdom. If, however, Greece were to become a member, her demand for project loans would compete directly with our own. Given that no further increase in the Bank's capital base is currently in prospect, it is likely that some of the money at present coming to us would be

diverted to Greece. The consequential loss is difficult to estimate; but the EIB is a useful source of loan finance (loans totalling £211 million have been granted to date) and it is for consideration whether we should aim, in the context of the Greek accession negotiations, to secure arrangements designed to ensure that the Bank will continue to have adequate funds available for lending to the United Kingdom.

23. As a member of the Community, Greece would be entitled to participate in the short-term facilities administered by the European Monetary Co-operation Fund, under which credit may be extended to members who are in balance of payments difficulties. The United Kingdom would have to increase its contribution to the Fund accordingly - perhaps by £5 million.

d. Other Aspects

24. An assessment of the implications of Greek membership of the Community in the fields of movement of labour, health and social security, transport, the environment, energy policy, EURATOM and ECSC is at Appendix B. The impact in most of these areas would be marginal. Greek accession would however be likely to bring forward the date at which free movement of labour (already provided for in the EEC/Greece Agreement) is achieved between Greece and the Community. This could raise difficulties for us, particularly if it accelerated progress towards free movement of labour with Turkey.

III. INSTITUTIONAL IMPLICATIONS OF GREEK ACCESSION

25. The institutional arrangements within the Community are weighted according to a rough population criterion. The population of Greece (9 million) seems likely to give it a weighting comparable to that of Belgium (10 million). Greek Membership would require adjustment to the Treaties to give Greece full participation in the institutions on the same lines as those set out in the Treaty of Accession in 1972 (Part two, Title 1). The main changes would be -

a. The Assembly. The number of seats allocated to Greece would depend on how at that time the Assembly itself had developed, what its size was and especially whether there was a uniform procedure for the direct election of Members by universal suffrage in accordance with

Article 138 of the EEC Treaty. At present Belgium has 14 seats out of 198 (7 per cent) but this proportion would be likely to diminish if the Assembly's present proposals for expansion (the Patijn Report) were accepted.

b. The Council. The Rotation of the Presidency, and the weightings for qualified majority voting would need to be changed.

c. The Commission. A Greek commissioner would be appointed, with the opportunity for him to take his turn as Vice-President (assuming the present organisation of the Commission).

d. The Court of Justice. A Greek judge would be appointed.

e. The Economic and Social Committee. The Membership would need to be increased, probably by a further 12 seats (4 in each group), if Belgium is the pattern.

f. ECSC Consultative Committee. An increase of Membership would also be necessary, but its precise size would depend on calculations about the size and strength of that sector of Greek industry.

26. Greek Membership would unless the existing rules were changed, which would be very difficult to achieve, require an additional language to be used, with substantial but unforeseeable consequences for linguistic (translators and interpreters) and clerical/documentary staff in each of the Community institutions. In addition, Greek officials would need to be appointed to each of the institutions, though it is not likely that there would be an equivalent disturbance to that which faced the Community when the United Kingdom, Denmark and Ireland acceded in 1973. A fair share for Greece (comparable to Belgium) in the Commission or the Council Secretariat would be about 5 per cent of the Senior (A) grades, and a comparable proportion among other grades. The Commission has not yet made any study of the practical problems involved but the difficulty of bringing in Greek staff, who would of course have to be linguistically qualified, would partly depend on the financial climate at the time, the speed with which it was decided to bring them in and how far new posts could be added to the existing complement without the need for compensating reduction among nationals of other member states.

27. More generally, the Community's decision-making machinery does not work easily, even with nine Members: each additional member and additional language is likely to compound the practical problems of making the Community operate effectively.

IV. SUMMARY AND CONCLUSIONS

28. The main conclusions of the foregoing analysis of the likely practical consequences of Greek membership of the Community are as follows -

a. In comparison with the rest of the Community the Greek economy is backward, and, although progress has been made in recent years and the Greek Government seem confident about the future, it is by no means clear that the Greek economy could stand closer integration with the Community without special protective arrangements.

b. Greek Membership would strengthen the pressures within the Community towards greater protection in agriculture and trade (at least in agricultural produce), and would make it more difficult to keep down the cost of the CAP and to ensure the Community followed a liberal and outward-looking approach in commercial policy.

c. As a full member of the Community Greece would be a substantial net recipient of funds from the Community budget (perhaps as much as £150 million a year). She would be likely to obtain substantial payments in view of her large agricultural sector from FEOGA, and in view of her relative backwardness, from the Social and Regional Funds - possibly directly at the expense of United Kingdom receipts.

d. The difficulties involved in making the Community's decision-making machinery work effectively would be compounded by the addition of a new member and a new working language.

THE GREEK ECONOMY - BASIC FACTS

Table 1: Greece and the Community compared

		GREECE	EEC
Population mid 1973		8.972	256.7 million
Employment (estimated) 1973			
Total Civilian		3.32	102.0 million
of which:	Agriculture	34.1	9.2 per cent
	Industry	25.7	43.3 per cent
	Other	40.2	47.5 per cent
GDP per head 1973*		$1790	$4110
GDP*		$16.060	$1055 billion
by sector	Agriculture	20.4	4.9 per cent
	Industry	32.4	46.1 per cent
	Other	47.2	49.0 per cent
GDP annual volume growth at 1970 prices			
	1968-73	8.9	4.8 per cent

* at current prices and exchange rates

Table 2: Greek Exports and Imports by Commodity Group

	US $ million 1973 Exports fob	Imports cif
Food, beverages, tobacco	424	404
oil and products	202	426
raw and semi-worked materials	603	948
manufactured goods	215	1687
Total	1444	3465

Table 3: Greek Exports and Imports by area

	1973 $ million Exports fob	Imports cif
Total OECD	1043	2668
of which EEC	794	1737
Germany	312	677

France	96	n.a.
Italy	137	316
United Kingdom	101	195
North America	113	308
Sino-Soviet area	170	190
Other	231	608
Total	1444	3465

Table 4: Greek Balance of payments on Current Account

$ million

	1974	1972
Exports fob	1774	859
Imports cif	4635	2407
Trade balance	- 2861	- 1548
Services and Transfers, net:	1642	1204
of which foreign travel	306	297
shipping	721	358
emigrant and worker remittances	645	575
Current balance	- 1219	- 344

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Table 5: Greek Agricultural Production: Main Commodities 1973

PRODUCT	GREEK PRODUCTION	EEC PRODUCTION	GREEK TOTAL AS % OF EEC	COMMENTS
Apples	240	6,496	3.7	Figures in '000 tonnes
Pears	120	2,374	5.1	" " "
Peaches	250	1,791	14.0	" " "
Oranges	450	1,566	31.0	" " "
Clementines, Mandarins and Satsumas, etc	40	348	11.5	" " "
Lemons	150	785	19.0	" " "
Tomatoes	1,208	4,480	27.0	" " "
Grapes	1,560	1,151	-	" " " Figs not comparable - EEC fig. excludes grapes for wine and dried fruit
Mutton & Lamb	66.34	459	14.5	'000 tonnes - 1972 figures
Milk from Sheep & Goats	818	1,664	49.2	" " - 1971 "
Total Milk	1,346	97,615	3.1	" " - 1972 "
Olive Oil	402	5,482	7.3	" " - 1973 "
Wheat	1,738	41,236	4.2	" "
Wheat subdivided:				
Soft wheat	1,307	38,200	3.4	" "
Durum wheat	431	3,036	14.2	" "
Rice	82	1,117	7.3	" "
Wine	4,610	168,824	2.0	'000 hectolitres

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Wine	4,610	168,824	2.0	'000 hectolitres

[illegible]

APPENDIX B

IMPACT OF GREEK MEMBERSHIP OF THE COMMUNITY IN PARTICULAR SECTORS

1. TEXTILES

Greek production of textiles is increasing; continuing expansion seems likely in view of the availability of relatively cheap labour from the agricultural sector. In December 1974, the United Kingdom introduced restraints on imports of Greek cotton yarn. After July 1977, when Greek industrial goods will be duty free, the safeguard provisions available to the new Member States will lapse, and we will no longer be able to take such effective action. However in 1974 Greek textiles represented only 0.4% of the United Kingdom's total textile imports although Greek cotton yarn formed 7% of total cotton yarn imports.

2. SHIPPING AND SHIPBUILDING

(a) Shipping

At present there is no Community shipping policy and the EEC/Greece agreement has no effect on shipping. If Greece became a full member of the Community however she might exercise considerable influence on future developments in the field of shipping policy. Although two thirds of the Greek tonnage is non-tanker, compared with half the UK tonnage, and the Greek fleet is also considerably older than our own, the Greek registered fleet would be the second largest in the Community, after the UK. So:-

(i) if a community shipping policy was adopted and was based on general EEC competition policy, the UK would have to face increased competition from its EEC rivals, of which Greece would be the most important.

(ii) if the EEC were to restrict employment in shipping to EEC nationals, Greece could be a source of experienced manpower for the UK.

(iii) if the EEC were to adopt a united approach to the UN Liner Code (see EQO(75)43, 21 July 1975) the effect of membership could mean that the UK's share in the proportion of trade with third countries, which could still be carried in EEC shipping, would be reduced.

(b) Shipbuilding

Greece has a very small shipbuilding industry. 60% of the country's requirements are provided by Japan and 10% by the Community (in which the UK and West Germany are the largest suppliers). Since Greece is a large purchaser of ships, the possibility of full Greek membership of the Community might strengthen the Community's bargaining position, particularly vis-a-vis Japan, which dominates the world market for ships. If, as a last resort, protectionist measures were adopted by

the Community, the UK might benefit from an increase in orders from Greece.

3. ENERGY

As far as energy policy is concerned, there could be a marginal advantage to the UK in Greek membership of the Community. As things now stand, we are the only country of the Nine which, in the short term, has the prospect of producing oil in any quantity. In Greece, oil and gas have been found in commercial quantities offshore; commercial exploitation could begin in 1976. The presence of another oil producer albeit a small one in the Community may be of some assistance in getting the sort of EEC energy policy we should like to see. There could also be an outlet in Greece for products of the UK's growing offshore supply industry.

4. EURATOM

Membership of the Communities includes membership of Euratom. Greece has currently no nuclear power capability and already posesses electricity generating capacity in excess of demand. There is a tentative plan to commission a first nuclear power station about 1985. Greek membership of Euratom could provide outlets for the UK's nuclear construction and fuel - cycle industries but the impact would be small. Exchange of materials, workers and technology subject only to Euratom safeguards could lead to further nuclear proliferation, which would not be in United Kingdom interests.

5. EUROPEAN COAL AND STEEL COMMUNITY

Greece has no Association Agreement with the European Coal and Steel Community but has applied for accession to all three Communities.

UK trade with Greece is comparatively small. Imports of finished products, mainly plates and sheet, amounted to 16,600 tonnes in 1973 and to 1,500 tonnes in 1974. Exports, mainly tinplate, plates and wire rod, were 58,000 tonnes in 1973 and 40,000 tonnes in 1974. Steel imports from Greece into UK pay the full rate of duty, ie up to 8% for ECSC products. UK exports to Greece are liable for duty varying between 8% and 24% for most finished products.

The Greek steel industry is expanding. Its current crude steel capacity is about 1.5 million tonnes and it is reported that this figure is to be doubled by 1977. Raw steel production in 1974 was reported to be 850,000 tonnes, having increased from 450,000 tonnes in 1970. Output of rolled products is also increasing. In general, it seems likely that Greece's accession to the ECSC would have little impact on the UK iron and steel industry. In view of the planned expansion of the steel industry in Greece, however, there could be some benefit to the UK in bringing Greece into the Treaty of Paris regime, in particular within the ECSC pricing rules. In the long term some benefit to our steel exports could also be derived from tariff reductions. The expanding Greek industry will become

an additional drain on the Community's supplies of ferrous scrap. Greece imports little from the ECSC at present because of the export controls to third countries but the scale of the new demand should not raise any significant problems.

6. TRANSPORT

Since Greece has no land frontier with any EEC country, her accession to the Community would be unlikely to have any direct impact on the shape of the Community's transport policy or network. On road haulage, we at present benefit from Greece's fairly liberal outlook (which has been confirmed by the terms of a recent bilateral agreement). There are some indications that traffic between this country and Greece, which is mostly carried by UK operators, is growing: according to figures published in Germany, goods carried from Greece to UK increased from 800 tons in 1972 to 2,900 tons in 1973; and from UK to Greece from 800 tons in 1972 to 4,800 tons in 1973. However, the potential advantage is limited by the need for transit across non-EEC countries such as Yugoslavia which have a relatively restrictive regime on international transport. And, if Greece does join, the fact that she may on political grounds tend to align herself with France, and that much of her trade is with Germany and Austria, may lead her to adopt a less liberal outlook which would conflict with our interests.

No particular advantages or disadvantages are foreseen in road passenger transport and the impact for railways is likely to be very marginal.

7. ENVIRONMENT

It seems likely that environmental problems may be worse in Greece, relative to the level of industrialisation, than in the Nine - except perhaps in Italy. This would not necessarily suggest a slowing of progress in the Community's environmental programme but might add to pressure for a system of aids which would run counter to UK policy.

8. HEALTH AND SOCIAL SECURITY

The UK has no agreement on social security with Greece. Our present information is that, although Greece has a quite advanced social security scheme on paper, the scheme is badly administered. We have accordingly decided against initiating any action leading to the conclusion of a bilateral agreement.

If Greece succeeded in her application then two Community Social Security Regulations (1408 and 574/72) would apply to her just as to the other Members. These provide that each member state will extend to migrant workers from other member states the same social security benefits, for example in respect of unemployment sickness and retirement, as it provides for its own workers. The regulations also provided that member states will extend free or low-cost medical treatment to visiting nationals of other member states on the same terms given to their own people. On present information it is likely that Greece could satisfy these requirements in

theory, but whether her administrative and medical control machinery is up to meeting them in practice is open to question. She will need advice probably on how to do this and be given time to achieve it.

Whether the application of the social security requirements would have a net cost or benefit for the UK will depend on the net flow of migration between the UK and Greece. The numbers involved are however quite small. The cost of paying our pensioners in Greece at current rates would increase by £43 000 a year (from about £52 000 to about £95 000.) The largest movement of course is that of UK tourists to Greece and here the application of the requirement for free or low cost medical treatment is bound to benefit the UK, even though for tourists it is likely to be limited to emergency treatment, because UK (and other) nationals have at present to take out private insurance to cover the heavy cost of medical treatment in Greece.

9. MOVEMENT OF LABOUR

Greek membership of the Community would imply that her nationals would be free to move throughout the Community in search of work, though it may be that some period of transition to full freedom of movement could be negotiated. There is already an Association Agreement with Greeks under which freedom of movement of Greek workers is envisaged though the date and manner of implementation have still to be decided.

The numbers emigrating from Greece to the rest of the world have been falling from 92,000 (68,000 to Europe) in 1970 to 27, 000 (15,000 to Europe) in 1973. Part of the reason for this may be that unemployment in Greece has been concurrently falling. The numbers entering the UK to work have also been falling but only a few hundreds are involved. In the 5 years 1970/74 about 3,100 Greeks entered this country to work. Germany has been more of an attraction to Greek labour than the United Kingdom.

It is hard to say how many Greeks would come to this country for work if there were free movement. The opening of our labour market to the Italians when we joined the Community did not result in any flood of Italians coming here. It may be that if large numbers were to come here they could create social problems of the kind with which we are familiar in connection with other groups. If unemployment were high they could also be an embarrassment from an economic point of view. However, if unemployment were lower than at present they might make a useful contribution, as former immigrants have done, to manning sectors of the economy which are perennially short of labour.

Free movement of Greeks must be considered in the context of free movement of Turks and Cypriots. There is an Association Agreement between Turkey and the EEC which envisages the free entry of Turkish workers into the Community not later than the end of 1986. We know that the Germans are worried about an early influx of Turkish workers and we should be hesitant about the desirability of this for similar reasons. If the Greeks secured free movement with the Community it would become rather more difficult to put off the date of implementation of the Agreement with the Turks. It would also increase pressure to allow Cypriots in freely who are at present subject to the same stringent controls as immigrants from other countries.

APPENDIX C

FINANCIAL IMPACT OF GREEK MEMBERSHIP OF THE COMMUNITY

1. THE COMMUNITY BUDGET AS A WHOLE

The assessment of the implications of Greek membership for the budget (paras 15-18 of the main paper) has been based on a crude forecast of Greek contributions to and receipts from the budget in 1980 on the assumption that Greece is a full member of the EEC and subject to the own resources system. In practice, Greece could probably not become a fully integrated Community member by 1980. But the analysis of 1980 facilitates the forecasting exercise without, it is hoped, blurring by too much the basic implications of Greek membership.

2. The forecast is as follows:

(in 1975 prices)

	Greek receipts		Greek contributions
FEOGA	150	Industrial duties	50
RDF	40	Agricultural levies and duties	50
ESF	70		
OR refunds	10	VAT	40
Total	270		140

Other budget expenditure (administration, aid etc) 30

Note: calculations based on an exchange rate of £1=1.7 ua.

3. Details of the forecast of FEOGA expenditure are given in paras 9-12 below.

4. The considerations underlying the forecast of receipts from the Regional Fund (RDF) are outlined in paras 13-17 below. It is estimated that Greece will receive 18% of the Fund. This share assumes that Greece will receive the same RDF expenditure per head of the population as Ireland does now. Ireland receives generous treatment from the RDF. In practice, Greece might not do as well: this would be a matter for negotiation. In the long run however Greek accession seems likely to increase Community expenditure through the RDF; for the purposes of the present exercise an 18% increase in total RDF expenditure has been

assumed. Total RDF expenditure in 1980 (including Greece) is estimated at about 400 mua (in constant prices).

5. The forecast of receipts from the Social Fund (ESF) is based on a similar methodology to the RDF forecast - so that Greece will be treated as generously as Ireland. Total Social Fund expenditure is expected to be increased by Greek accession to a total of about 700 mua by 1980. This assumption is probably over-generous. The factors affecting current and future Community expenditure under the Social Fund are discussed in paragraphs 18-23 below. However it should be noted in particular that the operation of the Fund is due to be reviewed in 1976 and thus the exact shape and scale of the Fund's activities by 1980 are particularly difficult to predict.

6. Own resources (OR) refunds are 10 per cent of forecast levy and duty payments. Other budget expenditure is forecast as a proportion of the increase in the size of the total budget. (This is probably an over-estimate).

7. Industrial duties are forecast on the basis of an estimate of industrial imports from third countries in 1980 and an industrial tariff rate of about 6 per cent (after allowance for the Tokyo Round of tariff cuts). The forecast of agricultural levy and duty payments is discussed below (paragraph 12).

8. VAT payments in 1980 are based on an estimate of the Greek share of the total Community VAT tranche and an estimate of the total size of the VAT call-up (derived from the budget renegotiation forecasts).

2. *FEOGA EXPENDITURE*

9. The effects of Greek membership on Community expenditure and receipts in the agricultural sector need to be considered under 3 headings -

(i) Increased expenditure due to internal market actions for export subsidisation.

(ii) Reduced expenditure where, for instance, the Community currently pays an export restitution on exports to Greece.

(iii) Increased levy and duty revenue.

10. It is difficult to produce more than extremely tentative estimates at this stage, if only because of the poor data on Greek agriculture available to us. Assumptions also have to be made about levels of import levies, export restitutions and internal Community subsidies. Taking the rates applicable in 1975/76 the effects of Greek membership can be summarised as adding in the order of 250 million ua to gross guarantee and guidance expenditure, to which should be offset the possibility of increased "own resources" receipts and reduced expenditure on export subsidies currently paid on trade to Greece of the order of 60 million ua, but possibly rising as high as 100 million ua.

11. These calculations do not take any account of either any possible compensation demanded by France and/or Italy for alleged damage, or of any extra guarantee payments for olive oil etc in respect of Italian or French production displaced by Greek production - both of which are unquantifiable at this stage.

12. The main elements in the estimate of 250 mua are as follows.

(i) Increased Guarantee Expenditure - The main items would be tobacco (around 110 million ua), olive oil (about 100 million ua), durum wheat, citrus and other fresh and processed fruit and vegetables (around 10 million ua each).

(ii) Increase in Guidance Section - This is highly speculative. There is little doubt that Greek accession would increase expenditure under this head. The gross figure of 250 million units of account includes an arbitrary allowance of 10 million ua to increase the limit under the guidance section.

(iii) Increase in Own Resources Income - This arises mainly in the meat section - principally beef (some 50 to 55 million ua which could rise to some 90 million ua if the OECD forecast of a doubling of import requirements by 1978 is realised).

(iv) Savings on Current Export Restitutions - The main item here is milk products (8 million ua).

3. REGIONAL DEVELOPMENT FUND

13. The extent to which the three net beneficiaries stand to gain from the present Fund (ie from 1975 to 1977) in terms of maximum gross receipts per head of population varies considerably, as follows:

Irish Republic	26 ua
Italy	9.5 ua
UK	6.6 ua

14. The Greek GDP/head is lower than Ireland's and is probably in line with the level in the Mezzogiorno. If the Greeks had to be treated as generously as the Irish Republic - on the basis that the Greek population (8.769m) is some three times that of the Irish Republic (2.978m) - Greece would have to have 18 per cent of the Fund. It is clearly going to be difficult to accommodate a Greek quota of 18 per cent without a significant reduction in the present UK share of 28%. For example, if all the existing national quotas were reduced by 18% to provide for a Greek quota (and the Irish and the Italians might well be able to avoid suffering such a reduction) the effect would be to reduce our share to 23% which would make the

United Kingdom a net contributor to the RDF, on the assumption that our average contribution to the Community budget in 1978-79 is 22-24 per cent.

15. The precise impact of Greek accession to the Community on the existing Member States' shares of the Regional Fund would be a matter for negotiation. The Community might well be unwilling to concede the Greeks a share on the same scale as the Irish for a population three times the size; and Greece would not have the same leverage as Ireland had at the time of the original decision on shares. Account would also be taken of Greece's substantial net benefits from the CAP and the Social Fund. Against this background, it is possible that the Greek share of the RDF might be held within the range 10 to 15 per cent, at least in the period immediately following accession. Even on this relatively favourable assumption, however, the UK share of the Fund would be reduced to around 24 or 25 per cent.

16. The UK's share of the RDF must significantly exceed its contribution for the Fund to be of value to us. The prospect of achieving this lead with Greece as a member looks poor. If Spain, Portugal and Turkey were also to join it seems inevitable that the UK would become a net donor country. Even if Greece was treated rather less generously her accession must be expected to limit our gain from the Fund.

17. The net donor countries will also lose by the accession of another net recipient. This is likely to influence their approach to the future of the Fund and may lead them to work hard to avoid any increase in the size of the Fund after 1977. As a result even if we continued to have a larger percentage share of the Fund than our percentage contribution to the budget there would be a greatly diminished prospect of a worthwhile net return from the Fund.

4. SOCIAL FUND

18. The European Social Fund exists to provide financial assistance for training and resettlement schemes which not only enable workers to obtain and retain stable employment but also help industry to keep pace with the demands of technical progress. It operates two main budgets:

(a) Under Article 4 it can intervene in areas specifically determined by the Council of Ministers. The groups of workers who benefit by decisions already made are workers in or leaving the textile industry, workers leaving agriculture to take up employment elsewhere, migrant workers, disabled workers and young people.

(b) Under Article 5 assistance from the Fund is available where employment difficulties impede the harmonious development of the Community especially in areas which are less developed or are suffering from a decline in major industries leading to a prolonged and serious imbalance in employment.

19. The total budget of the Fund for 1974 was 260 mua (50 mua under Article 4; 210 mua under Article 5). Grants approved by the Commission for Member States totalled 254.5 mua of which the UK share of these allocations was almost 25%, compared with a contribution (for 1974) of 11%

20. There are no fixed shares for Member States in the Social Fund. Applications normally exceed the Funds available and allocations are made by the Commission on the basis of a system of priorities and with the advice of a Tripartite Committee on which all Member States are represented.

21. An initial hypothesis would be that if admitted to the Community, Greece would quite soon become a net benefiticary from the Fund and that to some extent the UK's competitive position in securing allocations would be weakened. This hypotheses is however subject to a number of qualifications. Assistance from the Fund is granted only in strict compliance with the Regulations. Applicants must satisfy the precise requirements of Article 5 or of the authorised schemes under Article 4. A preliminary attempt has been made to assess the likelihood of Greece being able to meet the requirements:-

a. Agriculture
In 1971 two-fifths of the Greek labour force was in agriculture; only 17½% of total employment was in the industrial sector. If membership of the Community resulted in industrial expansion Greece might therefore soon be able to mount significant applications under the Article 4 Agriculture Scheme.

b. Migrant Workers
Migration is an important factor influencing the Greek labour market over the longer term, although the rate of migration and the number of migrants employed - particularly in Germany, the main host country - have recently decreased. The Article 4 Migrant Scheme is still fairly new and the policy of the Commission is not fully developed. It is stated in their third annual report on the Fund that clear priority will be given in future to integrated programmes carried out jointly by the Country of origin and the host Country. If Greece

becomes a member of the Community there will obviously be a possibility of a joint Greek-German Scheme receiving a higher priority than UK schemes on behalf of third country migrants which have so far secured for us the lion's share of the money available under the scheme.

c. <u>Re-Structuring Schemes</u>

OECD reports a shortage of skilled and semi-skilled labour as restricting the upswing of industrial development in Greece. This points to the possibility of Greece benefiting from Structural Re-adjustment Schemes whether under the existing Article 5 or under a new Article 4 Scheme which the Council is expected to authorise later this year; although the shortage in Greece of training infrastructure and training personnel might be a limiting factor.

23. It is not difficult to quantify the net benefit Greece might be expected to receive from the Social Fund. This is not simply because of the familiar difficulties of forecasting two years or more ahead. There is no certainty that if and when Greece is admitted to the Community the shape of the Social Fund and the assistance available from it will resemble at all closely those that appertain today. The working of the Social Fund is due to be reviewed by the Commission in 1976. In common no doubt with the other Member States we shall want to suggest changes in the objectives and procedures of the Fund. It is also to be noted that schemes approved by the Council under Article 4 are usually introduced for a limited period only so that for example the existing scheme for assistance to migrant workers will lapse in June 1977. Any fresh schemes that may be introduced will of course take account of the conditions in the Community at that time.

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CP(76) 30 COPY NO 81

8 June 1976

CABINET

UNITED KINGDOM PRESIDENCY OF THE EEC, JANUARY-JUNE 1977

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. Following the normal rotation of the Presidency between the Member States of the Community the United Kingdom will take the chair from January to June 1977 and the success of our first Presidency will be important for us and for our standing in the Community. Tenure of the Presidency can provide an opportunity for initiatives on matters of policy but, for the most part, the test of a successful Presidency is whether Community business is carried forward rapidly and effectively. Ensuring that we achieve the necessary satisfactory performance will place a considerable additional workload on Ministers and officials, and will no doubt also raise Parliamentary pairing problems. I think it is important that we should all be aware of the practical requirements. I attach at Annex A a paper by officials, which was discussed by the Ministerial Committee on European Questions (CQM) on 27 May.

2. It is customary for each Presidency to put forward six months in advance provisional dates for the main Council of Ministers meetings (Foreign Affairs, Finance and Agriculture). CQM agreed that we should propose for these meetings the dates listed in the attached Annex B and, additionally, dates for Energy and Development Council meetings. Heads of Government have already agreed to a European Council in London on 28/29 June.

3. For Foreign Ministers there may be two meetings to discuss matters of political co-operation and perhaps an informal weekend meeting. The Secretary of State for Energy hopes to make a major effort on the Common Energy Policy during our Presidency. So, in addition to two Energy Councils, he is considering an informal weekend for Energy Ministers, possibly in Scotland. The Minister of Agriculture, Fisheries and Food proposes to hold an informal meeting of Ministers of Agriculture, and the Special Committee on Agriculture, in London on 24/26 May.

4. In the interests of economy and efficiency, CQM also agreed that whenever possible the facilities in the new Lancaster House complex will be used for Ministerial and other important European Economic Community meetings in London. So that planning for our Presidency can proceed in an orderly fashion, any further proposals for Council meetings in Brussels or Luxembourg or informal meetings in the United Kingdom should be put forward as soon as possible.

A C

Foreign and Commonwealth Office

8 June 1976

ANNEX A

UK PRESIDENCY OF THE EEC, JANUARY - JUNE 1977:

MINISTERIAL BURDENS AND MAIN ADMINISTRATIVE REQUIREMENTS

Note by the Foreign and Commonwealth Office

I GENERAL

1. The purpose of this paper is to summarise the duties of the Presidency, to set out the preparations needed in 1976, and to seek ministerial views on matters which require early decisions of principle.

2. British tenure of the Presidency in the first half of 1977 will impose considerable responsibilities, during a period which will also see the Queen's Jubilee, a Commonwealth Heads of Government meeting, and a NATO ministerial meeting, all in London. The Presidency chairs and manages all Council and Political Cooperation business during its term of office, and although there are slight variations in national style, member states look to the Presidency for fairness and efficiency in the despatch of the Community's business rather than for eye-catching initiatives - although these need not be precluded where they visibly serve a clear Community interest. In a Community where chairmanship passes in rotation, everyone measures with a practised eye the efficiency and impartiality of each term of office. The activities of the Community have increased markedly over the past three years; this has added to the burdens of the Presidency, not least in terms of ministerial commitment, and may continue to do so during 1976. Existing practice may thus have been overtaken to some extent by January 1977, but the main components of the Presidency's task at present are:

/A.

A. Council Business

i. To chair Community meetings at all levels. Administratively, this means that for most if not all meetings, at least two British representatives must attend. At the more important Councils, this may require two Ministers, one in the chair and the other as national representative. Politically, there is the Chairman's responsibility for preparation of meetings (particularly in selection and ordering of the agenda), and for finding constructive compromises. Continuity in the chair will be essential.

ii. To act as host for Community functions in the country of the Presidency

iii. To represent the Council in the European Assembly. Recent practice has tended increasingly towards the Foreign Minister of each Presidency attending two colloquies with the Political Committee of the Assembly, and replying to questions at the Assembly's monthly plenary sessions. This precedent for virtually 100 per cent ministerial attendance, at least by Foreign Ministers, is likely to have been strengthened by our Luxembourg and Dutch predecessors. It will be well received if the Prime Minister and other Ministers also attend; this need not be very demanding in terms of Ministerial time, since only one-day or even half-day appearances would be involved. The Minister of Agriculture at any rate will be expected to brief the Assembly on the 1977/8 price fixing in the CAP.

iv. To lead for the Community at increasingly numerous Association Councils: these include twice-yearly meetings with the Turks and Greeks (ie one each Presidency); in principle these are held alternately in Brussels and Athens/Ankara, so one or both such meetings during our term may be

/"away"

"away" functions. There will also, quite possibly, be meetings with Algeria, Morocco, Tunisia, Cyprus, Malta and Israel. There will be a risk of hurt feelings if the Foreign and Commonwealth Secretary is unable to chair all these functions.

v. The Greek accession negotiations will probably be under way, and will add to the Presidency's task. (Unlike other Community negotiations with third countries, accession negotiations come under the overall responsibility of the Presidency rather than the Commission.)

vi. To act as spokesman for the Community at international meetings, sharing the responsibility with the Commission as appropriate. This is an unquantifiable commitment which could be made onerous by development of the CIEC and the North-South dialogue generally.

vii. To represent the Nine where agreed by them in diplomatic relations with third countries, and to take the lead in local coordination of diplomatic efforts in capitals, in Brussels, or in third countries.

B. European Political Cooperation

3. European Political Cooperation is the name given to the effort by the Nine member states to coordinate and to take common positions in the field of foreign policy outside the treaty framework. In this area the country holding the Presidency is responsible both for the management of business and for the provision of Secretariat facilities. Except for technical assistance (eg provision of simultaneous interpretation at ministerial level meetings) the Council Secretariat is not involved.

4. There are up to two ministerial level political cooperation meetings per Presidency; ours will very probably be held in London. The Foreign Secretary will be in the Chair and will

/also

also speak for the UK (there is no 'national delegate' in addition, decisions being by consensus). Supported by officials from the FCO, he will be responsible for the execution of decisions taken within the political cooperation framework (the sending of instructions to posts abroad, speaking on behalf of the Nine in bilateral contacts with foreign governments or leading sometimes in person the coordination of diplomatic activity by the Nine in international organisations and conferences).

C. <u>General Coordination</u>

5. Finally, it is the responsibility of the Presidency generally to coordinate the activities of the Community and political cooperation; to ensure that ministerial decisions are prepared and executed by the appropriate machinery; to time ministerial meetings and Councils in relation to each other and to the decisions to be taken, and so on.

II SUPPORT FOR THE PRESIDENCY

6. In addition to its own appropriately reinforced official services, the Presidency can count on support in its task from:

i. <u>The secretariat of the Council of Ministers</u>. The Council Secretariat, as a permanent career body, is in a position to provide an invaluable element of impartial continuity for chairmen at all levels, and also provides all the secretarial, translation and interpretation facilities required for Community meetings.

ii. <u>The Commission.</u> Although the Commission is of course autonomous and in no sense the servant of the Council of Ministers, it shares the main aim of the Presidency, viz to effect the Community's business in a constructive way. New Commissioners will be taking office on 1 January 1977 as we begin our Presidency, almost certainly with a British President of the Commission, and although most Commission officials will not change, it will be

/important

important for us to get quickly alongside the new Commissioners themselves.

7. Despite these aids, the Presidency is recognised as a heavy administrative burden. A Presidency Unit is being set up in the FCO to assess the call on our resources, and to liaise with other Whitehall Departments over how it can most effectively be met.

III ALLOCATION OF RESPONSIBILITIES

A <u>Ministerial</u>

8. The Prime Minister will chair the European Council, which will meet in Brussels (or Luxembourg) early in 1977, and in London on 28/29 June. Throughout the six months he will speak for the Community at Heads of Government level as appropriate (though the Community looks to Heads of Government to provide general guidance rather than day to day decisions). The Prime Minister has no obligation to appear before the European Assembly, but there are precedents, and it would be well received if he decided to address them, at least once during our Presidency.

9. <u>The Secretary of State for Foreign Affairs</u> has perhaps the heaviest task in terms of Council business, with monthly Councils to which must be added up to two Political Cooperation meetings at ministerial level in this country, one (possible) 'Schloss Gymnich' type of informal weekend gathering of Foreign Ministers, and the principal responsibility for answering the Assembly's questions at plenary sessions, and briefing it at two 'colloquies' under Political Cooperation arrangements. (The Assembly duties are unlikely to involve anything more than one day visits.) He attends the European Council in support of the Prime Minister and bears with his Community colleagues some degree of responsibility for harmonising the work of specialist Councils. Although in the first half of

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the year there will be no UN General Assembly to plan for, a particular task for the period may be the CIEC Ministerial Conference (which looks increasingly likely to slip from 1976), and the preparations for resumption of the work of the CSCE at the Belgrade meeting arranged for June 1977. At Foreign Affairs Councils it will be necessary to have a second Minister in attendance as 'national representative'.

10. Other Ministers' responsibilities will vary. For the Chancellor of the Exchequer and the Minister of Agriculture they will clearly be heavy, with the latter responsible in the period for some seven or eight Councils including three or four "price fixing" Councils. A list of proposed dates for these and Foreign Affairs Councils is at Annex B. The sooner Ministers can decide what other Councils will be necessary within their respective fields, the better. At most Councils, including those listed, it will probably be necessary to have a national representative as well as the Chairman in each case. This is a burden which will have to be taken into account at an early stage. But in all cases it will be important that for each subject Council (eg Research) one Minister should be designated well ahead of the Presidency as responsible for chairing and supervising the work in his field. Since preparation of the Council frequently continues almost until the eve of the Council itself, Ministers in previous Presidencies have found it essential to arrive in Brussels or Luxembourg well in advance of their Council - usually the evening before if the meeting begins in the morning - to allow adequate time for briefing by their Permanent Representative, and the Council Secretariat. This then allows time for lobbying of colleagues or other follow-up before the meeting begins. Continuity will be essential; this raises parliamentary pairing problems which Ministers may wish to note.

B. Departmental Administration

11. The normal financial rules, including those applying to allied services, will apply to departmental expenditure arising from the Presidency, in the UK and overseas. The Treasury have said that Departments will be required to meet such expenditure within their existing PESC allocations. The Presidency means an increased workload for the Departments principally concerned

/and

and for UKREP in Brussels, and has implications for staffing, training, finance and general administration at official level. For example, since there is no permanent career secretariat for Political Cooperation, the Presidency takes total responsibility for the management of Political Cooperation.

IV CONFERENCE ARRANGEMENTS IN THE UK

12. During our Presidency, the facilities in the new Lancaster House complex will be available for ministerial and certain other important EEC meetings. These facilities should be both efficient and imposing, and it is clearly right in principle that full use should be made of them.

13. Recent Presidencies have, however, held certain more informal ministerial level meetings outside the Presidency capital: the 'Schloss Gymnich' occasions, for example, and informal meetings of agriculture and other Ministers. As regards location, there is a feeling in the Community that a single efficient conference centre in the capital of the Presidency is to be preferred to more nomadic arrangements; (on the other hand, it might cause ill feeling outside England if the Presidency passed without any meeting north or west of the border.) A ministerial decision of principle would be helpful at an early stage.

V TIMETABLE FOR PREPARATIONS

14. To achieve the professionalism which the Community has come to expect from the Presidency means sound advance preparation; once begun the work of the Presidency is continuous. On past form there should be some 50/60 meetings in the United Kingdom, of which the most important would be the European Council; two or three meetings of the Ministers of Foreign Affairs and, typically, up to half a dozen informal meetings of other Ministers. Among meetings to be held in Brussels or Luxembourg, we shall have to propose a date for the first European Council of our Presidency; we should have do this at the same time as we circulate the proposed list of main (ie Foreign Affairs, Finance and Agriculture) Councils, in June 1976. Thereafter it will

/still

still be possible to add further Councils or other, informal, meetings of Ministers as the programme of our Dutch predecessors becomes clearer, though experience shows that diaries fill up early on and agreement on new dates becomes progressively more difficult. Papers arising out of further work by officials will be brought to Ministers as necessary, and detailed planning papers on tactics and overall objectives will be brought forward for ministerial discussion early in the Autumn.

FOREIGN AND COMMONWEALTH OFFICE
10 May 1976

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ANNEX B

(Revised in accordance with CQM discussions on 27 May 1976)

DATES TO BE PROPOSED BY THE UNITED KINGDOM FOR MAJOR COUNCILS (FOREIGN AFFAIRS, FINANCE AND AGRICULTURE) AND SOME OTHER MEETINGS DURING THE UK PRESIDENCY, JANUARY-JUNE 1977

<u>Month</u>	<u>Suggested Council Dates</u>
JANUARY (Brussels)	Mon 17 - Finance
	Tues 18 - Foreign Affairs
	Mon 24) Tues 25) - Agriculture
	[? Late Jan. - Energy]
FEBRUARY (Brussels)	Tues 8 - Foreign Affairs
	Mon 14 - Finance
	Mon 14) Tues 15) - Agriculture
	(<u>NB</u> Mon 21/Tues 22: possible European Council?)
	Mon 28) Tues 1 March) - Agriculture
MARCH (Brussels)	Mon 7 - Joint Foreign Affairs/Finance
	Tues 8 - Foreign Affairs
	Mon 14 - Finance (Uncertainties over UK Budget Day make this very tentative)
	Mon 14) Tues 15) - Agriculture
	Tues 29) or) Wed 30) - Proposed by CQM for Council of Ministers (Development)
APRIL (Luxembourg)	Tues 5 - Foreign Affairs
	Mon 25 - Finance
	Mon 25) Tues 26) - Agriculture
MAY (Brussels)	Tues 3 - Foreign Affairs
	Mon 16 - Finance
	Mon 16) Tues 17) - Agriculture
(in London)	Thur 24) to) - Sat 26) Informal Agriculture and SCA
(Brussels)	Tues 31 - Foreign Affairs
	[? Late May - Energy]

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Month	Suggested Council Dates
JUNE (Luxembourg)	Mon 20 - Finance
	Mon 20) Tues21) - Agriculture
	Tues21 - Foreign Affairs
(in London)	Tues28) Wed 29) - European Council (date agreed)

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8 June 1976

CABINET

PROCEDURES FOR THE COMMUNITY'S AGRICULTURAL PRICE-FIXING

Memorandum by the Minister of Agriculture, Fisheries and Food

1. In March the Ministerial Committee on European Questions asked officials to prepare a paper on the Community's machinery for deciding agricultural prices. The ideas and conclusions in the attached paper by my officials have been discussed in that Committee and were broadly endorsed. A study of our strategy for next year's price-fixing (including the question of the Green Pound) is being made separately and will be considered by Ministers before the summer recess. In the meantime I consider that the changes in procedure proposed in the attached paper should be helpful.

2. Changes in procedure to our benefit normally have to be negotiated and it is necessary to judge whether the price would be worthwhile. As we shall hold the Presidency in the first half of 1977, however, we should be able to ensure that the discussion of the price proposals is better structured and that reasonable consideration is given to the Presidency's compromise (paragraphs 10-11 of the attached paper). Similarly we should then be in a good position to reinforce our objective of increasing the Council's awareness of the budgetary cost and the cost to consumers, whether or not our more immediate and specific proposals (paragraphs 8-9 of the attached paper) on these aspects are accepted.

3. On our own arrangements for next year's negotiation Cabinet has already agreed on the need for a clear remit. The timing of the Council meetings in 1977, which I have proposed separately, is intended to allow adequate opportunity for reference back to colleagues. I have also made clear that I would welcome representation from other Departments, particularly in the final sessions when there may be a strong political will on the part of other Member States to reach agreement and, as on the last occasion, it would be disadvantageous to the United Kingdom to break off.

4. I recommend that my colleagues endorse the procedural objectives in paragraphs 9-12 of the attached paper.

T F P

Ministry of Agriculture, Fisheries and Food

8 June 1976

ANNEX

PROCEDURE FOR THE COMMUNITY'S AGRICULTURAL PRICE FIXING

NOTE BY THE MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

Introduction

1 The Ministerial Committee on European Questions decided on 18 March that officials should prepare a paper on the Community machinery for deciding agricultural prices. This subject was also dealt with in a memorandum put to the Cabinet by the then Foreign and Commonwealth Secretary (C(76)41).

2 This paper deals only with the procedural questions. A further paper on our strategy and objectives for the 1977 price-fixing has already been requested by the Committee on European Questions and will be provided well before the summer recess. In the meantime we have assumed the continuation of the United Kingdom's basic objectives towards i[illegible]provements in the operation of the common agricultural polic[illegible] which were considered in detail by Ministers last year.

Community machinery for deciding agricultural prices

3 On the basis of data supplied by the member states the Commission estimates each year the increase in costs on a sample of "reference farms" and the trend in farm income in relation to incomes outside agriculture. This information is used to calculate the average increase in Community support prices which the Commission will propose, after making allowance for increased productivity and taking account of any changes in the agricultural reference rates for the currency of the different member states. The proposals for price changes, however, also reflect the Commission's financial and political judgement. In particular, the Commission clearly has three important objectives. First, they would not wish to put forward price proposals which are demonstrably unnegotiable or are likely to stir up substantial political discontent. Secondly, they are committed to maintain or improve the balance in the market for individual commodities; experience shows that the Commission (for example, in the sugar shortage and in its

proposals on milk prices) is generally more ready than the member states, taken collectively, to tackle these imbalances. Thirdly, they are conscious of the high budgetary cost of the common agricultural policy although, unlike the United Kingdom, they are perhaps most concerned about the big increases in expenditure resulting from declines in the market value of currencies without corresponding adjustments in the agricultural representative rates. For all these reasons the price proposals may be expected to be heavily tailored from the original crude estimate of agricultural costs and incomes. We can influence the Commission's proposals through our day to day contacts with them and in the final stages through the United Kingdom Commissioners.

4 The Commission aims to present its proposals on agricultural support and prices to the Council of Agricultural Ministers in December. Even after one or two general discussions, at least two substantive negotiating sessions of the Council are needed before agreement can be reached in February or March. It is very difficult and uses a large stock of negotiating capital for a single member state to introduce into the package a completely new element. We are much more likely to be successful if we work by trying to steer existing arrangements or proposals in a direction which suits us rather than to oppose them outright and put forward something quite different. It is better, for example, to exert pressure to contain increases in support through the existing mechanisms than to argue for exactly comparable support through a different mechanism.

5 Under the present procedure there are normally two opportunities for adjustment of the Commission's proposals - the Presidency's compromise and the Commission's own compromise which forms the basis of the final negotiation. The Presidency's compromise is a trial balloon used by the Commission but it does give a chance to introduce a very limited number of new elements and to restrain the more excessive demands.

Possible changes in procedure and machinery

6 We have considered possible changes in the machinery for fixing Community agricultural prices under four headings - the preparation and use of data; bringing to bear the budgetary consequences; bringing to bear the consequences for resource costs; and the organisation of the negotiations and use of the Presidency compromise. Some of these changes could be useful. They can never be, however, a substitute for progress on the issues of substance. It is not possible to substantially disturb the balance without a major political row within the Community which would spill over not only into the monetary arrangements from which we benefit but also into other areas of Community policy.

7 Preparation and use of data. We have already taken steps to follow up our suggestion during the last price negotiations that there should be fuller consultations with the member states about the Commission's objective method calculations before the results are carried forward as the basis for price proposals. Improvements can be made in the preparatory work on the objective method for determining the level of support price increases judged to be necessary to keep earnings on modernised farms moving in line with non-farm earnings. Work is in hand in the Agricultural Departments to consider whether we could suggest to the Commission improvements in the data and the methodology. Other Departments with an interest in agricultural price questions are welcome to participate fully in this work. We have already taken part in discussions on the construction of an index of agricultural incomes, which could provide a useful check on the Commission's particular price proposals or on demands by other member states for bigger changes.

8 The budgetary consequences of changes in agricultural support and prices. Although the Commission sets out the budgetary consequences of its proposals, we believe that this can be improved and applied to a longer period of years. We have considered whether the final package might be negotiated in a joint session of Agriculture and Finance Ministers but, whether or not this would be beneficial to us, we are sure that it would not be negotiable with other member states. We believe, however, that it would be advantageous to us to have an arrangement by which the collective view of Finance Ministers could be brought to bear on all member states and

on the Commission at the time when price proposals are being formed. This points to a joint meeting of Finance and Agriculture Ministers in the late autumn to consider the economic and budgetary factors which should influence the price proposals and the subsequent decisions on them. Such a meeting could reinforce the arguments for restraint on public expenditure but we must recognise that it could not set specific limits within which expenditure would be contained. The idea also has some risks for the United Kingdom since the expenditure on monetary compensatory amounts, from which we are currently one of the chief beneficiaries through import subsidies on our food, would inevitably be one of the first areas where the Council would look for savings, and there are other areas where we have favoured higher budgetary costs in the interest of consumers. The proposal had a mixed reception at the Joint Foreign/Finance Ministers' Council in April when the Irish and the French objected to it but we should pursue it, while recognising the potential problems for us. Alternatively, there could be a meeting of Finance Ministers after the proposals are published. This would be easier to arrange next year, as we have the Presidency, but on balance it would probably increase the risk of pressure on the monetary arrangements.

9 <u>The resource costs of the common agricultural policy.</u> In joining the Community the United Kingdom accepted the fundamentals of the common agricultural policy and its central place in Community politics. Although we sought improvements in renegotiation and are continuing to seek improvements, we have to recognise that other member states regard the overall resource costs as tolerable, even though they may be critical of particular aspects of the arrangements. They regard some misuse of resources by economic standards as part of the price to be paid for political stability. Against this background our approach must be to secure recognition that the extreme cases of resource misuse lie in the production of surpluses. We should continue to press for the improvement of market regimes - and we have already made progress in this direction in the beef sector - but it would be wrong to concentrate on mechanisms to the exclusion of better price decisions. In all the sectors where surpluses arise at present - milk, durum wheat, olive oil and tobacco - it is the level of returns available to the producer rather than the mechanism for achieving those returns which is the primary cause. We should therefore continue to press

the Commission to set out in their price proposals their assessment of resource costs, especially in those sectors where they are proposing special measures to restore or maintain a balance in the market. The need to deal with the structural surplus in the milk sector is of particular importance and our objective must be to ensure that the proposed arrangements for the financial co-responsibility of producers, which the Council is due to discuss before September, are effective and are not subsequently undermined by price decisions. We need also to represent to the Commission the need to consult thoroughly with consumer as well as producer representatives when their price proposals are being drawn up. This may help us in attempting to represent the consumer point of view when the Council considers prices. It would also be helpful if our negotiating team included a representative from the Department of Prices and Consumer Protection.

10 Organisation of the negotiations. In the past the Council discussions have often been badly structured. Occupying the Presidency, we should be well placed to influence this so that the Commission's proposals are considered as methodically as possible by the Council and its subordinate bodies. From the practical point of view we should seek to improve the working hours of the Council. It could also be useful to seek for a wider measure of delegation to the Special Committee on Agriculture of decisions on the smaller issues. It is obvious that the final package considered by Ministers is not only substantial but also very complicated. It is possible that through our own Presidency we can make some small progress in reducing this load. While in the Presidency we may be able, however, to provide more time for consideration of the various compromise packages which tend to emerge during the final stages and to ensure that attention is given to the economic and budgetary implications, it will also be part of our duties to ensure that a settlement is reached without undue delay.

11 We shall need to consider further our tactics during the Presidency. In particular, we shall have to decide how we handle the presentation and content of the Presidency's compromise proposal during the negotiation of the package. The two most recent compromises from the Presidency fell very flat indeed.

We cannot lay down any fixed rules in advance but we should try as far as possible to ensure that the Presidency's compromise is properly considered at a full meeting rather than lost in the final melée. We have proposed a pattern of Council dates which would allow for this. On balance it seems likely to be to our advantage to try to increase the importance of the Presidency's document next year as the most likely opportunity for continuing to exert restraint on price increases in the final stages.

12 The Cabinet agreed on 11 March that it would be desirable for the Ministerial Committee on European Questions to be as precise as possible about negotiating limits when giving guidance to negotiations about farm prices and the extent to which reference back might be required. We believe that the pattern of Council meetings which we have proposed for the 1977 price-fixing will make clear when the final settlement is likely to be reached. The Minister of Agriculture, Fisheries and Food has already indicated that he would welcome the presence of Ministers or senior officials from other interested Departments at the point when decisions on the final package may have to be reached in Brussels if we are to get the best settlement.

CONCLUSION

13 This paper deals only with the procedural issues. A further study of our strategy for the 1977 price-fixing, including our handling of the Presidency and the monetary questions, will be required. In the meantime we consider that -

(i) we should press for fuller consultation between the Commission and member states before the results of the Commission's statistical and economic studies are carried forward as the basis for price proposals;

(ii) we should seek improvements in the Commission's presentation of the budgetary consequences of price proposals;

(iii) we should seek to establish regular joint Councils of Finance and Agriculture Ministers to consider the budgetary and economic implications of Community agricultural support before the Commission's price proposals are finalised;

(iv) we should press the Commission to set out in their price proposals an assessment of resource costs and to consult consumer organisations when they are formulating their proposals;

(v) we should try to make the maximum use of the Presidency's compromise in the negotiation of the price package;

(vi) we should so arrange the meetings of the Councils of Ministers (Agriculture) during our Presidency that there is adequate opportunity for reference back to capitals in the negotiating stages. In the final sessions it would be desirable for junior Ministers or senior officials of other interested Departments to be in the United Kingdom negotiating team.

We recommend that these proposals, set out more fully in paragraphs 7 to 12, should help towards the efficient conduct of the price negotiations in our interest and that we should therefore put them forward.

7 June 1976

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14 June 1976

CABINET

PENSIONS INCREASE 1976

Memorandum by the Lord Privy Seal

THE ISSUE

1. In December this year over a million public service pensioners will be eligible, under or by analogy with the Pensions (Increase) Act 1971, to have their pensions increased by the percentage rise in the Retail Prices Index over the 12 months ending June 1976. Apart from civil servants, they include Members of Parliament, teachers, the Armed Forces, National Health Service and local government employees, police and firemen. Broadly similar annual review arrangements apply to many nationalised industry schemes (see Annex), although the review period and date of payment may differ. This memorandum considers whether this year's Retail Price Index (RPI) increase, which could be of the order of 13 - 14 per cent, should be modified for the better-off occupational pensioners in the light of the continuing policy of incomes restraint.

BACKGROUND

2. It was agreed last July by Ministers shortly after the current pay limits had been announced, that it would on balance be better not to bring the issue of pensions into public debate by a step which involved legislation. Ministers had noted that no action had been taken to restrict pensions in the context of previous incomes policies and the question had at no time been raised by the Trades Union Congress (TUC). It was agreed, therefore, that the increases in pensions due later in 1975 should not be restricted in any way.

3. In the event, the 26 per cent pensions increase led to strong public criticism during the autumn and winter months in the Press and in Parliament which was primarily directed towards the Civil Service. I had to give assurances that the inflation-proofing principle would be kept under review and looked at in the context of the economic situation in 1976.

4. The Ministerial Committee on Economic Strategy have considered a paper by officials about the pensions increase due this year. There was a clear majority in the Committee for taking no modifying action this year, mainly because of the practical difficulties. There was, however, some disquiet in the Committee at the prospect of allowing the prospective increases to go ahead unchecked, particularly for the better-off pensioner, and it was agreed to report to Cabinet for final decision.

ARGUMENTS FOR MODIFYING THE 1976 PENSIONS INCREASE

5. The situation today is different from that of a year ago. Last year Ministers were able to defend the 26 per cent increase on the grounds that it amounted in effect to the belated counterpart for pensioners of the big wage round during the 12 months up to mid-1975. Earnings during the current 12 months have however been restricted to £6 a week with an absolute cut-off at £8,500; during the next stage of the policy they will be subject to an upper limit of £4 a week. Against that background there are three main arguments for modifying the pensions increase under this year's review:-

i. Equity suggests that the better-off occupational pensioners should no longer continue to be insulated from the decline in living standards at the middle and higher income levels among the working population. The terms of service of people in employment have had to be abrogated by the pay policy.

ii. Underlying the criticism of the inflation-proofing arrangements has been the belief that, when most private sector employers cannot afford to protect their pensioners fully against inflation, it is wrong for public sector employers to do so apparently at the tax-payer's expense. The fact that Civil Service pay is reduced to the extent that Civil Service pension arrangements are better all round than those of their pay counterparts has not disarmed the critics. Particular resentment has been expressed over pension increases which, though relatively few in number, have substantially exceeded the £6 a week pay limit, and, in a handful of cases, have exceeded £2,000 a year. Renewed and even sharper criticism of the Government would doubtless be prompted by the payment this year of pension increases of up to £1,500 from public funds at a time when the limit on earnings will be £208 a year and the Government are looking for every economy in public expenditure.

iii. There is the particular problem of "overtaking". When pay but not pensions is subject to restraint, the newly-retired get a progressively smaller pension compared with those who retired from similar jobs in recent years and have the value of their pensions maintained against the cost of living. For example, in the case of the Civil Service, the disadvantage for a Principal retiring at the end of this year will be up to over £500 and for a Permanent Secretary nearly £4,000. These difficulties could be substantially eased by modifying this year's pension increases.

PRE-AWARD INFLATION-PROOFING

6. At the higher levels in the private sector and to some extent in the nationalised industry field, the "overtaking" problem is being obviated by supplementing actual retiring salary under a special feature of the Inland Revenue practice governing the approval of pension schemes. This allows a final notional salary to be determined for pension purposes, which can range from:-

i. salary received during any one of the five years preceding retirement to

ii. the average salary received during any three consecutive years in the last 13 years before retirement,

uplifted by increases in the RPI between the end of the period selected as above and the date of retirement. A notional salary determined in this way may be substantially in excess of the actual salary in payment. Any step to restrict inflation-proofing by modifying this year's RPI increase for existing pensions ought to be accompanied by appropriate action to remove tax incentives to provide this sort of pre-award inflation-proofing and the post-award inflation-proofing corresponding to increases paid under the Pensions (Increase) Act, if rank discrimination against the public services is to be avoided.

ARGUMENTS AGAINST MODIFYING THE 1976 PENSIONS INCREASE

7. Pensions are essentially different from pay, and even after last year's increase Civil Service pensions now average only £17.50 a week. The arguments for not interfering with the status quo include:-

i. the principle of protecting the living standards of occupational pensioners was seen in 1971 as a not particularly generous advance towards social justice. More than a million pensioners will have made their plans on the assurance that their pensions would be fully protected against inflation, and some will have bought added years on that assumption;

ii. existing pension arrangements have not been restricted under any previous incomes policy. Any connection between protection for occupational pensions and the pay limits would best be avoided in the broader context of national pensions policy;

iii. any departure from the principle of price-indexing - other perhaps than as a short-term interruption of the existing arrangements - would be at variance with the inflation-proofing concept built into the Government's new pension scheme, whereby the State scheme will from 1978 provide price-indexing on that part of an occupational pension which is substituted for State pension under the contracting-out arrangements.

iv. Inflation is now being successfully brought under control, and this year's likely increase of 13 - 14 per cent for public service pensioners would be only about half last year's increase and should be the last one of a higher-than-normal magnitude. In these circumstances, it would be better not to incur the opposition of the trade unions and grapple with the difficulties of legislation involved in modifying the existing arrangements.

THE ATTITUDE OF THE TRADE UNIONS

8. The TUC have taken the view, in response to a specific enquiry from the National Union of Mineworkers, that there is nothing under the new pay policy to preclude increases in pensions in payment under established arrangements. In practice, of course, any modification of pensions increase would be unlikely to affect the National Union of Mineworkers' membership. The TUC know, however, that Whitehall is looking at the problem of the better-off pensioners.

9. The National Staff Side have expressed to me their strong opposition to any interference, given that the Government had elected for the cheaper option of linking pensions to prices rather than pay. They argued that, whereas employees who accepted pay restraint in any one year could in future hope to make up the deficit, the pensioner would never catch up. Nor could there be any guarantee that modification would only be for one year once the Government tampered with the 1971 Act. Above all, they were opposed to discrimination against the public sector.

LEGISLATION AND THE LEGISLATIVE PROGRAMME

10. The Treasury Solicitor has advised that any of the modifications envisaged in this paper could not be implemented under the existing limited provisions in the Pensions (Increase) Act 1971 for modifying public service pensions; a temporary amendment of the 1971 Act would therefore be necessary. As the details in the Annex show, however, this would not restrict increases throughout the wider public sector, e.g. British Steel and British Airways. Primary legislation would in any event be needed for the private sector. Something on the lines of Section 1 of the Remuneration, Charges and Grants Act 1975 is theoretically a possibility; but, bearing in mind the complex permutation of many schemes, consultation with the interested parties would be needed before comprehensive instructions could be issued to the draftsmen.

11. Now that the Government have lost several days of Parliamentary time and cannot count on the co-operation of the Opposition in either House, the Lord President very much doubts whether the idea of getting a Bill on pensions on to the Statute Book by the Recess is any longer feasible. It would probably suffice to obtain Royal Assent by the end of the Session, but even so the Lord President considers that the addition of any Bill would exacerbate the already severe problems of completing those Bills already introduced - unless the Government were to make room by dropping one or more of the fairly substantial Bills which have not yet made much Parliamentary progress.

COMPARISON WITH BASIC STATE PENSION

12. The basic State pension is due to go up by about 15 per cent next November to £15.30. The increase in public service pensions of some 13 - 14 per cent is unlikely, therefore, to cause any embarrassment qua the basic State pension.

CONCLUSION

13. There is a strong case, in principle, for some modification of the present arrangements. There are, however, considerable practical difficulties in that course of action. Moreover, if modification were not to do more harm than good, great care would be needed in deciding what the change should be and how it should be presented and enforced.

14. The main considerations are:-

i. The best justification for restricting price-indexation in present circumstances is that the better-off among occupational pensioners should take some reasonable share in the decline of living standards. Against the background of an unprecedented but now declining rate of inflation, any modification should be presented as a quite exceptional interruption of the existing inflation-proofing arrangements.

ii. Discriminatory treatment against the public services must be avoided. In practice, this condition would probably be met if any limitation on pensions increase were seen to apply effectively to all the public services, the nationalised industries, the major private sector companies which give discretionary cost of living adjustments and were also accompanied by the withdrawal by the Inland Revenue of tax concessions to non-Government employers to provide pre- and post-award inflation-proofing. The question of pensions increase was dealt with by the Government outside the TUC pay guidelines last year, and any action on a selective basis this year could be covered in the accompanying Government statement. If no satisfactory way could be found of avoiding singling-out the public services, however, that would be a very strong argument for leaving things as they are.

iii. The simplest formula would be to deny all increases above a given level of pension income from all sources. The least arbitrary alternative would be to treat the 1976 pensions increase by broad analogy with either the Round 1 or the Round 2 pay limits. Modification would mitigate, although it would not solve, the "overtaking" problem.

iv. A 13 or 14 per cent pensions increase would cost about £120 million for the public services in a full year; modification would save only a small part of this cost. A £8,500 cut-off would mean for the Civil Service no increase at all for some 75 pensioners and would save about £90,000. A cut-off of £6 a week (ie primarily by reference to the pay limit for the period covered by the inflation-proofing arrangements for the public services) would probably affect up to 5 per cent of the one million public service pensioners; a cut-off of £4 a week (by reference to the next stage of the pay policy) would probably affect some 15 - 20 per cent. In both cases the overall percentage saving in cost would be far less since all these pensioners would receive some increase.

v. If pension increases were withheld, or restricted, above a given level, the following table shows the relationship between annual amounts of pension and the cost of living increases in prospect:-

Amount of Pension	13% Increase	14% Increase
£	£	£
910 (average)	118	127
1485	-	208 (£4 pw)
1600	208 (£4 pw)	-
2230	-	312 (£6 pw)
2400	312 (£6 pw)	-
4000	520	560
6000	780	840
8500	1105	1190
10000	1300	1400

vi. The TUC and the pensions industry would need to be consulted before any decision were announced to restrict pension increases.

vii. If the Government decide against modifying pensions increase this year, the defence would have to rely primarily upon the argument that the rate of inflation had been halved and it would not now be right to interfere with pensions.

RECOMMENDATION

15. The main options open for the policy to govern pension increases under the next round of the counter-inflation programme are:-

i. to restrict increases by applying either the £6 or £4 limit;

ii. to restrict increases by an arbitrary cut-off at £8,500 or some lower figure;

iii. not to restrict existing arrangements for protecting pensions in payment.

The arguments for and against some restraint are finely balanced. Either way, the Government will have to face criticism, though from different quarters. On balance, however, the practical difficulties in the way of restricting increases seem overriding. Now that inflation is being brought under control, I recommend that we proceed as under iii. although we may have to be ready to face a campaign in Parliament and the media that the tax-payer is again being unfairly asked to protect the public sector pensioner, which is, of course, not true.

S

Civil Service Department

14 June 1976

ANNEX

PENSIONS INCREASE IN THE NATIONALISED INDUSTRIES

1. The information below has been obtained from sponsoring Departments; the industries themselves have not been approached.

2. The pension schemes of the nationalised industries fall into 3 categories for the purpose of defining the method by which pension increases are paid, and therefore the method by which they could be restricted. They are grouped below into these categories.

(a) Those who follow the provisions of the Pensions (Increase) Act 1971, and whose increases could therefore be restricted by an amendment to that Act:

British Railways Board
British Transport Docks Board
British Waterways Board
National Bus Company
National Freight Corporation
Post Office

(b) Those whose increases are not specifically index-linked, and for whom a general exhortation to follow any restraint imposed should be sufficient:

British Broadcasting Company
Electricity Industry
Gas Industry
National Coal Board

(c) Those whose increases are index-linked and whose schemes also include a provision against the worsening of the terms of the scheme; for these wider-ranging legislation overriding the scheme provisions would be necessary:

British Airports Authority
British Airways
British Steel Corporation
Civil Aviation Authority
New Towns

CP(76) 33 COPY NO 81

21 June 1976

CABINET

THE ATTACK ON INFLATION THE SECOND YEAR

Note by the Chancellor of the Exchequer

I attach for the approval of the Cabinet the draft White Paper on Counter Inflation Policy which I should like to publish next week.

D W H

Treasury Chambers

21 June 1976

PROOFS FOR OFFICIAL USE ONLY — CONFIDENTIAL

The Attack on Inflation the Second Year

Presented to Parliament by the Secretary of State for the Treasury by Command of Her Majesty

LONDON

HER MAJESTY'S STATIONERY OFFICE

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THE ATTACK ON INFLATION
THE SECOND YEAR

1. Britain needs a strong economy and a fair society. Achieving this is a task for the whole of our people, not just for the Government. It will require a sustained effort. But in the first year of the attack on inflation we have made a good start.

2. The damage done by rapid inflation is both human and economic. It eats into the living standards of those least able to protect themselves. The housewife, the pensioner and the saver suffer first. The struggles of more powerful individuals or groups to escape its ill effects only put more burden onto others. The inflation weakens mutual trust in our society and confidence in our institutions. Economic confidence too is threatened. Jobs are destroyed because industries cease to be profitable and their investment stops. People lose confidence in our economy. These are the dangers which faced us last year. Since July we have begun to pull away from them.

3. Our first objective now must be to see that the British economy pays its way in the world. This means getting rid of the balance of payments deficit; making British products competitive in world markets, and seeing that the resources our industry needs for exports and investment are there when they are needed. The world economic recovery gives us the best opportunity we have had as a trading nation for many years. Now we have to seize it.

4. Our second objective must be to rebuild British industry, especially our manufacturing industry. We have to make it more efficient, more productive, better able to innovate and to respond to new opportunities. That means putting more into new productive investment. In order to create the conditions for future improvements in living standards and public services, that investment has to take priority over any increase in other public or private spending for the next few years.

5. The third objective is to reduce unemployment and to maintain our social priorities. We can do this only by succeeding in the first two objectives and re-establishing our economy and our industry in the world. But as we make progress in putting the economy right, we must take every step we can to reduce the damage and waste that results from a high level of unemployment and, within the limits of our resources, we must protect the members of our society most in need.

6. The attack on inflation is fundamental to every part of this national enterprise. If we fail to control inflation we put every one of these objectives at risk. Thanks to the efforts of both sides of industry and of the whole British people, the first year of the attack on inflation is succeeding. The next section of this White Paper describes the progress we have made so far. This progress has been possible because the British people, including the millions of members of the trade union movement, have recognised the basic facts confronting the nation. The understanding which the British people have shown of the dangers we all face is the Government's greatest strength in tackling our difficulties. The Government will continue to take

the trade unions, industry and the public fully into their confidence. As part of the Social Contract the trade union movement has been more closely associated with economic management than ever before. Among the fruits of this have been the success of the first year of our attack on inflation, a dramatic improvement in industrial relations and the beginning of a new spirit of cooperation in British industry.

PROGRESS SINCE JULY 1975

7. Our inflation rate has been more than halved since last July. This is the measure of the achievement of the British people since the White Paper, "The Attack on Inflation" was published. And it has set Britain on the road to recovery.

8. In the first half of 1975 inflation was running at an annual rate of about 35 per cent. In the last 9 months the position has been transformed. The inflation rate in the first 6 months of 1976 is likely to be well under half what it was in the same period last year. By May 1976 the year-on-year inflation rate had fallen below 15½ per cent. In his Budget Speech on 6 April the Chancellor of the Exchequer said that in order to end next year with an inflation rate at least in line with our foreign competitors we must aim at a further halving of our inflation rate by December 1977. Further progress in reducing inflation is the key to all our policies.

9. The achievements so far would not have been possible without the voluntary £6 pay policy put forward by the TUC last July and endorsed by the Government. Since 1 August 1975, this policy has been fully observed throughout the economy. It has greatly reduced not only the rate of price and cost increases, but also the inflationary expectations of a year ago. Although there is still a long way to go, it has put the country in a very strong position to benefit from the recovery of world trade, with exports as the main stimulus to renewed growth in output. All the signs are that exports are growing much faster than the 10 per cent annual rate which the Government expected at the time of the Budget.

10. The Government have used all the weapons available to them to reduce inflation. The growth of the money supply has been strictly controlled, and cash limits have been introduced across a wide range of public sector expenditure. These measures were foreshadowed in last year's White Paper. Together with continuing controls on prices and dividends, they have complemented and buttressed the £6 pay policy.

Tackling unemployment

11. The trend of unemployment in 1975 pointed to disaster. The £6 policy played a large part in checking it. For their part, the Government have acted throughout the period since the 1975 Budget to alleviate unemployment by new measures on jobs and training. In that time they have made available over £400m in order to create or keep open 250,000 jobs or training places. Government measures have included a temporary employment subsidy, a recruitment subsidy for school-leavers, a job creation programme, an acceleration in the already fast-expanding programme for

adult retraining and placement, increased allowances for training and employment transfer and special allocations to industry to maintain apprentice-training during the recession. The main emphasis in the whole programme has been on helping young people and particularly school-leavers. In addition to these programmes, Government assistance to industry under the Industry Acts and other measures, or through the National Enterprise Board has helped to preserve or create jobs. These have included several hundred thousand jobs at risk in the motor vehicle industry, as well as about 70,000 jobs preserved or created through regional selective assistance. Several thousand other jobs have been preserved or created through help to firms in temporary difficulty and through accelerated project schemes.

Pensions

12. The Government have substantially raised the living standards of retirement pensioners, widows, and the long term sick and disabled. The National Insurance pension uprating in November last year brought the cash increase in the pension since the last uprating of the previous administration to some 70 per cent and the increase in real terms to 15 per cent. Over the same period the real value of the pay increases gained by the average man in employment were almost totally eroded by inflation. The Government have already announced further increases in National Insurance pensions to take effect in November 1976, which will bring the pension for a married couple up to £24.50 a week, and that for a single person to £15.30. The pension rates will then be practically double what they were when the Labour Government took up office. The increase this autumn will more than compensate pensioners for the rise in the cost of living over the preceding 12 months. It will also considerably exceed the likely movement in earnings between November 1975 and November 1976 and will take the pension to a new peak in real terms. The Government have fully met their commitment to raise pensions in line with earnings for the whole period since July 1974.

13. So the attack on inflation has made a great advance since last July and at the same time the Government have been able to maintain their major social priorities. But there are still great difficulties to be faced. Unemployment is still much too high. Wage costs per unit of output are still rising more quickly in this country than in our main competitor countries. And in the last few months there has been the unexpectedly sharp depreciation of sterling—a problem intensified by an upturn in world commodity prices, which has increased the foreign exchange costs of essential UK imports.

14. Inevitably, recent exchange rate movements have impeded our progress in the fight against inflation. Last July, the Government set a target of reducing the year-on-year increase in prices to single figures by the end of this year. It is bound now to take us somewhat longer to reach this target, but we should still achieve the objective of a further halving of the inflation rate by the end of 1977.

THE PROGRAMME FOR THE YEAR BEGINNING 1 AUGUST 1976: THE PAY POLICY

15. We are now entering a stage in our economic recovery in which world trade is increasing, and production the world over is growing to meet rising demand. This situation gives us the best opportunity the country has had since the war for export-led growth, with all that means in terms of higher UK output and employment. To get these benefits we have to maintain the momentum of the attack on inflation and consolidate the gains made in the last 12 months. Diverting resources into exports and investment requires both a high level of competitiveness in our industry and a basic change in the structure of our economy. This change is essential if we are to have a good prospect of rising living standards in future years; but we have to absorb its impact on our present living standards. If we try to improve our living standards by higher money earnings, we shall only get more inflation; it is just no good paying ourselves in confetti. The best prospect for seizing the opportunity of export-led growth, and achieving sustained improvement in our living standards, is to get our inflation rate at least down to that of our competitors, and to keep it there.

16. This was the objective to which this year's Budget proposals were addressed. For the first time, the Chancellor of the Exchequer offered to link substantial tax reliefs with a pay limit consistent with a further halving of the inflation rate. Following the Budget statement, Ministers embarked on intensive consultations about the next stage of counter-inflation policy: these culminated in the new agreement with the TUC on a pay limit for the next year equivalent to an increase of about 4½ per cent on average in wages and salaries. The Government endorsed the TUC proposal which limits increases to £2.50 for those earning up to £50 a week, to 5 per cent for those between £50 and £80, and to a maximum of £4 at all higher levels of earnings. Increases under the new pay limit, like those under its predecessor, will not be consolidated into basic rates. Because of the tight structure of this policy, the increase in average earnings to be expected over the next year is in line with that envisaged by the Chancellor when he proposed a pay limit in the area of 3 per cent coupled with tax reliefs. The Government therefore made clear on 5 May that, once the proposed new pay limit had been ratified by the TUC Special Congress on 16 June, they would implement in full the conditional tax reliefs outlined in the Budget.

17. People at work will benefit in three ways from the new pay policy and the tax reliefs associated with it:

i. they will benefit from the pay increase itself, as described in paragraph 16;

ii. they will benefit from the tax reliefs. By July or August, when all the reliefs will be operating, the average family will already have benefitted by as much as £30. The amount of benefit will vary with family circumstances and levels of income. The tax reliefs operate from 1 April 1976, and will be in payment by not later than August 1976. For most people this means that the tax relief operates very

much earlier than the date for their pay increase under the new agreement;

iii. they will benefit because prices will rise more slowly than they would with a higher limit. By the end of 1977 this reduction in inflation is expected to be worth as much to the average family as a pay rise for the breadwinner of £2 a week.

Annex A shows the benefits under i and ii above for different families and income levels.

Living standards

18. The dramatic increase in oil and other commodity prices in 1973/74 reduced our real national income by 5 per cent, at a time when we were already living beyond it by running an external deficit. The impact of that fall in national income was cushioned for a period by increased borrowing abroad, but much of the unavoidable decline in living standards of people at work came through in the first half of 1975. We now have to face the effects of the fall in the exchange rate and the need to direct more resources to exports and investment, with the benefits which that will bring for employment. The changes in the Price Code referred to later in this White Paper are part of this. But inflation will be lower, people at work will benefit from the tax reliefs linked with the new pay limit, and output and productivity will be recovering. Some further reduction in the real value of take-home pay (affecting single people more than families with children) is a necessary condition for reducing unemployment and getting the balance of payments right but the reduction in the real value of the average pay packet should be a good deal less than that experienced in the first half of 1975 before the £6 pay policy was introduced.

The pay limit for the next year

19. Annex B to this White Paper reproduces the TUC pay guidelines, endorsed by the Government for the coming year. These guidelines were adopted by an overwhelming majority at the TUC Special Congress. The CBI welcomed the TUC decision and said that their members would do all they could as employers to see that the guidelines were adhered to.

20. Increases within these new limits, as under the current £6 policy, are to be applied as a cash supplement to earnings, and in general the interpretation of the policy in particular circumstances will be the same as in the current period. Like the £6 these are the limits within which the amounts of increases are to be negotiated. There are no transitional provisions; for all groups increases within these new limits may be implemented 12 months after the major increase which they received in the previous period. For those to whom the £8,500 cut-off applied in the previous period increases may be implemented 12 months after the date on which an increase would otherwise have been allowable. An increment which has been withheld solely because of the £8,500 cut-off may be paid with effect from a date 12 months after the date on which it would otherwise have been allowable; alternatively an increment allowable on the later of these two dates may be paid, but not both. Separate increases in London weighting and other geographical allow-

ances will not be payable in the 12 months from 1 August 1976; but such allowances may be included as part of total earnings for the calculation of increases under the new pay limit.

21. The Government attach the highest importance to maintaining the principle of a voluntary policy. They therefore welcome this further agreement with the TUC on guidance to negotiators within the framework of the Social Contract; and they are confident that it will secure the same measure of acceptance and support as the £6 limit. These guidelines should be universally applied, and the TUC will oppose any settlement in excess of them. The Government will ensure strict compliance with the new policy throughout the public sector, as they have done with the £6 policy. The arrangements and sanctions in Cmnd 6151 to secure compliance in both public and private sectors will continue to apply.

22. The present voluntary arrangements through which the Government now collect information about pay settlements and intended settlements will continue. So will the requirement to supply pay information to the Price Commission for the purposes of price control.

PRICES

23. Even at the lower levels we are now experiencing inflation remains a heavy burden on all sections of the community and especially the housewife. But the consumer can look forward to a lower rate of inflation in the next 12 months than in the past year.

24. During the last year we made a major and successful effort to reduce the pressure of wage costs on prices, and the new pay limit will mean a substantial further reduction in that pressure. But there will also be new factors at work. With the recovery of the economy from the recession, we can expect rising productivity to moderate the rate of increase in unit labour costs. On the other hand we shall have to contend with substantial pressure from higher import prices, not only as a result of the depreciation of sterling, but also because of rising world demand for food and raw materials.

The Nationalised Industries

25. The operating deficits of the nationalised industries caused by price restraint have been eliminated. The exceptional price rises necessary for this purpose have now happened and future increases will in general be lower, broadly in line with the reduced level of price rises in the economy generally. The British Railways Board have announced that they will not be seeking any further fare increase during 1976, and the Post Office Corporation have said that they do not intend to increase the main letter post rates in 1976, nor telephone charges during the rest of the present financial year.

Food Subsidies

26. The Government have said that food subsidies will be progressively reduced as inflation is brought down and as social benefits are improved. But these subsidies still contribute substantially to the protection of people

on low incomes: over £400m will be spent on them in the year up to March 1977.

School Meals

27. There will be an additional subsidy of £35m so that the price of school meals will not have to go up in this financial year.

Price Controls

28. The Government propose to extend for a further year from 1 August 1976 the powers to control prices through the Price Code. There will continue to be both cost control and profit control under the Price Code and the Price Commission will continue to enforce it. The Government are determined to ensure that the results of pay restraint by people at work are reflected in the price level and that a strict control is retained. Some changes in the Code are however needed in the interests of investment and jobs, and they are described in a later paragraph. They are essential to our success in rebuilding industry and reducing unemployment.

PUBLIC EXPENDITURE AND MONETARY POLICY

29. Pay restraint and price control will not be effective in reducing the inflation rate unless other aspects of economic policy are also consistent with that objective. It is essential, therefore, that fiscal and monetary policy should contribute to the attack on inflation, and help the movement of resources into exports and investment. Failure to control public spending, or to ensure that the growth of the money supply does not stimulate inflation, would place the Government's programme in jeopardy. The Government have already declared their determination to ensure that the planned public spending totals, including those for local authorities, are not exceeded. In addition, for the current year, cash limits have been extensively applied to individual public expenditure programmes. Within the strict limits which have to apply to public spending, the Government's priorities will accord with the objectives set out at the beginning of this White Paper.

30. In addition to exercising firm control of public expenditure the Government are determined to see to it that the growth in the money supply does not stimulate inflation. The Chancellor has said he will ensure that the growth of the money supply is consistent with the Government's plans for the growth of demand expressed in current prices. The Government are equally determined that the expansion of productive capacity and exports should not be held back by competing public sector demands for finance. These policies will be reinforced if necessary by further action in the fiscal and monetary fields. Moreover, steps have been taken to ensure that the banks fully meet the needs of manufacturing industry for finance; any expansion of their business has had to be directed to meeting industry's needs for the expansion of exports, import saving, investment and working capital.

31. The key element of the Government's longer term programme for the British economy is the effort to rebuild British industry. The essential conditions for success are control of inflation, which destroys markets and jobs and undermines the confidence needed for investment; and the provision of sufficient resources, real and financial, to get industry moving. On the one hand public demands on resources have for the present to be kept within tight limits. On the other industry has to be permitted, within the framework of the price control, to achieve sufficient profitability to generate the funds for investment and to offer the prospect of an adequate return on investment once undertaken. During the 1960s, the rate of return, after taking account of the need to replace fixed investment and stocks, was typically over 10 per cent. By 1974 is was down to 2.2 per cent. This has contributed to the recent slump in new productive investment and consequent loss of jobs. The downward trend in profitability must be reversed.

32. The Government therefore propose a number of changes in the Price Code to encourage investment and employment.

The main changes are as follows:—

a. an increase from 20 per cent to 35 per cent in the rate in investment relief (that is, the proportion of the costs of new investment which may be reflected in current prices);

b. provisions relating to the depreciation of assets and to the appreciation of stocks which (in line with the general conclusions of the Sandilands Report which the Government have accepted) recognise the damaging effects which inflation has produced;

c. redefinition so as to take account of inflation of the categories into which firms fall, and which affect the procedures to which they are subject;

d. measures to mitigate the present disincentive effect of the Code on improving efficiency, including the abolition of the productivity deduction;

e. other measures to reduce the administrative burden on companies of operating the Code.

33. The Price Commission monitors investment relief to ensure that relief is only claimed where investment is actually taking place. To qualify, investment must be in home-based industry, and in plant, machinery, commercial vehicles and the construction of industrial buildings and warehouses.

34. The Government do not expect that the changes in the price controls will by themselves lead to any early or appreciable increase in the general price level. Market forces have ensured that the prices of many goods and services are now below the level which companies would be entitled to charge under the Price Code; but as economic recovery progresses, the Code will play an important part in keeping down the cost of living. By July 1977, when present powers to control prices expire, it is estimated

that the proposed changes in the Code will probably have made a difference of about 1 per cent to the Retail Price Index.

35. It is essential for our economic and industrial recovery that the resources released by these changes should be channelled into the productive investment in fixed and working capital which British industry needs to correct present weaknesses and secure a greater share of markets at home and abroad. This is also the objective of the Government's industrial strategy, now being developed in collaboration with both sides of industry. A good start has been made in the first stage of the industrial strategy. The National Economic Development Council is about to consider the first reports of the tripartite groups which have been working to produce proposals for action in many sectors of manufacturing industry. Planning Agreements and the National Enterprise Board will also have a key contribution to make to the regeneration of British industry.

LEGISLATIVE STEPS

36. The Government will ask Parliament to approve:

i. a draft Order in Council extending until 31 July 1977 the operation of the Remuneration Charges and Grants Act 1975 and of Part II of the Counter Inflation Act 1973;

ii. a draft Order to add this White Paper to Cmnd. 6151 for the purpose of the Remuneration Charges and Grants Act;

iii. Ways and Means Resolutions and amendments to the Finance Bill to give effect to the conditional tax reliefs.

The two draft Orders are being laid before Parliament today and are subject to Affirmative Resolution by both Houses.

37. Details of the proposed changes in the Price Code are published today in a consultative document by the Secretary of State for Prices and Consumer Protection. After the consultations have been completed, the Secretary of State will make an Order to implement the amendments to the Price Code, to take effect from 1 August. The necessary Affirmative Resolutions will be placed before Parliament.

38. The present arrangements whereby dividends are strictly controlled will continue as before.

REALISM AND RECOVERY

39. The Government said last July that the programme set out in the "Attack on Inflation" was designed to save our country. Because that programme was adopted and implemented by all sections of the community acting together we have averted economic disaster, and can now tackle with fresh hope the fundamental problems yet to be solved. We need to switch resources away from consumption towards exports and productive investment; to get our inflation down to international levels and keep it there; to

conquer the social evil of high unemployment; to eliminate the current account deficit on the balance of payments; to adopt a new realism in our approach to public expenditure; and to accept that, for some time, living standards cannot increase in the way to which this country was accustomed in the years before 1973.

40. The £6 pay policy and the other policies set out in Cmnd. 6151 have given us a good start. We must build on these gains; we cannot risk throwing them away. The recent decision of the TUC Special Congress is a dramatic recognition of this. We shall have to maintain our policies of cooperation and restraint in pursuit of the objectives outlined at the beginning of this White Paper. If we do this, the opportunity is there for us to reassert our place in an expanding world economy as a leading industrial nation which can again offer its people a rising standard of living and of social provision.

Pay Policy and Tax Reliefs: Increase in Net Income

Married couple (wife not working)

Gross earnings £pw	Increase in gross earnings £pw	Increase in gross earnings after tax* £pw	Tax Relief £pw	Increase in net income £pw	Increase in net income per cent.
30	2·50	1·48	0·88	2·36	9·7
40	2·50	1·48	0·88	2·36	7·8
50	2·50	1·48	0·88	2·36	6·5
60	3·00	1·78	0·88	2·66	6·3
70	3·50	2·07	0·88	2·95	6·2
80	4·00	2·37	0·88	3·25	6·0
90	4·00	2·37	0·88	3·25	5·4
100	4·00	2·60	0·88	3·48	5·3
125	4·00	2·20	2·09	4·29	5·3
150	4·00	1·95	2·74	4·69	5·0
200	4·00	1·60	3·91	5·51	4·8

* Before Budget increases in personal tax allowances and allowing for graduated national insurance contributions.

Based on personal tax allowances but excludes income-related benefits such as family income supplement and housing rebates.

Single Person

Gross earnings £pw	Increase in gross earnings £pw	Increase in gross earnings after tax* £pw	Tax relief £pw	Increase in net income £pw	Increase in net income per cent.
30	2·50	1·48	0·40	1·88	8·4
40	2·50	1·48	0·40	1·88	6·7
50	2·50	1·48	0·40	1·88	5·5
60	3·00	1·78	0·40	2·18	5·5
70	3·50	2·07	0·40	2·47	5·4
80	4·00	2·37	0·40	2·77	5·1
90	4·00	2·37	0·40	2·77	4·8
100	4·00	2·40	0·63	3·03	4·7
125	4·00	2·17	1·52	3·69	4·7
150	4·00	1·80	2·34	4·14	4·6
200	4·00	1·60	3·09	4·69	4·2

* Before Budget increases in personal tax allowances and allowing for graduated national insurance contributions.

Based on personal tax allowances but excludes income-related benefits such as family income supplement and housing rebates.

Married Couple with two children under 11 (wife not working)

Gross earnings £pw	Increase in gross earnings £pw	Increase in gross earnings after tax* £pw	Tax relief† £pw	Increase in net income £pw	Increase in net income per cent.
30	2·50	1·48	1·68	3·16	11·3
40	2·50	1·48	1·68	3·16	9·3
50	2·50	1·48	1·68	3·16	7·9
60	3·00	1·78	1·68	3·46	7·5
70	3·50	2·07	1·68	3·75	7·2
80	4·00	2·37	1·68	4·05	7·0
90	4·00	2·37	1·68	4·05	6·4
100	4·00	2·60	1·68	4·28	6·1
125	4·00	2·20	2·80	5·00	5·9
150	4·00	2·00	3·79	5·79	5·9
200	4·00	1·60	5·29	6·89	5·7

* Before Budget increases in personal tax allowances and allowing for graduated national insurance contributions.

† Including increases in child tax allowances.

Based on personal tax allowances but excludes income-related benefits such as family income supplement and housing rebates. Family allowance is assumed to be claimed at all income levels, claw-back has been deducted.

TUC PAY GUIDELINES

The TUC's pay guidelines agreed with the Government are set out below. These guidelines should be universally applied and the TUC will oppose any settlement in excess of them.

i. It has been agreed that the guidelines for increases becoming operative in the period August 1 1976 to July 31 1977 should comprise a percentage increase of five per cent on total earnings for all hours worked with a cash minimum of £2.50 and an upper cash maximum of £4 per week. The figures will apply to all full-time adults (aged 18 and above) with pro rata payments for part-timers and juveniles.

ii. This will be payable as an individual earnings supplement. It will entail employers each week calculating total earnings and adding five per cent to the result. If the answer is more than £4, £4 would be added. If less than £2.50 results, £2.50 is likewise added.

iii. The 12 months' interval between major pay increases should continue to apply. Where no increase has been received since August 1 1975 because of the cut-off requirements of the £6 policy, the normal negotiating date should apply.

iv. All other improvements including non-wage benefits should be kept within the overall pay figure except as provided for in the current policy; improvements in (or the introduction of) occupational pensions schemes up to the contracting-out level provided for in the Social Security Pensions Act can also be implemented outside the pay figure.

v. Negotiators will be responsible for ensuring that earnings do not increase beyond these levels. Where unions experience difficulty in interpreting the guidelines in relation to their own negotiating situation, they should approach the TUC for guidance.

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CABINET

FUTURE OF THE PRICE CODE

Note by the Secretary of State for Prices and Consumer Protection and Paymaster General

1. The Ministerial Committee on Economic Strategy (EY) has agreed my proposals for the modification of the Price Code. They are to be published in a Consultative Document concurrently with the White Paper on the Attack on Inflation in 1976/77.

2. Arising from the discussion in EY the Secretary of State for Employment and I saw members of the staff of the Trades Union Congress (TUC) on 17 June to describe to them the main modifications including the abolition of the productivity deduction. The TUC staff said that although the package went beyond what was said to the TUC at their meeting with the Prime Minister and other Ministers on 10 June, they did not propose to advise the TUC negotiating team to seek a further meeting.

3. Attached for the information of Cabinet is the text of the explanatory part of the Consultative Document.

S W

Department of Prices and Consumer Protection

22 June 1976

MODIFICATIONS TO THE PRICE CODE: A CONSULTATIVE DOCUMENT

PART I: THE PROPOSALS SUMMARISED

1 This Consultative Document describes and summarises the Government's proposals for the Price Code element in the prices policy for the next twelve months of the attack on inflation as outlined in the White Paper Cmnd 6507. The administrative arrangements for a Price Commission and a Price Code will continue. Firms will continue to operate under general profit ceilings and in addition the general test for price increases will continue to be whether there has been an increase in costs. At the same time, within this broad framework there will be changes to permit British industry to raise the funds that are needed to finance a higher level of activity, to increase employment and to instil the confidence needed to invest for the future.

2 A complete draft of a new Price Code is set out in full in Part II of this Consultative Document, with a commentary to indicate the purpose and effect of each provision. The more important changes are discussed below.

Investment Relief

3. There will be an improvement in the relief available for new fixed investment. The range of investment in physical assets qualifying for relief will be extended to cover expenditure by retailers on the construction of shops, but investment in office buildings will remain outside the scope of the relief.

4. The rate of relief on investment has been 20% since May 1975. That is to say, firms are allowed to raise prices in the year in which investment expenditure is incurred to the extent necessary to recover one-fifth of that expenditure from current price revenue. The Government are proposing that the present rate of investment relief should be increased to 35%. If there is to be a continuing form of prices policy after the next 12 months in which investment relief is appropriate, the Government intend that equivalent relief on new investment should be maintained as an integral part of the regime. The Price Commission will continue to verify that the actual investment expenditure is undertaken during the investment year and that not more than the amount of relief permitted has actually been taken in prices.

Depreciation and stocks

5. The Report by Sir Francis Sandilands' Committee on Inflation Accounting has demonstrated that, in a period of inflation, the apparent profits indicated by company accounts drawn up on a historic accounting basis may conceal the fact that the firm is not making sufficient money even to replace the assets it has consumed. In the company sector the real rate of return (ie at replacement cost and after deduction of stock appreciation) is very low and has fallen over the decade from 1965 from around 10% to around 2%.

6. The Government have accepted in principle the conclusions of the Sandilands Report. The Inflation Accounting Steering Group is currently considering what new accounting standards are needed to give effect to the Sandilands recommendations. This is a complex task, and the Steering Group's timetable precludes a new accounting

standard before the new Price Code comes into force. The Government have accordingly had to consider how the new Code can take account of the message of the Sandilands Report, without prejudicing the recommendations of the Steering Group, in the accounting rules as they relate to:

a) depreciation; and

b) the treatment of stocks.

Depreciation

7. The Government propose that the new Price Code should broadly recognise the fact that the historic cost method makes too little provision for depreciation. The Current Cost Accounting (CCA) techniques recommended by the Sandilands Committee would permit firms to value assets for depreciation in various ways designed to show their value to the business. The present Price Code precludes firms from using the revaluation of assets for the purpose of Price Code depreciation if the revaluation has taken place during the period of the controls. This limitation will be removed in the new Code in respect of revaluations shown in companies' annual accounts. The majority of firms will, however, be continuing to depreciate against historic cost for other accounting purposes during the 12 month period under consideration, and figures thus arrived at will in general make inadequate provision for the replacement of the assets concerned. The possibility that the Price Code itself should incorporate accounting rules for the indexing of depreciation, on the basis of the Price Index Numbers of Current Cost Accounting that are now being published by the Central Statistical Office, has been considered but rejected for two reasons. First, Price Code provisions

on this subject drawn up now are likely to differ substantially from the full accounting standard that will eventually be issued, so that firms would be obliged to adopt procedures purely for pricing purposes, only to change them again after a short time. Secondly, the rules for the selection and application of indices would leave room for dispute and disagreement, with the result that many firms would probably feel that they were not equipped to undertake such complex calculations.

8. In the interim period, while a new accounting standard is awaited, the Government have accordingly concluded that there should be a general marking-up of historic depreciation charges for all Price Code purposes (where there has not been a recent revaluation). This cannot be a precise or scientific provision for adjusting historic cost to CCA accounting. It is no more than a broad adjustment to improve the position until a new accounting standard is in operation. It has the merits of presenting no problems of calculation to firms or to the Price Commission. The adjustment factor proposed is 1.3. This moves some way, but not all, towards replacement cost.

9. The supplementary provision affects both the cost controls and current profit margins. There will be no adjustment of reference levels or other base data. Claims for depreciation are checked in due course against the company's annual accounts / by the Price Commission and revaluation will be admitted only where it has already appeared in such accounts.

Stocks

10. Just as historic accounting in a period of inflation may mean that a firm which is apparently profitable is consuming its capital stock, so it may mean that apparent profits are in fact little more

than the rising value of stocks, which have to be replaced at higher cost if the business is to keep going. The Sandilands Committee recommended an adjustment to reflect the current cost of each sale, and this also is one of the technical issues under consideration by the Inflation Accounting Steering Group.

11. Here again, the Government propose that pending agreement on a new accounting standard the Price Code should include an interim adjustment moving towards the objective of the Sandilands Committee's conclusions.

12. Increases in the cost of materials are among the allowable cost increases which can be reflected in price increases under the Code. For this purpose, it is proposed that all firms should have the option of calculating the cost of materials currently consumed on the basis of the latest contracted purchase price as defined in the Code.

13. Notional stock profits can also affect the position of firms under the net and gross profit controls in the Price Code. A relief for stock appreciation is already in operation for purposes of Corporation Tax. The system is familiar, and it is proposed that current gross and net profit margins under the Price Code should be abated by a similar method so that paper stock profits cannot lead to a profit excess in comparison with reference levels. To take account of the fact that reference levels will remain unadjusted, a deduction will be made for the proposed relief analogous to the deduction made for tax purposes. The amount of the deduction proposed is 30% of the increase in stock values (not a percentage of profit, as for tax purposes) in the relevant period.

14. This stock relief will make it easier for firms to finance the materials they need when business activity turns up, and will facilitate the replacement of stocks when costs are rising. Steps will be taken to ensure that the relief is not abused. Firms will be required to inform the Price Commission of the volume increase in their stocks, and further enquiries will be made if there is reason to suspect that stock levels have been manipulated to bring about unjustifiable price increases. These aspects of the new relief will be monitored closely by the Price Commission.

Productivity Deduction

15. The productivity deduction has been a feature of the Price Code since its introduction by the Conservative Government in 1973 at a level of 50%. In December 1974 it was reduced by the present Government to a standard rate of 20%.

16. The £6 a-head pay policy has reduced the rate of increase in labour costs, but even so increases inevitably constitute a large element in firms' total costs especially in the more labour intensive sectors of industry. The productivity deduction prevents firms from fully meeting higher wage costs and therefore can have an unfavourable effect on employment. In today's circumstances the productivity deduction can be dropped with no significant price effects and a useful benefit in providing jobs and simplifying the controls. The deduction will, however, continue on a transitional basis for payments under escalation and variation-of-price clauses in contracts concluded since the introduction of the Price Code.

Efficiency and cost savings

17. It has been represented that the Price Code can be a disincentive to firms which expand output or cut costs, because any reduction in costs per unit of output should be entirely reflected in the price, and cannot be applied to improve profit margins. The cash value of a margin will be reduced if there are cost reductions, whether as a result of greater efficiency or because increased output leads to overheads being more thinly spread. A similar result can occur if exports rise as a proportion of total output, since the fixed costs allocated to home sales are likely to be proportionately reduced.

18. The Government have looked carefully at the proposition that the Price Code should cease to be expressed solely in terms of costs per unit of output and should be re-constructed, for firms which found this helpful, to permit the optional use of "input costing". They have concluded that the link between prices and actual output costs must be retained, and that a radical restructuring of the Code on an optional basis would not be justified. However, within the framework of the general rules, it is proposed to introduce new provisions to deal with the effect on overhead costs described in the preceding paragraph. For calculations involving changes in overhead costs, half of any future growth in output will be disregarded, so that firms will not lose the whole of the benefit of the lower costs which result from increased production and exports. For this purpose, fixed costs will be taken to include those categories of non-wage labour costs, such as national insurance, which are not at present subject to the productivity deduction. As a special incentive to the more economical

use of fuel, any firm which can reduce the unit output cost of fuel from a base date will be permitted to retain the saving and will not be required to pass it into the price. The base date for the purpose of these new provisions will be the date of the most recent price increase preceding the introduction of the new Code. The present output costing rules will continue to apply to those labour costs which are subject to the productivity deduction in the present Code. There will be no change in the output costing rules as they apply to materials costs, since the Government consider that savings resulting from lower costs should be passed on in full to the consumer.

Pricing Flexibility

19. A central feature of the new Code will continue to be the link between increases in costs and consequential increases in prices. The Government accept the need, however, for a degree of flexibility. This has existed in earlier versions of the Code, but for the next phase the Code will set out clearly the extent to which individual prices can be restructured.

20. The basic rule will be that the average increase in prices for a range of products (weighted to take account of the value of sales of different products) should not exceed the total entitlement arising from the cost controls. Within this total, the principle in the Code will be that the individual price increase (in percentage terms) should not be more than twice the average increase for the range. Firms will only be permitted to increase individual prices beyond this limit if:

a) the individual price increase is not more than 5%;

or

b) the individual price increase can be justified by reference to a disproportionate increase in the costs for that product; or

c) the Price Commission are satisfied that it is the firm's established commercial practice to maintain a particular pattern of differential price increases within the range; or

d) the Price Commission are satisfied that a higher price is justified for a particular product in the light of the limited extent of recent price increases on the product or of the period which has elapsed since the price of the product was last increased; or

e) pricing flexibility between different types of pack or outlet has been permitted under the present Code. It is not, however, proposed to provide for flexibility between different localities, since the Government do not consider it equitable for a customer's price increase in one part of the country to cross subsidise another.

21. There can be situations of market dominance in which a re-structuing of prices may be desirable so as to ensure the best use of resources and hence the greatest ultimate benefit to consumers. The Monopolies and Mergers Commission recommended such a restructuring in a recent report on plasterboard, where it is considered that the change from a system of uniform delivered prices to a system of zonal prices would be likely in the long run to make for a more competitive and efficient trading situation. It is proposed that the new Code

should make provision for price restructuring, where this arises from a Monopolies and Mergers Commission report and where the case for action has been accepted by Government and reflected in an order or undertaking under the Fair Trading Act 1973.

Net profit margin controls

22. The Government see no need for any radical new approach to the setting of profit ceilings through net profit margin controls. As a general rule, they believe that a ceiling derived from the actual performance of the individual firm is the fairest approach. The process of establishing reference ceilings has been completed. The Government rule out any modifications to the structure of control (such as its re-formulation in terms of a return on capital) which would require firms to start all over again with new calcuations under a different system.

23. At the same time, experience over the past three years of price control indicates that the general rules may produce harsh and unintended results in particular cases. The Government accordingly propose some modifications in the general rules for the calculation of net profit margin levels, and also intend that there should be more use of the facility for firms to obtain modifications to their individual reference levels.

24. The most important of the general changes to the net profit margin controls will result from the accounting changes discussed in paragraph 7-14 above. In addition, the other changes proposed in the general rules are as follows:

a) Firms will be permitted (but not required) to take account of their most recent accounting years up to July 1976 in the calculation of their reference levels.

b) Current profit margins will be monitored over a rolling 12 month period, within which firms can set excesses against under-recovery.

25. The present Price Code provides for the Price Commission to "permit some departure" from a reference level in certain circumstances. For the next phase, the criteria which guide the Price Commission in performing the function of raising reference levels will be clarified.

<u>Distributors</u>

26. The distributive trades have faced difficult trading conditions over the last two years. For many distributors, costs have risen faster than turnover, and the consequent squeeze on their profit margins has been accentuated by depressed demand and keen competition.

27. In these circumstances there are limits to the extent to which the market would enable distributors to take advantage of any relaxations in the gross and net margin controls in the Price Code. The Government have carefully considered the representations put forward by the Retail Consortium and other interested organisations that the ceilings on distributors' gross percentage margins should be abolished or that at least the 10% reduction in gross margin ceilings which the Government imposed in May 1974 should be revoked. The Government do not consider that either of these major changes could be justified at the present time. Where individual distributors

have escaped a disproportionate rise in costs and the general depression of demand, the present control remains an important safeguard for the consumer against unnecessarily high margins. For distributors whose net profit margins have been eroded, there are safeguard provisions designed to mitigate the impact of the control and to enable the erosion of margins to be checked, insofar as the market permits.

28. Two of the general modifications discussed above will be of benefit to individual distributors who have experienced problems with the present Code. The stock relief (paragraph 13 above) will ease the problems of certain trades which under the existing Code have had difficulty in financing the higher costs of replacing their stock out of their permitted margins. The extension of the investment relief to cover expenditure on new shop buildings (paragraph 3 above) means that the relief, at the new higher rate of 35%, will cover a larger proportion of distributors' capital expenditure than it does now.

29. In addition, five changes are proposed in the rules which apply specifically to distributors:

a) There will be improvement to the safeguard in paragraph 88 of the present Code which allows distributors a limited amount of scope to widen gross margins if their net profit margins have been eroded. Distributors are at present allowed to raise gross percentage margins up to 105% of their original ceilings if net profit margins are below 80% of reference levels; it is now proposed that they should be able to widen gross margins up to 110% of ceilings in order to reach 80% of their net profit

margin reference levels.

b) Gross percentage margins are based on a single year of trading: either a recent 12 month period before the controls began in 1973,or, if an enterprise has not traded in such a period, a 12 month period ending not later than 31 March 1974. There is thus a major difference in treatment between firms which were only just establishing their businesses in the base year and may have been caught with a low gross margin ceiling and firms which set up in business just after the base period and thus have no ceiling at all. It is now proposed to bring into control all firms which have at least two complete trading years before July 1976. For any firm which had only one full year of trading or less by 30 April 1973, the gross margin will be any accounting period of 12 months within their first two years of trading.

c) Provision will be made for the modification of individual gross margin ceilings, on the same lines as that for net profit margin reference levels (paragraph 25). This should be of particular relevance to firms or trades which have run into difficulties as a result of major changes in sales mix.

d) The exemption limits for small firms from the 10% cut in gross margins will be raised, to take account of inflation and in line with the similar changes in the administrative requirements set out in paragraph 45 below, from £250,000 annual sales for retailers and £500,000 for wholesalers to £375,000 for retailers and £750,000 for wholesalers.

e) Gross margins, like net margins, will be monitored over a rolling 12 month period.

<u>Safeguards</u>

30 The Price Code contains a variety of safeguards for firms making low profits, or for cases where the profitability of a particular activity has been significantly eroded since price controls were introduced.

31. The basic safeguard, available to any firm in any sector, is that whereby the detailed rules of the Code cease to be applied altogether where a firm's return on capital is below a specified figure (the "relief for low profits" in paragraph 77 of the present Code). In December 1974, the figure in question was raised to 10%, based on the historic cost of assets, and the accounting changes discussed in paragraphs 7 - 14 will now afford some additional relief within that figure. The safeguard figure serves a second purpose. Where it is more favourable than the profit margin reference level established by a firm's performance in the reference period, it may be used in substitution. For this function, a figure nearer to the average results of the private sector would be more appropriate, and a new safeguard of 12½% is proposed.

32. An alternative safeguard is expressed in terms of a margin on turnover (paragraph 78 of the present Code). Where this margin acts as a substitute reference level the Government propose to raise the minimum from 2% to 2½%.

33. The Price Code also recognises certain minimum levels of profit on individual products or product ranges. It has been represented by certain sectors of industry that these provisions have failed to achieve their purpose. It is pointed out that firms cannot operate at safeguard levels over any protracted period, in that margins will again be eroded by cost increases before prices can again be raised. Without re-modelling the structure of the present rules the Government are prepared to raise the safeguard figure to the point where a firm can set prices at a level which secures for the product (or product range) at the time of the price increase:

i) total costs plus a 2½% profit margin; or

ii) a profit margin not less than 80% of the margin in the base period before the introduction of the Price Code.

34. The proposed improvement in the safeguard for distributors is described in paragraph 29(a) above.

Interest

35. It has been represented that the Price Code, as it has stood since 1973, can operate as a disincentive to the raising of new equity capital. This is because the cost of interest is one of the costs which may be reflected in prices. The raising of finance through a new share issue, as opposed to borrowing, would therefore tend to reduce a firm's permitted price and profit margins. The Government

accept that the Code as it stands has this bias, and that it is undesirable that the price control should discourage firms from going to the market for funds needed for expansion or to pay off borrowings. They accordingly propose that all interest payments and receipts should in future be left out of account in the application of the allowable cost and net margin rules. Reference levels will be adjusted by a factor which reflects the firm's borrowings in the last complete year of account, so that the headroom within reference levels is unaffected by this change. Interest will continue to be taken into account in the application of safeguards where appropriate, and in the provisions as they affect banks and financial institutions.

36. In some trades and professions (such as solicitors and estate agents) the taking of deposits from clients and the receipt of interest on such deposits can be regarded as part of the normal trading activity of the firm. The Code will make it clear that interest in such circumstances is to be taken into account.

<u>Nationalised Industries</u>

37. For a number of years before November 1974 the prices of the nationalised insutries were restrained more severely than those of the private sector. The Government then made some changes to the Price Code to enable those industries which could to raise their prices and phase out the deficits which the Government were subsidising. The gas and electricity industries and the Post Office are now out of deficit and there is every reason to believe that the rate of future price increases will be markedly less than we have experienced over the last 18 months.

38. But the Government remains very conscious of the need to contain the prices of necessities which are of vital importance in the family budget. Nationalised industry prices have on the whole increased at above the average rate of inflation in the last 18 months and the Government consider it important to maintain a close scrutiny over them.

39. The cost controls, amended as for the private sector to permit higher depreciation, will continue to apply to nationalised industries subject to a maximum of 2% on turnover and 10% on net assets. Where industries are in surplus Ministers will retain a power to cut back proposed price increases, although as a minimum these industries will be allowed increases sufficient to let them break even. In considering whether to exercise their powers over proposed price increases, Ministers will bear in mind both the interests of the consumer and the needs of financing each industry's investment programme.

Other public sector charges

40. There will be no change in the position whereby the Price Commission monitor proposals made by the regional water authorities to ensure that the resulting charges do not exceed the financial ceilings imposed under the Water Act 1973. Trading services of local authorities will also remain within the Price Code, with the exception of charges for car parking. Increases in car parking charges beyond Code limits may be necessary in the interests of effective local traffic management.

Other proposals

41. The Government's proposals include further changes to the Code, which are set out in more detail in Part II of this Document. Amongst the most significant of these are:

a) Coastal freight will be removed from control, because the system of competitive tendering on which it operates and its close relationship with international shipping have made price controls impracticable and unnecessary.

b) The cut-off date before which cost increases do not qualify for retrospective recovery in prices will be rolled forward from 1 November 1973 to 1 January 1975 (paragraph 23 of the Code).

c) Following the Price Commission's reports on the treatment of increases in indirect taxes on alcoholic drink and tobacco, the present requirement to deduct these increases from sales in computing gross and net profit margins will be replaced by standard rates of deduction - 15% of sales for alcoholic drink and 20% for tobacco.

d) A new discretionary power will be added enabling the Secretary of State to authorise modifications to the Code for particular enterprises where a merger or acquisition which improves efficiency in the national interest is at risk because of the Code's restrictions on profit recovery.

e) The anomaly whereby hire purchase and conditional sales are treated differently from instalment credit and personal loans will be terminated. In line with the policy which underlies the Consumer Credit Act 1974, interest charges in hire purchase and conditional sales will be put on the same basis as interest on other personal credit transactions, which is not subject to price control. Related non-interest charges such as the option-to-purchase fee in hire purchase contracts, will remain subject to price control.

42. It is intended that the new Price Code should come into operation on 1 August 1976. Price increase notifications received by the Price Commission before that date will have to conform with the existing Code. Increases justified under the cross-subsidy provisions associated with the Price Check Scheme (paragraphs 137-141 of the Code) may be maintained for up to 6 months from the date of the increase, after which the price increase entitlement will revert to the product on which the cost increase had been incurred.

Notification and information requirements

43. The requirement on large manufacturing and service firms to give advance notice of price increases, with full supporting data, to the Price Commission constitutes an administrative burden for the firms concerned. On the other hand, the structure of pre-notification is important both to enable the Commission to stop unjustified price rises before consumers begin to pay them and to make the sanction in the Price Code against excessive pay settlements a credible and effective deterrent.

44. Pre-notification will therefore be retained for the majority of firms which are now subject to it. However, many firms have only recently become pre-notifiers because they have been drawn into this category by the effects of inflation. None of the monetary limits have been changed since they were introduced in 1973.

45. The Government therefore intend to raise the categorisation limits to offset the effects of inflation since 1973 and to reduce the burden of the controls on manufacturing firms. The revised lower limits will be as follows:

	Lower limits for categorisation (total value of sales on the home market of all products in the latest complete year of account)	
<u>Sector</u>	<u>Category II (pre-notifying and/or reporting)</u>	<u>Category II (record-keeping)</u>
Manufacturing	£10,000,000	£2,000,000
Construction	£7,500,000	£1,500,000
Commercial Services	£7,500,000	£375,000
Professional Services	£750,000	£150,000
Distributors	£15,000,000	£375,000

<u>Note:</u> No change is proposed in the definition of "Category I" since the obligations of Category I and Category II firms are now identical.

46. An exemption from pre-notification for minor price increases is also proposed. Increases for a product or established product range which amount to less than 2% over a whole year above the price prevailing on 31 July will not be subject to pre-nofification. Firms which would otherwise have pre-notified such increases will, however,

be required to inform the Price Commission of the increases within 14 days after implementation. A less detailed form of cost justification will be required than for normal pre-notifications, but full details of relevent wage settlements must still be supplied.

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22 June 1976

COPY NO 81

CABINET

OCCUPATIONAL PENSION SCHEMES

Note by the Secretary of State for Social Services

I attach for the information of my colleagues a confidential Final Revise copy of the White Paper on Occupational Pension Schemes: The Role of Members in the Running of Schemes, which is to be published on Thursday, 24 June 1976.

D E

Department of Health and Social Security

22 June 1976

CONFIDENTIAL—FINAL REVISE

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Occupational Pension Schemes

The Role of Members in the Running of Schemes

OCCUPATIONAL PENSION SCHEMES

THE ROLE OF MEMBERS IN THE RUNNING OF SCHEMES

CHAPTER 1

INTRODUCTION

1. The growth of occupational pension schemes is one of the phenomena of our time. In less than a generation they have almost doubled their coverage. Now they cover half the working population and play a key part in the life of this country– socially, financially, economically and in the field of industrial relations. The Government have recognised their value and importance by the unique partnership which the Social Security Pensions Act 1975 establishes between the state scheme and occupational pension schemes. But this deals only with the area in which the state scheme and occupational schemes interact. Now the Government have decided that there are some changes which should be made in the system of occupational pension schemes as a whole to adapt it better to modern social conditions, so that it serves individual members and the community to the best advantage.

2. The system of occupational pensions has grown piecemeal. On the whole it has served its members well; but in a number of respects it needs bringing up to date to keep up with our changing society. Workers want to play their part, in accordance with modern ideas of industrial democracy; and they want to be assured that their benefits will be safe in spite of current economic conditions which have been putting a great strain on some schemes. The Government accordingly asked the Occupational Pensions Board to consider to what extent new statutory provision was necessary in relation to solvency, disclosure of information and member participation in occupational pension schemes.

3. This request was made in July, 1974. In February, 1975, the Board made a full Report*, having considered both written and oral evidence from a wide variety of sources. The Board came to the conclusion that some further statutory provision was required. The Board's study of this important and complicated subject was invaluable and the Government wish to record their appreciation of the work involved and of the way the task was carried out.

4. The Government have now examined the matter exhaustively in the light of the Board's Report. This White Paper sets out the conclusions they have

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* Report of the Occupational Pensions Board in accordance with Section 66 of the Social Security Act 1975 on the question of Solvency, Disclosure of Information and Member Participation in Occupational Pension Schemes—Cmnd 5904 February 1975.

reached and their proposals for action; in some cases alternative proposals are discussed where the evidence does not seem to point clearly to one particular line of action. The three subjects dealt with by the Board are, as the Board themselves pointed out, very closely inter-related. The Government take the view that the way into these problems is through proper disclosure of information to members of schemes. This White Paper therefore discusses first the question of disclosure of information, then the related question of member participation, and finally the question of solvency. It also refers to the question of the constitution of the Occupational Pensions Board itself and the forthcoming report from the Board about Equal Status for Women in Occupational Pension Schemes.

CHAPTER 2

DISCLOSURE OF INFORMATION

5. Occupational pensions are deferred pay. Occupational pension schemes exist for the benefit of their members. As a matter of justice, and as an aspect of good relations between employers and employees, members of a scheme ought to be given all the information necessary to enable them to feel an involvement in how it operates and understand how it will affect them personally. This principle seems to be generally accepted. It must now be fully carried out in practice.

6. The members of occupational pension schemes already have legal rights to certain information:

(i) *Trust law.* Most schemes are set up under deed of trust, and trust law as applied to a pension scheme, provides that trustees must give members and other beneficiaries, if they request it, the right to inspect documents about the state of the trust fund and those which will enable them to ascertain their rights;

(ii) under *section 19(2)(b) of the Finance Act 1970* it is a condition of approval of a pension scheme for tax purposes that every employee who is, or has a right to be, a member of the scheme has been given written particulars of all essential features of the scheme which concern him (and the Inland Revenue impose a similar requirement when a scheme is notifying major changes);

(iii) the *Contracts of Employment Act 1972* requires that within a specified period after the beginning of an employee's employment, the employer must give to the employee a statement which includes details of the pension rights, or state that there is no pension provision, attached to the employment; and this Act was specifically amended by the Social Security Pensions Act 1975 to require the statement to say whether or not the scheme is contracted out.

(iv) *the Employment Protection Act 1975* places a general duty on employers to disclose information to independent trade unions on request for the purposes of collective bargaining, provided that it would be in accordance with industrial relations practice to do so and that the union would be materially impeded without the information.

7. Apart from these statutory requirements, some progressive employers have themselves taken the initiative in providing employees with clearly presented information about their schemes in considerable detail. In some cases ongoing information is also supplied.

8. So there has been progress. But we need to go farther still. All employees in schemes should get the kind of information which only the most fortunate now receive. There must be systematic arrangements for disclosing the vital particulars about the administration and progress of an occupational pension scheme, not only to all its members but in addition to recognised independent trade unions, who need it to protect their members' interests.

Again this is a proposition which would be widely accepted not only by those concerned primarily with the interests of workers, but also by many employers and others concerned with schemes.

9. There are two types of information to which scheme members and their trade union representatives should have access. The first is general information about the scheme, the benefits it offers, the method of financing them, and the constitutional and management structure—the kind of information that can be incorporated in an explanatory booklet issued to all members and prospective members. The second type of information has to do with the ongoing financial and actuarial situation of the scheme, the investment of its assets, and the discharge of the responsibilities of the trustees or management body of the scheme—the kind of information that can be put into an Annual Report.

10. In addition there is information which is personal to the member—information about his own benefit position under the scheme. This is bound to incorporate, or reflect, information about him as an individual, his pay or salary, his marital and family position, his dependants, and so on. This he must be able to get from the scheme on request, within reason. But unlike the other information it raises issues of personal privacy. This means that it is not normally to be disclosed to other members, or even to his union, without his consent.

11. The Occupational Pensions Board considered all three types of information in considerable detail. They took into account the argument put to them that a voluntary code of practice on disclosure of information would in time be observed and would make legislation unnecessary. The Board concluded that a voluntary code could well be ignored by those in most need of encouragement. They recommended that there should be a statutory requirement for disclosure. The Government agree with the Board's view.

12. In relation to the first category of information, general information about the scheme, the Board made the following recommendations:

(i) prospective members should be given an outline of the scheme's main benefits, eligibility conditions, pension age, and employee contributions, within three months of joining the employment, with subsequent notification if any of this information is changed before they actually become members;

(ii) new members, before or shortly after joining the scheme, should be given information not only about the constitution of the scheme, but

also about the functions of the trustees and of any management committee or other body charged with the management of the scheme, and in particular the methods of appointment and replacement in each case (all of which should be specified in the trust deed, scheme rules or other documentation of the scheme, including public service schemes);

(iii) new members should also be given details of the scheme's main benefits, the method of financing the scheme, including information about the calculation and collection of employee contributions, the basis on which the employer contributes, whether or not it is tax approved, whether it is used for contracting-out and a statement of members' rights of inspection of the documents comprising the scheme (any subsequent changes in this information to be notified);

(iv) in the case of unfunded schemes a statement should be given to new members on joining, to early leavers with preserved benefits, and to pensioners and other beneficiaries when their benefits first become payable, showing that their benefits are not funded and are therefore dependent either on the company's continuing prosperity or in the case of public service schemes on the continued provision of resources from the Exchequer.

13. The Government agree with all these recommendations with two modifications. They propose that prospective members should be given information about the basis on which the employer contributes, as well as information about employees' contributions.

In the case of unfunded schemes, they do not think that the proposed special statement is necessary or appropriate for unfunded public service schemes, since it would not be justifiable to give members of such schemes any cause for anxiety as to the ability of those schemes to meet their commitments.

14. On the second category of information, that is information about the ongoing financial and actuarial situation of the scheme, the Occupational Pensions Board made a number of recommendations, according to whether the scheme is fully insured or not. These recommendations are of particular importance because of their bearing on the question of solvency, which is considered separately in Chapter 4.

15. In the case of insured schemes the Occupational Pensions Board recommended that if the benefits were fully secured by insurance policies, without taking into account future bonuses or other forms of profit sharing, the trustees or managers should be required to prepare a statement each year signed on behalf of the relevant life office showing:

(*a*) that the benefits were fully secured and

(*b*) whether the premiums required in the previous year had been paid in full.

This statement they recommended should be available on request to any serving member of the scheme.

16. In relation to other schemes (that is self-administered schemes and insured schemes under which the benefits were not fully secured by insurance policies, because for example the benefit entitlement could not be determined in advance, such as final salary schemes) the Board recommended that the trustees or managers should be required:

(*a*) to prepare annual accounts;

(*b*) to have these professionally audited;

(*c*) to obtain an actuarial report at the outset of the scheme and at least every three years thereafter;

(*d*) to make available on request to members (including pensioners and those with preserved benefits) and other beneficiaries of the scheme an annual report; this should contain the annual accounts, the auditor's certificate, details of the scheme's investments, a certificate prepared by the actuary, at the last valuation, showing the extent to which accrued benefits would be secured on the immediate discontinuance of the scheme, and a statement by the actuary giving his recommendation, at the most recent valuation, on the rate of contribution to be paid, the bases used in making this recommendation, and the level of funding which this was intended to achieve; and

(*e*) to present all this information in a form laid down by the Board.

17. The Government agree with all these recommendations. In addition they consider that the annual report should indicate in general terms the investment policy being followed. They also consider that any member should be able to see on request any recent actuarial report made in respect of his scheme as it stands, (other than a report concerned with the individual benefit position of other members, identified in the report).

18. In relation to trade unions, the Board recommended that legislation should provide that any information to which members (including pensioners and those with preserved benefits) or other beneficiaries are entitled, whether automatically or on request, could be passed by them to any trade unions or other organisations representing them. The Board also said that they believed that where unions were recognised for negotiations on pensions matters, then all the information which they were recommending should be available to members and beneficiaries, save information relating to an individual's own benefit entitlement, should be available to such unions. However they did not consider that such a requirement would be appropriate for social security legislation. The Board also recommended that the Advisory, Conciliation & Arbitration Service should include in the Code of Practice they are drawing up on disclosure of information for collective bargaining, guidance on the information that should be given to unions recognised for negotiating on pensions matters.

19. The Employment Protection Act 1975 gives unions a direct right to have information for collective bargaining purposes (see paragraph 6(iv) above). For the rest, the view of the Government is that the proposal that members and beneficiaries should be entitled to pass information on to any trade unions representing them does not go far enough. They consider it essential that

independent recognised trade unions should in all circumstances have direct access to information in their own right about schemes to which *their* members belong. The legislation the Government will introduce will provide that independent recognised trade unions with members in a scheme will have the same right to information either automatically, or on request, as the members themselves have (except for information about an individual member's benefit position).

20. The third category of information is benefit information concerning the position of the individual member. In relation to this, the Board recommended as follows:

(i) members reaching normal pension age should be given a benefit statement to be available shortly before or after reaching that age which should also include a statement of any rights or options open to them;

(ii) pensioners should be notified of any changes within the scheme which affect them;

(iii) beneficiaries, or those acting on their behalf, on a member's death should receive a benefit statement which should also show any rights or options open to them and undertake to notify them of any subsequent changes within the scheme which affect them;

(iv) early leavers should on leaving be given a benefit statement which should also include a statement of any rights or options open to them and should state who will be responsible for paying the benefit when it becomes due, and the procedure for claiming benefit (where appropriate),

(v) all scheme members still in the relevant employment (ie active members) should be entitled to an individual benefit statement whenever they reasonably request it.

21. The Government agree with all these recommendations. Moreover they consider that the notification to pensioners of any changes within the scheme which affect them should be made in advance.

22. Disclosure of information, whether it is general information, or specifically related to the individual's own benefit position, will lose much of its value if the information disclosed is badly set out. Pension matters are often complex, but the practice of the best schemes shows that the essential matters can be identified and presented in a clear and straightforward manner. The Government attach great importance to this factor.

23. The requirements set out in this chapter would not involve changes in all schemes equally. Some good schemes may already be disclosing information on this scale, others may be doing very little in this direction. The Government consider that compulsory disclosure of information on the scale proposed is essential if workers and unions in all schemes are to be able, as only some of them now are, to play a responsible part in the running of pension schemes which so closely affect their interests. Workers will then be able to satisfy themselves that so far as possible adequate arrangements have been made to safeguard their pension rights.

24. It will not be sufficient to legislate only in respect of new members of schemes. Existing members must have the same rights to information as new members. However, with about eleven million members in schemes, it will be necessary to allow a reasonable period of time for this to be done. It will also be necessary to avoid duplication where the member has already had the specified information. The Government will discuss these points with occupational pensions organisations before the legislation is introduced.

CHAPTER 3

MEMBER PARTICIPATION IN SCHEME MANAGEMENT

25. It is necessary at the outset to distinguish between matters proper to negotiation through collective bargaining and those to be decided by participative management. The Employment Protection Act defines collective bargaining as including the terms and conditions of employment. Occupational pensions can and often do fall within this category and in such cases the introduction of new schemes or the alteration of existing schemes are properly matters for collective bargaining. Scheme administration, however, including such matters as investment policy and the discretionary allocation of benefits within agreed guidelines to one individual rather than another, can be the responsibility of participative management. It must be emphasized that the development of industrial democracy is complementary to collective bargaining and not intended to replace or inhibit it in any way. This White Paper does not deal with issues which are properly the subject of collective bargaining, but with matters which should be left for decision within the structure of the scheme itself. The employer could continue to reserve to himself the determination of his own contribution to the scheme, and the extent of the powers to be exercised by participative management could itself be the subject of collective bargaining.

26. There has been valuable experience of participative management of occupational pension schemes. In recent years a number of established as well as newly formed schemes have had arrangements for employee participation built into them. So there is something to build on. The Government's view is that the time has come to establish a statutory right to participation. One of their first concerns in 1974 was to seek advice from the Occupational Pensions Board on this matter. The proposals in this White Paper are to be seen also in the context of the Government's wider commitment to a programme of measures extending employee participation. Their distinctive feature, not shared by other elements of the programme, is that they deal with the management of resources which comprise the deferred pay of the workers concerned and with schemes set up and administered under trust law as separate institutions solely concerned with promoting the interests of their members.

27. The last survey by the Government Actuary in 1971 showed that there were about 65,000 occupational pensions schemes in the United Kingdom covering about 11 million members. The survey did not touch upon the degree of member involvement in schemes. A fresh survey carried out in the second half of 1975 is expected to produce some information about this, but the results

will not be available for some months. Nevertheless it can safely be assumed that only a minority of schemes have formal arrangements for participation by employees or unions in scheme management.

28. In the light of modern ideas about industrial relations and participative management, it is not acceptable that the structure of most occupational pensions schemes should exclude recognised independent trade unions from the administration of the scheme. For this reason, the Government, in framing their proposals for the new state pension scheme, considered it essential to put a statutory obligation on the employer to consult the relevant recognised independent trade unions before deciding whether or not to put in an application to contract out. This has now been carried into effect through regulations made under the Social Security Pensions Act 1975*.

29. There are many advantages in pension schemes being run jointly by employees and employers. Such a partnership gives members of the scheme more confidence in it and a greater sense of security. It can also be expected to give them a better appreciation of the extent of the claims on resources constituted by a pension scheme. When it comes to difficult individual cases, such as exercising discretion to pay death benefit to one person rather than another, member representatives may have special knowledge and be able to advise more surely than management representatives. The employer, on the other hand, may have access to specialised financial and investment advice and the trustees will normally rely on the employer to provide the administrative structure for collecting and recording contributions and distributing information.

30. The Occupational Pensions Board came to the unanimous decision that member participation in occupational pension schemes is desirable in principle. They referred to the absence of any standardised method of running occupational pension schemes: boards of trustees, management committees, boards of management, corporate trustees, advisory committees and scheme administrators, all had differing functions and degrees of responsibility in various schemes. They concluded that the variety of practice was such as to make legislation impracticable. Instead they recommended a Code of Practice to be accompanied by a long term study of its effects and the possibility of later legislation. In connection with this Code of Practice, the Board said that they could see no reason for not following the practice already existing in some schemes of 50:50 representation; and they suggested that, where decisions can be taken by a majority vote, there should be a chairman with a casting vote.

31. The Government, while recognising that there is a wide variety of schemes do not accept that legislation would be impracticable. They consider that it will be possible to find a general formula which would achieve the desired result while allowing a variety of structure. The Government have therefore decided to introduce legislation to secure effective member participation.

32. It is likely that the Employment Protection Act will increasingly secure that occupational pension schemes are brought into the sphere of collective

* The Occupational Pension Schemes (Certification of Employments) Regulations 1975. (SI 1975 No 1927).

bargaining. The normal position will then be that schemes, and alterations in schemes, will be negotiated by recognised independent trade unions. In that situation the Government believe that the best way of securing the independence of those who are to be appointed, as a result of the legislation, to achieve effective member representation in the running of the schemes, is to ensure that this is done through trade union machinery, instead of leaving the employer to nominate them or to decide on the arrangements. This would have the additional advantage of providing a means by which relatively large numbers of union members and officials, taking the country as a whole, would become familiar with the day to day problems of running particular pension schemes. While collective bargaining would no doubt usually be carried on by other union members or officials, the indirect results of having this body of up to date experience available for consultation could not fail to be beneficial.

33. For these reasons the Government are proposing that participation by employees in the running of occupational pension schemes should be achieved through the agency of recognised independent trade unions, and that they should have a right of appointment to 50 per cent of the membership of any controlling body or bodies specified by the legislation.

34. As to the form of statutory requirement to be imposed for this purpose there is room for some difference of view. One possibility would be merely to give recognised independent trade unions the right to appoint 50 per cent of the trustees. On this approach the powers of the trustees appointed by the unions would be entirely confined to whatever was laid down in the trust deed about the powers of trustees generally. There would also be the difficulty of adapting this possibility to the system of corporate trusteeship. As an alternative, or in addition, it would be possible to provide that every scheme must have a certain kind of controlling body with specified functions, on which there would be equal participation.

35. A variation of this would be to select several key functions (such as investment, the provision of information to members, and the exercise of discretionary powers in relation to, say, death benefit and hardship cases) and lay down that these must all be exercised by a joint body, that is a body on which recognised independent trade unions had a right to 50 per cent of the seats. This would give the maximum freedom of organisation since they could be exercised by existing bodies such as trustees or committees of management, or alternatively they could be exercised by ad hoc bodies set up for the purpose.

36. A more general approach on similar lines would be simply to lay down that recognised independent trade unions had a right to 50 per cent of the seats on all bodies concerned with the general management of occupational pension schemes, such as bodies of trustees or specialist management committees, or bodies of similar character. This last proposal is the one that appears to be the most comprehensive while retaining the maximum flexibility, and it is the one which the Government consider most likely to produce a workable arrangement when embodied in legislation. However, the Government have not closed their minds to other possible solutions and intend to have further discussions with the TUC, the CBI, the nationalised industries, the public services and the pensions interests, before legislating on these points.

37. The Board considered whether there should be express requirements about the representation of women. They concluded that this would need further consideration when the code of good practice which they had recommended was being prepared, but pointed out that there would be difficulty in devising specific provision for women's representation. The Government's general policy on eliminating sex discrimination is well known and the measures concerned are on the statute book. The Government wish to see women playing their part in the running of occupational pension schemes. They consider that this can safely be left to the members and the unions to achieve on the footing that men and women would be equally eligible for appointment. It should, however, be possible for the parties to discriminate in favour of women in this respect if they so wish and accordingly the legislation will contain a permissive provision on the lines of Section 49 of the Sex Discrimination Act, 1975.

CHAPTER 4

SOLVENCY

38. When the Government asked the Occupational Pensions Board to examine the question of the solvency of occupational pension schemes, this was against the background of the strains on the system caused by the economic situation as it was then developing. The findings of the Occupational Pensions Board show that there is a long history of financial stability in the affairs of occupational pension schemes, that failures to pay benefits have been very few, and that this continues to be the case in spite of recent difficulties. Apart from some public sector schemes, the great majority of schemes, and practically all schemes now being set up, are funded in one way or another either through an insurance company, which is subject to the supervision of the Department of Trade, or by means of self-administered funds with actuarial and other advisers. Thus one way or another the money being set aside by the employer to provide the benefits for employees, and the contributions of the employees themselves in contributory schemes, are being supervised at a professional level quite independently of the employer.

39. It cannot be assumed, however, that because schemes have generally been able to meet their obligations in the past, no action is necessary to ensure that they will continue to do so. Most existing schemes are still far from reaching maturity and, in terms of cash flow, are benefiting from a favourable ratio of members to pensioners, which has been further helped by the fact that the period of growth of schemes has also been a period of expansion of the working population. There has recently been a rapid extension of final salary schemes for manual workers, in place of the type of scheme that provides pension rights in fixed money terms which can be fully secured through insurance policies. And members will increasingly expect their pensions to be inflation-proofed even where this is not a contractual right (and it is likely that schemes will increasingly provide some degree of inflation-proofing on a contractual basis). The Occupational Pensions Board drew attention to a number of ways in which the financial security of benefits could be strengthened particularly in relation to contracted-out schemes.

CONTRACTED-OUT SCHEMES

40. Contracting-out is a system whereby, at the instance of their employer, people are allowed to be taken out of the absolute security of the state scheme, in respect of a large slice of the benefits covered by that scheme. To replace these benefits the employer undertakes to provide equivalent benefits from an occupational scheme. Therefore in the Government's view it is essential to ensure that those benefits which are standing in place of the state scheme benefits will be paid when they fall due. This is the justification for the particular and special arrangements for safeguarding the solvency of what are called the "guaranteed minimum pensions" provided by schemes contracted out of the new state pension scheme set up by the Social Security Pensions Act 1975.

41. In relation to contracted-out schemes the Occupational Pensions Board recommended that the Board should be given the following powers for the purposes of ensuring the security of guaranteed minimum pensions:

(*a*) power to require notification that premiums and contributions have, or have not, been paid;

(*b*) power to require actuarial certificates, both at the outset and every three years, other than for fully insured schemes with power to require different types of certificate according to the degree of priority accorded to guaranteed minimum pensions in the scheme's winding-up rules;

(*c*) power to require restrictions on investment and in particular controls of investment in the employing company and associated companies and of concentrations of investment in any one field;

(*d*) power to require any other information from the employer, scheme trustees, managers or life office necessary in the Board's view to ensure the security of the guaranteed minimum pension;

(*e*) power to cancel a contracting-out certificate if they considered that the financial or other conditions were not and would not be met; and

(*f*) power to continue to supervise schemes formerly used for contracting-out so long as they retain responsibility for guaranteed minimum pensions.

42. All these powers have been given to the Board in the Social Security Pensions Act, 1975, or the regulations made under it.

43. The Board also suggested some additional protection for guaranteed minimum pensions. First, in relation to the Government's proposals which later took shape as the guarantee scheme in the Policyholders' Protection Act, 1975, they suggested that the normal level of 90% protection for benefits under policies should become 100% for guaranteed minimum pensions by analogy with the 100% protection provided for claims under specified types of compulsory insurance policies. The second point concerns Section 65 of the Employment Protection Act, 1975, which, subject to certain limits, provides in the case of insolvency for the payment from the Redundancy Fund of contributions outstanding in the 12 months preceding the date of insolvency, including those payable by the employer, whether or not the scheme is contracted out. In relation to this the Board suggested that the cover should extend to all

outstanding contributions required to buy back in full any guaranteed minimum pensions (failing which such contributions should be deemed to be paid). As the provisions in the Social Security Pensions Act 1975 and regulations ensure that in the last resort no employee need lose any guaranteed minimum pension through the non-payment of premiums or contributions by his employer, the Government has not pursued these two suggestions.

ALL SCHEMES

44. The provisions discussed so far deal with the solvency of contracted out schemes in respect of guaranteed minimum pensions. What then should be the statutory position in respect of people in occupational pension schemes which are not used as a basis for contracting-out, or in respect of those parts of contracted-out schemes which are not within the statutory requirements for contracting-out? Protection for the individual in these cases must come mainly through recognised independent trade unions. Pensions are a matter for collective bargaining; and it is for unions to work towards the required degree of security of the pension schemes they negotiate as part of the process of collective bargaining. On this view the primary task of the Government is to legislate for adequate financial information to be available to workers and their unions. This the Government will do (see Chapter 2). But funding of final salary schemes inevitably involves assumptions which may not be borne out and can never be entirely free of risk. The Government do not believe that, in the long run, this is a matter solely for collective bargaining. The possibility of some further safeguard must be considered.

45. The Report of the Occupational Pensions Board discussed in a good deal of detail whether there should be funding and investment controls on all schemes and not only on those used for contracting-out purposes. This is a matter on which there is room for more than one view. On the one hand it may be argued that, as pensions are deferred pay, the arrangements for protecting them should be publicly supervised. On the other hand it may be argued that the best safeguard is to have all the information made available to workers and their representatives, and for members to participate in framing and supervising the broad investment policy—both of which the Government's legislation will secure; and that it would represent a very heavy commitment in skilled man-power to supervise the funding of all schemes other than those under which the benefits were fully secured by means of insurance policies and the investment of all self-administered schemes and one that would be unnecessary in the great majority of schemes. Overseas practice in this matter differs widely. The Government have decided to accept the Occupational Pensions Board's recommendation that there should not be any immediate legislation for funding and investment controls on schemes which are not contracted out but that the solvency question should be further studied. They propose that the Board should be asked to review the need for any further legislative or other measures directed to providing greater security for the pension rights and expectations of members of occupational pension schemes, having regard to developing conditions and practice affecting both funded and unfunded schemes.

CHAPTER 5

GENERAL

Registration of Occupational Pensions Schemes

46. In order to facilitate the implementation of the changes they envisaged, the Occupational Pensions Board recommended a statutory system of registration of occupational pension schemes, with the Board being enabled to refuse or withdraw registration where the documents supplied did not, or ceased to, meet any of the statutory requirements. The Government consider that, while there would be advantages in having a system of registration of schemes, the manpower requirements of such a system, both for central Government and for private employers and those concerned with the running of occupational pensions schemes, would be out of proportion to the benefits obtained. The Government have therefore concluded that the legislation should simply impose the statutory requirements already described, and it would be up to the member or his union to complain to the employer in the first instance if they thought these were not being observed. The central part given to the unions in the proposals in this White Paper would facilitate this approach. The question of enforcement is dealt with more fully in paragraphs 57-58.

Statistics

47. One of the advantages of a system of registration, had it not been ruled out on manpower grounds, would have been that it would have ensured that comprehensive statistics about occupational pensions were readily available. The Government consider that this advantage can be achieved by other means.

48. Up to now the statistical surveys of occupational pension schemes made by the Government Actuary (in 1956, 1963, 1967, 1971 and most recently in 1975, still in progress) have been carried out on a voluntary basis. While the majority of the employers who were approached completed some or all of the answers to the questionnaires—a task involving some work for them and perhaps for their actuaries and insurance advisers—a substantial number did not. The Government's proposals for disclosure of information to members and to recognised independent trade unions will mean that all schemes will in future be preparing summarised information about the scheme on a regular and systematic basis. The managers of the pension schemes and employers are thus much more likely to have information readily available. In these circumstances, and in view of the great importance of maintaining reliable statistics of occupational pension schemes on an aggregate basis, both for general policy affecting these schemes and because of the implications for national income and expenditure statistics, the Government feel justified in taking statutory powers in relation to statistical surveys. The legislation envisaged in this White Paper will therefore include powers under which these statistics could be collected.

Information about pension schemes in company accounts

49. In addition to their recommendations about disclosure of information to members and beneficiaries of schemes, the Board recommended that the Secretary of State for Trade should be asked to consider whether regulations might be made to extend Schedule 2 of the Companies Act 1967 in order to require the inclusion of specific information about pension schemes in company

accounts or balance sheets. The Board said that the information to be included would need further consideration but they suggested the possibility of requiring the inclusion of some or all of the following items:

(*a*) brief financial information about any pension scheme to which the employer contributes;

(*b*) provision for any unfunded pension commitments, where these are material;

(*c*) where benefits are funded, a statement showing the extent to which the scheme's assets would, at the last valuation date, have been sufficient to secure accrued liabilities in the event of the scheme's discontinuance; and

(*d*) a statement whether the scheme auditor qualified his last certificate.

50. The Government's proposals will ensure that all relevant information is available to members and beneficiaries of schemes, and to recognised independent trade unions. They will also cover all those persons who are not in a scheme at present but can expect to become members in due course. The Government have therefore looked at the Board's suggestion in the light of its value to other employees who are not in the scheme at all and are not within the category of prospective members, on the one hand, and the general interest of shareholders in information of this character, on the other hand. In view of the very large resources devoted to pension schemes there is a case for saying that it would be in the interests of employees generally, and of shareholders, and indeed in the public interest, that company accounts should contain more information of this kind than they do at present. However, this raises important considerations involving expert manpower, and further expenditure by companies on professional services, and about the amount of information which can reasonably be required in company accounts. The Government are considering the Board's recommendation further in the light of these factors.

Easier remedy in the Courts

51. The Board felt that it should be made easier for all types of members and beneficiaries, and their representatives, to obtain redress if they believe the scheme is not being run in their best interests, or if they suspect financial maladministration or that the rules are not being observed. They recommended that the Lord Chancellor should be asked to explore the possibility that cases of breach of trust involving pension schemes could be heard in the County Courts, instead of as at present being largely confined to the Chancery Division of the High Court.

52. The Government accept that it should be made easier to institute proceedings relating to disputes about entitlement to occupational pensions, whether concerning arrears or declarations of right to pension. The Government, therefore, are considering the desirability of relaxing the financial limits on the jurisdiction of the County Courts so as to enable more cases to be brought in those Courts instead of the High Court.

Training of member and employer representatives

53. The Board recommended that the Department of Health and Social Security, in consultation with the various organisations concerned (including

the Training Services Agency of the Manpower Services Commission) should consider existing arrangements for training member and employer representatives on the management bodies of schemes, and how these could be expanded to cope with future demand.

54. The Government are studying this recommendation and will discuss it further with the TUC and CBI.

Enforcement

55. So far as contracting out is concerned, the requirements mentioned in this White Paper carry their own penalty in that if they are not shown to be complied with the employer will not receive a contracting out certificate, or will lose the certificate issued to him.

56. So far as other schemes are concerned, the proposals the Government are bringing forward will ensure that unions have the right to be kept fully informed on all relevant matters relating to occupational pension schemes, and it may be expected that normally any dispute will be resolved through the machinery of collective bargaining. The legislation will follow the enforcement provisions established for preservation, by providing for members or unions to approach the Occupational Pensions Board if they consider that the requirements are not being observed. The Board in such a case will under the legislation be given the power either to direct that the scheme must be appropriately modified, or if they think it necessary, to make the modifications themselves. This alteration of the rules would give the member or union concerned the legal right to have the particular requirement observed, which they could pursue through the machinery laid down in the scheme or in the last resort, through the Courts.

57. The Board recommended that non-submission of information requested by them or failure to make information available to members after a direction of the Board should be an offence punishable by fines. The Government are studying this. The Government are also considering the possibility of using powers analogous to those in Section 51(7) of the Social Security Act 1973 by empowering the Board in the last resort to cancel the employer's power to deduct contributions compulsorily from an employee's pay if they have declared him to be in breach of requirements envisaged in this White Paper.

The smaller schemes

58. It will probably be necessary to lay down that some of the requirements proposed in this White Paper do not apply to the smaller schemes. The Government will have discussions with representative organisations on what the lower limits affecting the various requirements should be.

Public sector schemes

59. The application of the principles set out in this White Paper for occupational pension schemes in the private sector must also be considered in relation to public sector schemes. Further study is needed before it can be determined in what ways the proposals in this White Paper should be adapted to meet the special circumstances in this area such as the nature of the schemes and the requirements of Ministerial and Parliamentary control. The Government will discuss the adaptations required with those concerned in the nationalised industries, local authorities and the public services.

CHAPTER 6

EQUAL STATUS FOR MEN AND WOMEN IN OCCUPATIONAL PENSION SCHEMES

60. "The Government are committed to the principle that women should have a fair deal in occupational pension schemes". This was the policy laid down in the White Paper, "Better Pensions" (para 75) issued in September 1974. It remains Government policy today.

61. Action was promptly taken to implement a two part programme for securing equality of status for women in occupational pension schemes. The first step was to embody in the Social Security Pensions Act 1975 measures outlawing certain discriminatory practices which could operate to the disadvantage of women. These concerned the terms of admission to schemes in relation to the age and length of service needed for becoming a member and whether membership was voluntary or obligatory. The regulations* made under these provisions will come into operation with the new pension arrangements of the 1975 Act in April 1978. The major task was, however, to remedy the absence of any comprehensive information about occupational pensions provision for women and to consider what remained to be done to achieve the broad objective of equality.

62. In February 1975 the Secretary of State for Social Services referred the whole question of equality of status for men and women in occupational pension schemes to the Occupational Pensions Board for advice in the following terms:

> "To consider in the light of the Government's proposals for the future of pensions and in particular their invitation to end discrimination against women in occupational pension schemes, what further steps are necessary, whether by way of legislation or otherwise, to implement the principle of equality of status for men and women in such schemes, and to report".

The extent of the range of considerations of which account needs to be taken was demonstrated in the comprehensive memorandum issued in April 1975 by the Occupational Pensions Board for the guidance of those who might wish to submit evidence to them relating to existing practice and suggestions for change. The issues referred to included conditions for entry, provision for dependants, rules relating to pension age, and the levels of benefits and contributions.

63. It is understood that the report of the Occupational Pensions Board on equality of status for men and women in occupational pensions schemes will be ready soon. It is the Government's hope that it will be possible to extend the consultations and discussions of the proposals in this White Paper to cover proposals arising from consideration of the Board's report.

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* The Occupational Pension Schemes (Equal Access to Membership) Regulations 1976 (SI 1976 No. 142).

CHAPTER 7

CONSTITUTION OF OCCUPATIONAL PENSIONS BOARD

64. The Occupational Pensions Board said that for ease of reference they had referred throughout their Report to the Board as the central authority which they were recommending should discharge a number of new responsibilities in relation to occupational pension schemes. They were, however, reluctant to volunteer an opinion whether the Board, either as at present constituted, or with some changes, should function as this central authority. Their references to the Board in their Report were therefore without prejudice to any Ministerial decisions on this question.

65. The Occupational Pensions Board, since being set up in 1973, have proved their value in the field both of administration and of advising Governments on questions referred to them. To substitute for the Board at this point a new central authority would, in the Government's view, lead to unnecessary disruption and discontinuity of experience. The Government have therefore concluded that the responsibilities for central supervision which they will be proposing in their new legislation should be placed on the Occupational Pensions Board and not on some different authority. In the light of this decision it is plain that the constitution of the Board should be reviewed to see how it needs to be adapted to its new responsibilities.

66. Under the Social Security Act 1973, the Board consists of a Chairman, a Deputy Chairman and not less than eight nor more than 12 other members all appointed by the Secretary of State; in fact the Board had ten other members until September 1974 and has had the full complement of 12 other members since then. Of these other members, one has to be appointed after consultation with organisations representative of employers, and one has to be appointed after consultation with organisations representative of employed earners.

67. The functions of the Board are set out in the 1973 Act, and in the Social Security Pensions Act, 1975, taken together. Their central role is to supervise the way in which occupational pension schemes are carrying out the statutory requirements laid on them in relation to preserved benefits for early leavers, and in due course to receive and decide applications for contracting out under the new state pension scheme, including the supervision of contracted-out schemes, and the supervision of the statutory requirements for the equal access of women to occupational pension schemes. In addition the Board have an executive role in altering schemes, either as part of the enforcement of the statutory requirements or to achieve modifications in schemes which would otherwise be impossible or very difficult for the schemes to achieve themselves. The Board also have such advisory functions as may be conferred on them by the Secretary of State in respect of occupational pension schemes, and a specific advisory function in respect of regulations proposed to be made by the Secretary of State under the statutory provisions relating to occupational pensions, which must be referred to them in advance.

68. In view of the Board's powers both to supervise and to assist occupational pension schemes, it is important that both the constitution and membership of

the Board should reflect the fact that these schemes are disposing of the deferred pay of their members. At the same time the constitution and membership of the Board should also reflect the fact that employers have set up the schemes, invariably contribute to them, and often have major commitments under such schemes. The Government will therefore be consulting those concerned as to any changes desirable in the present constitution of the Occupational Pensions Board to reflect these considerations, in the light of the new responsibilities which their legislation will place on the Board.

CONCLUSION

69. The changes proposed in this White Paper will give members of occupational pension schemes the right to know the essential facts about their schemes and to take part in running them. They must be introduced as soon as possible. But the timetable must be realistic.

70. In the period up to April 1978 those concerned with occupational pension schemes will be busy adjusting to the new state pension scheme, either through contracting-out or through changes which may be necessary if they decide not to contract-out. The Government consider that this must be a priority task in which scheme members, through their trade unions, should be actively involved. While therefore the Government would hope that the implementation of the new requirements would start straightaway, these would not become compulsory in any event before April 1978 and the Government would undertake to give at least two years' notice before they did become compulsory. This should enable schemes either to make all the changes together, or to phase them in over a period.

71. The first step will be for the Government to discuss the proposals in this White Paper with representative organisations, including the TUC, the CBI and those concerned with occupational pension schemes. After taking account of views and comments, the Government will present the new legislation as early as possible.

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CABINET

STRATEGY AND PRIORITIES

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate for the information of the Cabinet a memorandum on strategy and priorities prepared by the Central Policy Review Staff.

Signed JOHN HUNT

Cabinet Office

24 June 1976

STRATEGY AND PRIORITIES

A Memorandum by the Central Policy Review Staff

INTRODUCTION

1. In October 1974, just after the last election, a memorandum by the Central Policy Review Staff on Strategy and Priorities was circulated to the Cabinet (C(74)110). It attempted to review the tasks facing the new Government in the short and long run. Since then some 20 eventful months have passed and a new administration has been formed. The basic long run objectives remain unaltered (control inflation, improve economic growth, reduce unemployment, correct the balance of payments, bring about a fairer and more humane, more actively democratic Britain), and indeed, the memorandum stands re-reading to see how many of the short term problems remain with us. But now, in the early days of a new administration, it is worth reviewing the outlook.

Inflation

2. All in all, the past 20 months have gone better, but only a little better, than we then feared. The first stage of the social contract (no wages policy) was a disaster. By the spring of 1975 the Government's heavy social expenditure (pensions, housing) was being rewarded by the miners requiring wage settlements of 35 per cent. The economy was nose-diving towards hyper-inflation, with all that would mean for the collapse of our social fabric and institutions. For a few months the outlook was bleak indeed. Then came the quite remarkable transformation - the £6 pay agreement, the new social contract with its voluntary wages policy. An agreement which has been held to despite the severe pressures of continued rising prices and sharp reductions in traditional differentials. It has been held, too, with very few labour disputes and stoppages. Now we have the £2.50-£4 policy and if that equally holds despite the same pressures (and the slide in sterling will exacerbate the pressure from rising prices) then Britain will have achieved virtually

an economic miracle. That is to say, a deceleration of wage/price inflation at a quite incredible speed and an ability to call forth a disciplined yet voluntary response from its fragmented Trades Union movement which is quite out of tune with previous history and experience.

3. This appears indeed as a "new economic order", born largely out of fear. The British workers really had become, for the first time in their history, frightened by the prospect of hyper-inflation. Their leaders knew it and have responded accordingly. But will it last? When the inflation rate has slowed down (and the fear becomes less immediate) will the old order return - with its free collective bargaining: with each union out to 'restore differentials' and to show that it can do rather better in its settlement than its rivals? The continuance of the "new economic order", the social contract in its new form with an effective incomes policy at its heart, clearly is the major problem facing Ministers.

4. On one possible outcome the Government will have a record to show of a terrible first year on the inflation front, then a brilliant recovery and the foundation of a new effective, on-going policy of collaboration between Government, TUC (and CBI?); with the prospect of Britain's inflation rate being kept in line with other industrial countries and with a new spirit of collaboration to improve productivity, to raise the level and effectiveness of investment and training. On another outlook, the £6 and £2.50-£4 policies will appear as a short burst of sanity, with the old Adam breaking out again as soon as the inflation problem looked temporarily less worrying.

5. The Central Policy Review Staff has previously presented memoranda on longer term incomes policies (including policies for higher incomes). Ministers know that in our view continuance of incomes policy is a central, essential element of policy but the difficulties in achieving it are formidable indeed. The institutional pressures to restore 'free collective bargaining' are great; differentials will have

been even more squeezed than now; there is little the Government can offer on the public expenditure side; and workers have been conditioned to the view that inflation will be cured 'permanently' by the present temporary period of 'sacrifice', i.e. two rounds of incomes policy. Time will be short between the achievement of the £2.50-£4 agreement and the next round and a great deal of public education will be required to obtain the continuance.

The Balance of Payments

6. As on the inflation front, the experience of the past 20 months on the balance of payments has been quite a good deal better than we feared. The oil price rises had created great uncertainty about the world economy. Would the slump be made incomparably deeper and go on for an unprecedented length of time (indeed, would it, the world economy, ever fully recover)? Would the world's money markets take the strain of the incredible OPEC surpluses? Would Britain be able to borrow abroad the huge amounts implied by her prospective deficits?

7. It has all gone better than that. The world's financial system coped remarkably well with the OPEC balances, and the OPEC countries increased their imports much faster than we had imagined possible. The world slump was indeed of a depth not seen for nearly half a century - though that was as much due to the extraordinary boom of 1971-73 as to OPEC rapacity. But the recovery was not a delayed one. The world economy turned the peak of the boom in the late summer of 1973. It was only two years later that the upturn began - led by the most powerful economy of them all, the United States, and led by the most powerful engine of recovery, the motor industry. Over the past six months, country after country has revised upwards its prospects for recovery. There still is the widespread feeling that the climb back may be slower than in the past and that previous employment levels may not be realised in the coming boom, but even that pessimism may in the event be proved wrong.

8. As far as the United Kingdom is concerned, we went into this slump a little later than others (countries are never completely synchronous) and we are climbing out a little later. How fast and how far we will climb out is uncertain. The Treasury forecast is a recovery in output of the order of 4 per cent per annum and for a slow fall in unemployment. These forecasts could be proved pessimistic if the British consumer goes rapidly back to his old ratios of consumption and saving and if the new level of sterling proves highly stimulating to export volumes and to import substitution (including taking holidays at home rather than abroad).

9. The British balance of payments (together with other industrial countries) improved much faster than we had expected. (In part this was due to the very depth of the slump reducing imports.) Indeed, there was a great need for improvement, for Britain normally has a reasonably strong balance of payments in a slump when imports are low in volume and low in price (the reverse happens in a boom). For us to have a heavily adverse balance in a slump was very worrying, and still is. But there has been solid progress. Export volumes are responding better than at any time in our recent history and the new level of sterling should help to maintain that performance.

10. It is encouraging too, that the unprecedented slump has not caused a widespread return to protectionism in the world. Heavy unemployment has brought many Governments under pressure but no doubt they, like us, have convinced themselves that temporary protection to mitigate the employment effects of the slump would not pay. Slump apart, there is a view that in the case of the United Kingdom, our medium term employment and productivity prospects could be greatly improved by a 5 year period of broadly based control on imported manufactures. But the truth is that there is no easy option down this road either. We would not receive the agreement of our EEC or OECD partners to such a 5 year period of widespread protection, so the effect on our foreign relationships would be profound. Also we could not be sure that British Industry would be

confident that the 5 year period could be relied upon (Governments may change), nor that they would in such a period effect a radical transformation. Protection may be relaxing rather than stimulating.

11. The previous CPRS memorandum on Strategy was much concerned with the total likely overseas borrowing requirement of the United Kingdom 1975-80. The events of the last few months have emphasised again (if that were necessary) the difficulties which we must expect to face, even with the prospects of North Sea oil and gas, in financing our continuing very large deficits on the balance of payments. Moreover, the level of our exchange rate is an ever present concern - as it is to every trading nation in the world (those with strong currencies continually fear that they may be becoming uncompetitive). The recent slide in sterling may have been "overdone" in the sense that it has (temporarily) more than restored our recent loss of competitiveness. But some slide was essential to our strategy and in a world of floating exchange rates, with large numbers of traders taking a view about when it would best pay them to settle their accounts (leads and lags) one cannot dictate precisely where the rate will settle.

12. There are obvious dangers in continuing to use reserves and borrowing to "protect the rate". Nothing is easier than to put all one's resources into the market trying to prove to traders that their expectations are wrong, and difficult decisions will continue to face us on when to support sterling and how much of our reserves to commit. So far, the bearish actions against sterling have been very largely traders' leads and lags, but if one or more of the three major official holders of sterling (Saudi Arabia, Kuwait, Nigeria) joined the sellers, the slide could become very fast indeed. We would take what defensive measures we could (interest rate policy, money supply constraints, temporary import restraints) but some further concerted international action would probably be necessary to help stabilise the rate. It is very likely that the price for that help would be Government agreement to tackle what foreign opinion sees as a major cause of our troubles - the size of our PSBR - or put more precisely, the level of our public expenditure. Indeed, the prospects are that any lenders (the IMF, the Group of 5, the market) will expect us to reduce the PSBR and public expenditure as a condition of their loans.

Public Expenditure

13. The Labour Government was elected on a programme of heavy public expenditure and this programme they proceeded to implement in their early months of office (particularly in housing and social security). There is no doubt, though, that the Party wants still more. The recent social contract declaration by the TUC-Labour Party Liaison Committee is studded with heavy expenditure items. Most of them are very appealing and apparently necessary. Yet today's public expenditure is tomorrow's taxation and there is little doubt also that voters, central and local, at all levels of income, are feeling even the present level of taxation oppressive.

14. But there is more taxation to come to pay for even the present level of public expenditure. Today's £12bn. PSBR may be acceptable in a slump but if our balance of payments and investment objectives are to have a hope of being met we will need to reduce (perhaps halve) the PSBR two years from now. If in the face of this necessity public expenditure is allowed to increase, the taxation prospects towards the end of this Government's term of office are grim. Beyond that, in the early 1980s, even North Sea oil will not make a dramatic difference to public expenditure prospects - and the difference it does make should be to investment rather than to consumption if the benefits from the North Sea are to be properly utilised to improve our economic performance.

15. The position then on public expenditure is straightforward - but harsh. Ministers made a determined effort last year and trimmed over £3bn. off prospective public expenditure four years hence, 1978/79. The result was that the continuously rising public expenditure of recent years was to give way to a 'no growth' situation. It was a change of pace almost so dramatic as the change of pace on wage settlements, and it has brought similar strains. But nothing less will do. Indeed, even this may not be enough.

16. Ministers realise this in principle but it is almost intolerably hard to make it stick in practice. The deceleration has been so fast that the likely over-run on open-ended programmes (local authorities and public housing) already threatens to exceed the contingency allowance. And the claims continuously arrive for industrial assistance to cushion the slump, to help industrial reconstruction, for new investment, for newly nationalised industries. It is virtually certain that unpleasant steps will have to be taken to control the present open-ended programmes (e.g. housing), it is quite likely that social programmes may have to be further cut (either because of external pressures or to make more room for industrial programmes which Ministers decided in PESC must have top priority) and the savings decided upon in Civil Service manpower have yet to be translated into reductions in public services. Again there is here a major task of public education in the realities of the taxation/ expenditure 'link' and the need to adjust expectations, especially of social pressure groups. Yet this position must be accepted (and implemented).

Industrial Strategy

17. The PESC cuts have "made room" for industrial expansion and the present medium term strategy, as set out in the last Public Expenditure White Paper, requires an 8½ per cent annual rate of growth in manufacturing output for the next three years if the employment, balance of payments and real disposable income targets are to be met. This rate of growth is without precedent. It has never before been sustained over three years. That is not to say such a rate of growth cannot be achieved, but if it is to be achieved major changes will have to take place very rapidly, both within the manufacturing sector and in the environment within which manufacturing industry operates.

18. A revival in investment in manufacturing industry is proving very slow to materialise. Confidence is still very low. The battle against inflation is seen by many potential investors as being still in the balance. The return on investment is at historically very low levels (in many companies on an "inflation accounting basis" it is still negative) and the continuation of price and/or profit controls is seen as being likely to restrict company earnings in the upturn. The level of personal taxation discourages risk-taking by small businesses and the self-employed. Home demand is recovering slowly and the main increase in sales will have to come from exports and import substitution. Even with the recent sharp fall in the exchange rate, the productivity of British manufacturers will have to be greatly increased if they are to obtain a larger steadier slice of the home and world markets. Since the level of investment is low, this increase in productivity will have to come in the first instance from better utilisation of existing plant. There is a good deal of evidence to show that there is plenty of scope for such increases. The CPRS study of the motor industry and the recent study of West Midlands engineering firms show that there is scope for increasing productivity by 50 per cent or more in many cases. Studies of machine tool manufacturers, the hosiery and knitwear industry and even of the chemical industry have shown that there is major scope for raising productivity. Many parts of nationalised industry (and indeed many parts of local and central government) also have scope for major productivity improvements.

19. The vital need in Britain's present economic situation greatly to increase productivity (and to redeploy the manpower thus released) will have to be a main theme of the Government's industrial strategy. The NEDO industry studies should come up with some firm proposals, but probably the quickest and surest improvements in productivity will come from improving communications within firms, from a much greater two-way flow of information between management and the shop floor

generating a much greater sense of common purpose than exists at present. "Industrial democracy" in the formal sense obviously has a part to play in all this, though just how it is best organised and how much is to be expected from it in the early years is a matter for debate. However, the example for providing a greater flow of information will in the first place have to come from the Government, setting out the real nature of the problems facing British industry at present. They must also try to convince industry that the planning agreements element in their strategy has an important operational significance. At present opinion varies from regarding them as a threat to regarding them as a joke (an empty slogan). There is, so far, little on the industrial strategy front to compare with the achievements in incomes policy or in containing public expenditure. This must change. It has, though, always to be remembered that we have had great difficulty in the past in making rapid changes in industrial productivity and that the power of Government in this field is particularly limited.

Energy Strategy

20. Energy strategy is one element in industrial strategy but a particularly vital element for Britain, given North Sea oil and gas, the huge investments in electricity generation, the importance of the NUM. Yet we still lack a coherent, co-ordinated energy strategy. In the period ahead we need to produce as clear a view as we can on the prospective world price of energy towards the end of this century, and decide what this implies for our investment and pricing strategy on coal, oil, gas, electricity, and for energy conservation. We need to fit our current decisions in the energy field into such a strategy and not move ad hoc in relation to the immediate position vis-a-vis the NUM, the problems of the turbo-generator industry, public fears on nuclear safety, etc.

Nationalised Industries

21. Britain has an extremely large nationalised sector. Improvements in productivity there are just as vital as in the private sector. In transport and the postal services we seem to be in a downward spiral of high wage costs, higher prices, lower demand, lower services. Morale in most of the nationalised industries is at its lowest ebb for many many years, and relations between the nationalised industries and Government have seldom been worse. Indeed, the nationalised industries have been both the pace-setters for wage inflation and a prime example of uncertain management. The large NEDO study which the Government commissioned (and in which the CPRS has participated) should soon be completed. On the publication of that report, the Government should lose no time making up its mind what should be done.

Social Policy

22. Ministers have agreed that future rates of growth in social expenditure must be very much lower than they have been in the last ten years. Difficult decisions about priorities will continue to be needed. There are many deserving groups: the elderly, the disabled and handicapped, poor families. In the social security field, in particular, there is the problem of the balance between providing adequate universal benefits for groups such as pensioners or families with children, and providing selective benefits for those in special need.

23. The aim must be to concentrate resources on services and problem areas which Ministers think most important. Other services and problem areas will thus have to get less. Ministers will want to be sure that their decisions can be justified in the face of criticism from their own supporters, the professionals (teachers, doctors, etc), pressure groups and others. A coherent social programme which can stand up to criticism cannot be developed by the individual social

departments and Ministers on their own. Priorities, and at least some major problems, need to be tackled across departmental boundaries. This is the basis for the report "A Joint Framework for Social Policies" presented to Ministers and published last year.

Education

24. There are awkward corners for the Government to turn in almost all areas of social policy (pensions, cash benefits, the NHS, race relations) but one area where positive action is needed in the period ahead is education. In many fields (the three 'Rs', the curriculum in comprehensives, education for employment, etc) public unease comes up against the traditional British view that education should be left to the teaching profession and Governments should not interfere. It is not the view held in all countries and it may well be necessary to question it in Britain.

Housing

25. Housing, like education, is an important area of social policy where old and long held convictions will need to be re-examined. In aggregate terms the housing situation is improving all the time: the ratio of dwellings to households is higher than ever before: the proportion of households without amenities is falling. And yet many people have serious housing problems: homelessness, slum conditions, overcrowding, etc: these problems are particularly acute in London. Government subsidisation of housing is higher than ever before. And yet many people cannot afford mortgage repayments on even a small house.

26. These paradoxes are only some of the consequences of a complex, irrational, distorted (and huge) system of housing finance. This system is under review at the moment. Whatever the specific proposals that emerge from the Housing Finance Review, Ministers will have two

broad options. They will have to choose between on the one hand, a root and branch reform of the whole system and, on the other, marginal adjustments to temper the worst distortions and inequities that result from existing arrangements. Neither course will be popular, since both will involve rents rising at least as rapidly as money incomes, and probably adverse changes in the tax position of owner-occupiers. But the radical reform (which would of course have to be implemented gradually over a period of years) would carry the promise that, after it had been fully introduced, housing would no longer be the intractable problem that it is today.

Devolution

27. The handling of devolution is crucial both strategically and politically. It is the most important constitutional issue to face any Government in the last 50 years and the future unity of the United Kingdom is at stake. The top priority is obviously Scotland and recent decisions by Ministers have set the course for pressing on firmly with a sensible package which moderate Scotsmen can support and which will isolate the separatists. Unfortunately, the moderates' appetite may well grow with feeding, but further concessions could threaten the United Kingdom's economic and political unity, and encourage an English backlash (especially from Northern England).

28. The position of England is still entirely open - and it is, after all, four-fifths of the UK population. The remarkable thing is the very small interest in England so far in the whole subject of devolution. But the interest must come some time. When it does, it is virtually certain to focus partly on the level of Scots and Welsh representation at Westminster and on the part played by Scots and Welsh MPs in the determination of English affairs, partly on the fears that the Scots (and Welsh) will get a bigger share of the UK cake, and partly on the argument that if regional government is good for the Scots it is good

for the English too. Any major changes for England would almost certainly involve further re-organisation of local authorities (and the health service) and the passing down of more powers from Secretaries of State to local governments. If Ministers do not want to face such changes for the foreseeable future, it will be important when the English debate does warm up not to encourage any excessive expectations.

29. The recently published Layfield Report is in fact mainly about the distribution of power between central and local government and that may trigger off the devolution debate in England. But whether it does or not, the Government will have to address its mind very rapidly to that part of the Layfield Report which suggests a Local Income Tax. For the debates on devolution to Scotland are bound to raise the question of the taxation powers of the new Assembly. The feasibility of a Local Income Tax hinges crucially on the radical simplification of PAYE. So the Government will have to decide quite quickly on whether to accept and work towards important simplification in our direct tax structure (mainly in the field of personal allowances).

Britain and the External World

30. We must continue to give priority to our relations with those major industrialised countries (the United States, the larger EEC countries, Japan) on whose co-operation we may well depend for the success of our macro-economic policies. Also of great importance to us are the major official holders of sterling (Saudi Arabia, Kuwait, Nigeria). Another area to which Ministers attach priority is relations with the Third World.

31. There are five principal issues which could have an adverse effect on our relations with one or other of these groups of countries in the next few years:

(a) EEC policy: the expectations with which we were welcomed into the EEC by most of our partners have largely been disappointed. We are perceived as having little stomach for "building Europe" and as trying to minimise the impact of the Community on the life of this country. This partly reflects the fact that there is much less commitment to Europe in this country than in the Eight, with the possible exception of Denmark. But it also reflects the fact that Ministers have not yet taken a view on what the long-term goal of the Community's development should be or what kind of Community would best suit British interests. The CPRS believes that Ministers should have a long term strategy towards the EEC. It also believes, more immediately, that Ministers should bear in mind the effect their EEC policies may have on the general attitudes towards this country of our major partners in the EEC, whose help we may well need.

(b) Defence: pressure on public expenditure is bound to lead to suggestions for another look at the defence budget. The cuts resulting from the 1974/75 Review were unwelcome to our allies, especially the United States. Further cuts could do grave damage to our relations with them.

(c) Middle East: there is quite likely to be another round between Israel and the Arabs during this Parliament. On past form this could seriously strain our relations not only with the Arab oil producers and holders of sterling but also with the United States and our partners in the EEC. There is very little that we can do to protect ourselves against this danger but it is of great importance that contingency planning should be kept up to date.

(d) Southern Africa: Southern Africa is also of direct concern to the United Kingdom. We are already doing what we can to promote as peaceful as possible a transition to majority rule

in Rhodesia and making contingency plans for refugees. This work will have to continue. For the longer term we need to plan for a similar transition in South Africa, both by pressure on the South African Government to proceed with its liberalisation measures and supporting them as they occur, and by contingency planning against the effect on our economic interests in South Africa of civil war or take-over by black governments hostile to the United Kingdom.

(e) North-South relations: during the last 20 months, the countries of the Third World have strengthened their demands for a New International Economic Order. Contrary to earlier expectations, cohesion has been maintained between the poorer countries and the oil producers. This presents particular problems for the United Kingdom. We believe, more than many of our partners, that it is both right and in our own long-term interest to ease the lot of the LDCs: and expectations have been aroused by our initiative on commodities last year. But economically we are worse placed than most to face the costs of redressing the balance between the rich and the poor in the world. This dilemma puts great pressure on Ministers both at home and abroad. The position we had to take at UNCTAD IV, and the poor public position we presented there, shows that it is important not to promise more than we can deliver and that our interests lie in avoiding the limelight and adopting an inconspicuous position amongst the moderates on North/South issues.

CONCLUSIONS

32. Predictably enough, the longer term priorities and problems have changed relatively little from those set out by the CPRS twenty months ago in C(74)110. The Government has had quite remarkable

success, in the short term at least, in instituting a "new economic order", a collaboration with the TUC on major issues of economic and social policy in exchange for a voluntary wages policy. But that new form of the social contract is still in its fragile infancy - and is seen to be so by foreign opinion as well as domestic. The prime task for Government must be to establish it on firmer and firmer foundations, including the CBI, as well as the TUC, and extending it in a practical form into industrial policy as well as prices, profits and incomes policy (and extending it from NEDO at the top down to companies, to the shop floor and covering private industry, national industry and central and local government services).

33. The dialogue on the social contract must have an increasingly realistic attitude to public expenditure and the relationships between public expenditure and taxation. The dialogue on reducing unemployment must have an adequate realisation of the need for industrial flexibility and geographical movement; of the possibilities of retraining and not concentrate on the preservation of existing jobs. Success in some degree is necessary on all these fronts if we are to succeed in terms of inflation, productivity, the balance of payments, the level of sterling, indeed, our standing and influence in the world.

34. The most important set of tasks facing Ministers is the pursuance of these sets of dialogues, these areas of public education and persuasion. These areas apart, most of the other problems facing the Labour Government when it was elected seem no less intractable and pressing. Devolution, regional and local government organisation is coming closer to the crunch. Education presents more basic problems than seemed apparent two years ago. Housing likewise demands a fundamental re-examination. The nationalised industries are in severe disarray. An energy strategy needs to be evolved and

implemented. Every day the level of total public expenditure threatens to exceed the programmed level and painful decisions have continuously to be taken to keep it in check, as kept in check it must be.

35. Externally we still have to decide our longer term objectives in the Common Market and to fit our short term operations into that pattern. We have the difficulties of reconciling our public commitment to increase our help to the poorest countries with the strain that such help would put on our weak economy. We have, above all, the need to convince the world that we are not in the same state as Italy, that we have seen where we are drifting and have fundamentally changed course. Otherwise our currency could slide sharply and we would no longer be our own master. There is indeed a great deal to do.

23 June 1976

IS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

CP(76) 37 COPY NO 81

28 June 1976

CABINET

SPEAKER'S CONFERENCE ON ELECTORAL LAW

Memorandum by the Secretary of State for the Home Department

1. The arrangements for the proposed Speaker's Conference on Electoral Law were discussed by the Cabinet on 18 November 1975. Draft terms of reference for the Conference were subsequently agreed with my colleagues principally concerned and put to the Leaders of the other Parties in a letter from the Prime Minister dated 13 April. The replies to that letter from the Conservatives, the Liberals, the United Ulster Unionists and Plaid Cymru raise important points which the Cabinet will now wish to consider. No reply has been received from the Scottish National Party (SNP).

ELECTORAL REFORM

2. The Liberals (and Plaid Cymru, though less strongly) have requested that the electoral system should be added to the terms of reference for the Conference; and the recent report of the Hansard Society Commission on Electoral Reform has stimulated public interest in the matter. This is largely a question for political judgment and I recognise that, on balance, my colleagues may wish to adhere to the Cabinet conclusion last November that this topic should not be referred to the Conference, although I do not myself agree with this view.

DISTRIBUTION OF SEATS

3. Mrs Thatcher has asked for the inclusion of Rule 1 in Schedule 2 to the House of Commons (Redistribution of Seats) Act 1949 on the ground that this has led to serious under-representation of England in the United Kingdom Parliament relative to Scotland and Wales. Mr Powell, for the United Ulster Unionist Council (UUUC), has asked for the "adoption of a uniform or minimum electoral quota in the terms of reference for Boundary Commissions for all the component parts of the United Kingdom". This proposal comes to much the same thing as Mrs Thatcher's.

4. Rule 1 deals with the allocation of seats between the various parts of the United Kingdom by providing that Great Britain shall have "not substantially greater or less than 613", Scotland shall have not less than 71, Wales not less than 35 and Northern Ireland 12. The Secretary of State for Northern Ireland is opposed to any review of the number of seats in Northern Ireland at the present time. In the devolution context, we have said that "Parliament ... will continue to include the present complement of Scottish and Welsh Members" (paragraph 296 of Cmnd 6348). We could thus reasonably refuse to agree to add Rule 1 to the terms of reference. Our grounds would be that the time is not ripe, given the continued uncertainty in Northern Ireland and the proposed far-reaching changes in Scotland and Wales. There would be a risk that the Conservatives would then refuse to co-operate at all in the Conference; but this is unlikely because we know them to be keen to discuss many of the items we have proposed.

COMPOSITION OF THE CONFERENCE

5. The Speaker, in agreeing to chair the Conference, has asked whether it would be possible to reduce the numbers of the larger Parties in order to accommodate all the smaller groups. The composition at present proposed (but not yet put to the other Parties) is 15 Labour, 12 Conservatives, one Liberal and one SNP. I have some sympathy with the Speaker's suggestion and I understand that the Secretary of State for Northern Ireland would like to see UUUC representation. This is, however, primarily a matter for the Lord President of the Council and the Chief Whip, in consultation with the other Parties.

CONCLUSION

6. On balance, I recommend that we should refuse at present to add to the terms of reference the redistribution of seats between the constituent parts of the United Kingdom. I hope, however, that it will be possible to respond sympathetically to the Speaker's suggestion about the composition of the Conference.

R H J

Home Office

28 June 1976

CP(76) 38 COPY NO 81

29 June 1976

CABINET

DROUGHT

Memorandum by the Minister for Planning and Local Government

1. The purpose of this paper is to seek my colleagues' agreement to allocating Parliamentary time this Session for a short Bill designed to give us extra powers for dealing with drought emergencies.

2. The water situation is serious in the southern half of England and in South Wales. This has arisen as the result of a series of dry summers, and in particular an unprecedently dry 12 months since spring 1975. The areas most at risk are parts of East Anglia, the East Midlands, the South West and West, and South Wales. Within these areas the effects are of course highly localised, but it is now virtually certain that we shall face shortages leading to inconvenience and some hardship in the course of the summer and autumn. Over and above this, there is in some places a real risk of a breakdown os supplies calling for water rationing: there have been worrying indications over the last few days of a sharp and unexpected decline in the position, particularly in Northamptonshire, reflecting the fact that we simply do not have experience of factors that may apply when groundwater is as low as it is at the moment.

3. My Department, together with the other Departments involved, have kept in close touch with developments through the special machinery with the Water Authorities that we established in the spring. This joint examination and contingency planning focused our attention on the question of the availability of legal powers. The Water Authorities confirmed our preliminary conclusion that existing powers were not adequate to deal with the localised emergency situations that we might be facing and urged us to put the matter right very quickly.

4. I have no doubt that these extra powers are essential. They would take the form of a widening of the Secretary of State's powers to make Drought Orders under the Water Act 1958 so as to provide, a. means of stopping non-essential uses of water in the build-up period when public support for water economy campaigns is essential, and, b. a legal framework for a water rationing system for industry, agriculture and domestic use that does not depend, as under existing powers it would have to, on the

prerequisite of catering for domestic supply by standpipes. I have circulated to the Home Affairs Committee a paper setting out the proposals in detail, and they are summarised in the annex; but there is an overriding question of the timing of legislation.

5. The Bill I have in mind would be some five clauses long, and could be ready for introduction in about a week. But it would have at this stage to be taken on the Floor of the House and would as I understand it have to displace other measures now before Parliament.

6. I have discussed this with the Lord President of the Council. I agree with him that the choice is difficult: our legislative programme is full enough without an extra Bill, however short and non-controversial, at this stage of the Session. It is, I think, a matter for the Cabinet collectively. I cannot prove that the extra powers I have suggested are crucial now rather than in November, since I cannot predict how far and how fast the situation may decline over the next few months. I can only say that the indications now are that in the continued absence of substantial rainfall we may face unexpectedly rapid changes in the water supply position, and I am satisfied that delay in taking adequate powers could lead to major embarrassment and criticism.

CONCLUSION

7. I am satisfied that the water shortage we are facing presents us with a potentially dangerous situation for which our existing powers are inadequate and I ask agreement to urgent action to safeguard the position by the immediate introduction of a short amending Bill.

J S

Department of the Environment

29 June 1976

ANNEX

1. The powers currently available are the following:-

i Water Authorities can under existing powers impose bans on the use of hosepipes for domestic purposes and this a number of Authorities have already done.

ii A S.1 Drought Order under the Water Act 1958 allows WAs to take water not otherwise available to them and suspends or modifies restrictions or obligations on the taking of water, including compensation water and its treatment. This is a valuable power but very limited. The provisions provide for the payment of compensation to those adversely affected.

iii A S.2 Drought Order under the 1958 Act enables Water Authorities to suspend or modify any enactment or agreement so far as it relates to failure to make normal supplies of water available without compensation. But these powers are subject to two major limitations: they operate only in areas where standpipes are already operating for domestic supply and they relate only to water supplied by the water undertaker. Even in an extremely serious situation there would be many measures which could be desirable or necessary before standpipes have to be erected for domestic supply or outside the actual areas in which standpipes were operative.

iv The Emergency Powers Act gives a wide range of powers. But there are many difficulties including the proclamation of a State of Emergency.

2. The basic defects of the existing powers are that they do not allow for a graduated series of measures for restraining non-essential uses of water progressively as a drought situation develops, and they do not provide hard enough powers for what could be a localised 'emergency' situation in the full sense of the word.

3. The necessary powers would be sought by amendment of the Water Act 1958.

4. The two classes of Drought Order described above as S.1 and S.2 would be retained, but on a gradated basis. The Section 1 Drought Order would be for use in the run-up to an emergency. The Order powers would be substantially widened to give the WAs wide discretion to limit or modify any enactment, agreement or implied agreement, for the supply of

a. unmetered water;
b. metered water;
c. abstractions;
d. discharges,

and would enable them also to authorise other people temporarily to abstract or discharge without going through the elaborate procedures of the 1963 Water Resources Act. Compensation would be payable in these circumstances, as it is under S.1 Drought Orders at the moment. The main purpose would be to strengthen the Water Authorities' ability to secure the limitation of non-essential water uses as a precautionary measure and as an adjunct to their general economy campaigns.

5. The Section 2 Drought Order would be for a localised emergency situation. It would give essentially the powers of limitation of use set out in Section 1, but without compensation and against tighter criteria of urgency and need. It would give the power to ration water, in a far more flexible manner that the present legislation, with the link to standpipes, provides. The powers of the Secretary of State to grant such orders would have to be curtailed to an initial period of two or three months, with limited provision for renewal.

6. Orders under the 1958 Act as it stands are made by the Secretary of State, subject to a - limited - period for objection and also public inquiry. These safeguards would be retained.

CP(76) 39

1 July 1976

COPY NO 81

CABINET

CUTTING THE COST OF THE CIVIL SERVICE

Memorandum by the Lord Privy Seal

INTRODUCTION

1. I was invited by Cabinet at their meeting on 13 May 1976 (CM(76) 4th Conclusions, Minute 3) to hold bilateral discussions with colleagues to secure the maximum possible agreement, based on the possibilities in Annexes A, B and C to CP(76) 9, on measures to cut the forecast 1978-79 cost of the Civil Service by £140 million.

2. The £140 million must all come from the civil Departments and amounts to 9 per cent from their total net expenditure - not 5 per cent as Cabinet originally thought appropriate. The Ministry of Defence (MOD) was excluded because it will by April 1979 save, as a result of Defence Reviews, some 40,000 staff, about half of them United Kingdom based.

AGREED SAVINGS

3. Annex V records the amounts saved by options which are acceptable to the Ministers concerned - £95 million, or £45 million short of the target to which we are publicly committed.

4. The effects of these cuts in relation to current strengths (Annex Y) and forecast strengths (Annexes V and W) vary from Department to Department - unfairly in the view of some colleagues. But an equal percentage cut for all would be even more unfair because it would take no account of relative work priorities or the practicability of shedding commitments. Some Ministers have offered more than others; but, since we need all the agreed options, and no new ones have emerged, I saw no scope in my discussions for evening out the burden. It is now for Cabinet to decide which of the disagreed options should be added.

DISAGREED SAVINGS

5. The disagreed options from my original package, worth £43 million, are listed in Annex W, with the reasons for disagreement. Annex X gives other options listed in my previous paper; these remain even less acceptable to Ministers.

BRIDGING THE GAP

6. There is no way of making the saving without choosing amongst the options in Annexes W and X.

7. The savings already agreed by Ministers include an element (generally 2 per cent or so) for "good housekeeping". This reflects the outcome of a detailed study in the past year by senior officials of the scope for cost-saving initiatives, including a fully comprehensive system of staff inspection and the deployment of management services resources to give full emphasis to better working methods, cost cutting and cost control. I hope my colleagues will take a personal interest in this work. But I am satisfied that it would be rash to look for larger savings from that source.

8. The conclusion seems inescapable that we must take in all the options in Annex W in spite of the strong arguments against. This would leave us just under £2 million short of £140 million, and, as I said in CP(76) 9, it is reasonable to assume that consequential savings will be enough to cover this. I recommend accordingly.

ABOLITION OF VEHICLE EXCISE DUTY (VED)

9. The biggest single "disagreed" saving is the abolition of VED, proposed by the Secretary of State for the Environment but disagreed by the Secretary of State for Industry - CP(76) 41 gives the arguments. The saving is £12 million if we count only the savings in staff (3,000) and in Post Office agency services. But an annual £2 fee to cover the administrative costs of the residual registration scheme would raise a further £22 million. It can therefore be argued that the total contribution of VED abolition is £34 million. As before, I have counted the saving as £12 million because on balance this seems right. But our task would, of course, be greatly eased if the general view was not only that VED could be abolished but also that it could fairly be counted as £34 million.

10. Without abolition we shall find £140 million only with extreme difficulty because we shall have to take, not only the whole of Annex W, but also some £12 million from Annex X. This will involve some highly disagreeable decisions.

LEGISLATION

11. I was also asked, in consultation with the Lord President, to describe the legislative implications of this exercise. Annex Z(i) sets out in detail the legislative implications of the agreed options in Annex V, and Annex Z(ii) the implications of the disagreed options in Annex W; the position is summarised in the introduction to these Annexes. There is one issue of consequence for the Cabinet to decide. The agreed Department of the Environment proposal to save £½ million by deferring the statutory time limit to return certain buildings to Local Authorities,

and the disagreed proposal by the Lord Chancellor to save £700,000 by reducing the size of juries to ten, both require legislation next Session. Both could be included in the Administration of Justice Bill, which only has third priority in next Session's provisional programme. The issue for decision is whether, having regard to the saving involved and the fact that no Miscellaneous Provisions Bill will be needed next Session, the Administration of Justice Bill should be given higher priority so as to ensure its introduction next Session, although this would reduce the number of other Bills in the provisional programme which could be introduced next Session.

CONSULTATIONS

12. My colleagues have stressed that they need to consult with certain outside interests and with the Departmental Staff Sides before settling in detail how their allotted savings should be made. I have also undertaken to consult the National Staff Side before we reach and announce our conclusions.

THE LONGER TERM

13. Worthwhile studies could - as I suggested in CP(76) 9 - be made into the administration of such manpower intensive policies as revenue collection and the distribution of social security benefits. The Chancellor of the Exchequer and the Secretaries of State for Social Services and for Employment are inclined to agree, and a small group of Permanent Secretaries is being set up to steer a preliminary feasibility study. Such long-term studies could not lead to significant economies before the 1980s and would involve transitional costs. But if we do not conduct them, and then face their implications, the Civil Service will continue to grow.

CONCLUSION

14. I invite my colleagues:-

a. to accept the savings of £95 million in Annex V;

b. to agree that the remainder of the £140 million be found by accepting all the savings in Annex W;

c. to agree that they should have freedom, in the light of further consultations, to vary in detail the ways in which their total savings are achieved;

d. to give personal attention to the adequacy of staff inspection arrangements and management services activities in their Departments;

e. to accept the need to quantify, and to weigh more heavily than in the past, the staffing and administrative costs of all new policy proposals brought forward for consideration by colleagues;

f. to accept the legislative implications of the agreed package of options;

g. to note the position about a study or studies of *manpower intensive* activities.

S

Civil Service Department

1 July 1976

CONFIDENTIAL

ANNEX Y

Sheet 1

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - OPTIONS IN ANNEXES A AND B OF CP(76)9 WHICH HAVE BEEN AGREED BY DEPARTMENTAL MINISTERS

NOTES

1. The percentage figure (Y) represents the total in column (2) expressed as a percentage of the total financial provision by Ministerial responsibility.

2. Departments which have offered as "agreed" options all the entries in Annexes A and B of CP(76)9 are denoted by "*" in the comments column (4).

RESPONSIBLE MINISTER AND DEPARTMENT	SAVINGS		COMMENTS
	EXPENDITURE (£'000)	MANPOWER	
(1)	(2)	(3)	(4)
Minister of Agriculture, Fisheries and Food			
MAFF	3,372	835	
IBAP	42	11	*
Y - 4.7%	3,414	846	
Chancellor of the Exchequer			
Treasury	120	24	*
HM Customs and Excise	6,145	1,800	
Inland Revenue	16,000	4,900	
Department for National Savings	2,700	1,144	*
National Debt Office	50	25	*
Public Works Loan Board	24	10	*
NIDO	32	5	*
Paymaster General's Office	168	0	*
Registry of Friendly Societies	93	2	*
Royal Mint	88	22	*
Y - 6.2%	25,420	7,932	

(1)		(2)	(3)	(4)
S of S for Education and Science				
DES		1,026	265	
	V = 6.0%	1,026	265	
S of S for Employment				Fortnightly signing options additional staff needed in DHSS – possibly in the order of 375, or substantially fewer if introduced after the first month of unemployment
DEm		5,823	1,517	
ACAS		29	6	✱
HSE		-	-	
MSC		2,273	779	Subject to consultation with the MSC
	V = 5.2%	8,125	2,302	
S of S for Energy				
D Energy		643	116	✱
	V = 9.9%	643	116	
S of S for the Environment				
DOE		13,369	3,030	
Ordnance Survey		1,013	373	✱
	V = 1.5%	14,382	3,403	
S of S for Foreign and Commonwealth Affairs				
GCHQ		450	35	✱
FCO		7,000	NQ	£7m represents an "average" contribution from FCO to the £140m.
	V = 8.4%	7,450	35	

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ANNEX F
Sheet 3

(1)	(2)	(3)	(4)
S of S for the Home Department			
Home Office	2,892	754	*
Charity Commission	60	17	*
F = 2.2%	2,952	771	
S of S for Industry			
D Industry	3,800	1,055	*
F = 9.1%	3,800	1,055	
Lord Chancellor			
LCO	330	30	*
Land Registry	500	715	*
Public Trustee's Office	300	170	*
Public Record Office	53	11	*
F = 6.7%	1,183	926	
Lord President of the Council			
Privy Council Office	15	2	* Depends on passage of the Devolution Bill by 1978-79
F = 7.5%	15	2	
Lord Privy Seal			
CSD	1,692	320	*
COI	650	129	*
HMSO	1,910	645	*
F = 8.0%	4,252	1,094	
S of S for Northern Ireland			
Northern Ireland Office	240	28	*
Supreme Court (NI)	12	0	*
F = 9.7%	252	28	

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(1)	(2)	(3)		(4)
Minister for Overseas Development				
ODM	500	79	*	
V - 5.1%	500	79		
S of S for Prices and Consumer Protection				
DPCP	160	34	*	Assumes successful passage of the Weights and Measures (No 2) Bill
OFT	166	42	*	
V - 12.1%	326	76		
S of S for Scotland				
Scottish Office	2,424	672		
Scottish Record Office	40	11	*	
R Scottish Museum	30	10	*	
D Registers Scotland	85	25	*	
Scottish Courts Administration	207	29	*	
General Register Office (Scotland)	100	42	*	
V - 6.3%	2,886	789		
S of S for Social Services				
DHSS	14,400	5,292		
OPCS	560	205		
V - 5.3%	14,960	5,497		
S of S for Trade				
D Trade	1,730	504	*	
ECGD	422	104	*	
V - 12.7%	2,152	608		
S of S for Wales				
Welsh Office	620	160	*	
V - 10.0%	620	160		

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ANNEX 9
Sheet [illegible]

(1)	(2)	(3)	(4)
OTHER DEPARTMENTS			
Cabinet Office	12	3	*
V - 0.4%	12	3	
Crown Estate Office	50	6	*
V - 5.0%	50	6	
Director of Public Prosecutions	48	10	*
V - 4.8%	48	10	
Law Officers' Department	4	0	*
V - 2.8%	4	0	
Lord Advocate's Department	228	48	*
V - 8.4%	228	48	
Treasury Solicitor	128	14	
V - 6.4%	128	14	
TOTALS	94,828	26,065	

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - OPTIONS IN ANNEXES A AND B OF OP(76)9 WHICH HAVE BEEN DISAGREED BY DEPARTMENTAL MINISTERS

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 (W) represent the totals in column (3) expressed as a percentage of the total financial provision by Ministerial responsibility. Those marked (V) have been brought forward from Annex V.

RESPONSIBLE MINISTER AND DEPARTMENT (1)	PROPOSAL (2)	SAVINGS: EXPENDITURE (£'000) (3)	SAVINGS: MANPOWER (4)	REASONS FOR DISAGREEMENT (5)
Minister of Agriculture, Fisheries and Food				
+ MAFF (£70.4m: 16,700 staff)	Curtail expansion of advisory services and research effort Curtailment of existing advisory services and research effort	636 3,000	167 750	The review ("Proposed changes in the work of the Ministry of Agriculture, Fisheries and Food", Cmnd 4564) resulted in a reduction of 1,100 posts by April 1974 and staff reductions were substantial particularly amongst specialists in the former National Agricultural Advisory Service who lost nearly one-third of their numbers. The exercise caused scars that are only now healing and it has made further savings in the Ministry that much more difficult to find. Well over 40 per cent of the staff are in professional, scientific and technical grades doing specialised work and could not if their posts were abolished be found other Government employment in the same way as administrative staff. The Department has taken on extra duties, including the biggest load in Whitehall as a consequence of EEC entry, yet still has a total of staff well below that in 1970. Expansion of home agriculture - vital to our economy - to which Ministers committed themselves in last year's White Paper "Food from our own resources" (Cmnd 6020) would be at risk if cuts under this exercise had to go beyond 5 per cent which the Minister has agreed to accept.
V = 4.7%	W = 5.0%	3,636	917	

(1)	(2)	(3)	(4)	(5)
Chancellor of the Exchequer				
Inland Revenue (£252.0m: 90,822 staff)		5,400	300	The original savings of £21.1m were calculated initially on the basis of forecasts of staff needs in 1978-79 made in January 1976. The underlying forecasts have now been revised downwards and the savings are similarly reduced.
V - 6.2% W - 1.3%		5,400	300	
S of S for Education and Science				
++ DES* (£17.2m: 4,127 staff) *Includes Science and V&A Museums	Further reductions in service and controls	350	65	These posts are needed to maintain the degree of flexibility necessary if the Department is to adopt the more interventionist role in education supported by the Prime Minister.
V - 6.0% W - 2.0%		350	65	
S of S for Employment				
+ DEm (£28.1m: 19,455 staff)	Reduction in Central Policy Divisions and directly supporting administrative services	325	86	Would postpone beyond 1978-79 implementation of remaining individual rights provisions of the Employment Protection Act, including unfair dismissal provisions for small firms and part-time workers, time off for union activities and guaranteed payments. TUC would be violently opposed. Wages inspection cut below level agreed with TUC. Department's ability to contribute to regional economic planning impaired.
+ HSE (£19.6m: 3,900 staff)	Original Annex A options Reduction in planned recruitment over period to 1.4.78. Further reductions in planned growth	1,765	397	Planned growth of 250 Factory Inspectors cut back to 50. Totally inadequate cover for 8m new workers brought into scope by 1974 Act. Half of these 8m were intended to be covered by Local Authority inspection. But Government has refused extra funds to Authorities and HSC must now cover whole 8m. HSC are prepared to take this on without adding to their forecast numbers, if they are not cut, thereby effectively saving £1.5m in total public expenditure.
MSC* (£34.[illegible]m: 24,721 staff) *Includes ESA and TSA	Reduction in services provided for Agencies Reduce planned growth across all programmes	6,431	2,238	MSC, with strong TUC support, will argue these programmes are "essential policies": any cut in grant-in-aid should not fall on "Civil Service" element alone but be applied by MSC in least damaging way. DEm maintain that the cuts proposed would reduce ESA staff to 1,200 below their 1 April 1976 Estimates. Using the criteria adopted in Annex T, the savings identified in Annexes A and B would reduce ESA staff to some 670 below the 1.4.76. staff in post figure. Other effects of the cuts would be to halt the Job Centre programme with closure of offices; drastically curtail employment services, including those for youth and disabled; recruitment of trainees impaired; postpone service for the disadvantaged.

(1)	(2)	(3)	(4)	(5)
	General reduction in TOPS and other work			Cut on TSA will reduce TOPS training completions below the agreed target.
Y = 5.2% W = 5.5%		8,541	2,721	
S of S for the Environment				
DOE* (£180.1m: 58,500 staff) *Excludes expenditure on Defence, Supplies work etc.	VED option	12,000	3,000	See paragraph 9 of the paper. (£4.6m of saving is payment of Post Office fees etc.)
	Reduce economics and statistics effort	148	50	These cuts fall in the three key policy areas of the Department's work and the research effort which supports them. The agreed options already include the maximum contribution that can be made from these sectors. Reduction of effort in economics and statistics and any further reduction in the housing, planning and transport directorates would result in unacceptable damage to important Government policies.
	Reduce or abandon advisory work in planning and transportation	163	42	
	Cuts in housing work, including the transfer of Housing Association casework to Housing Corporation	172	60	
	Remove right of appeal on advertisement cases	17	5	The loss of individual rights to challenge local bureaucracy would be controversial and would need legislation. It is not worth the small numbers of staff involved.
	Reduce Chief Highway Engineer services	50	10	Some savings already offered, but to go beyond them to the levels contemplated here would put people and structures at risk or incur higher costs in constructing and maintaining roads.
	Further savings in Water Engineering and Environmental Protection effort	95	20	Cuts would prevent action on Royal Commission reports on air and industrial pollution and radio-active waste.
	Winter closing of Ancient Monuments (savings reduced from 140 to 70)	163	70	Cuts would produce redundancies in rural areas where there is no other alternative employment. Measures would include closing Hampton Court and Kensington Palace in winter, detrimental effect on tourism. Likely to cause industrial trouble.
	Further savings in Highway Directorates	185	45	Cuts would lead to abandonment of public consultation which would lead to more public and political rows and hinder the building of economically justified roads.
	Defer ports re-organisation	28	5	Would make it impossible to introduce and implement the proposed legislation and worsen the problems of the ports industry.
	Reduce further professional and technical students	261	90	The students are an important source of supply of trained P&T staff for the future. To make this further cut in their numbers would reduce employment opportunities for students at the present difficult time. The Government cannot press other employers to maintain student intake if they are cutting their own.
	Further reduction of PSA industrial staff	1,266	515	Existing plans mean reducing adult industrials by 1,200 over 2 years to maintain the intake of apprentices. A further reduction of 515 would have an uneven impact on work teams which would have to be balanced within the reduced expenditure ceiling, by use of contractors; would be likely to involve redundancies in some places; would result in a

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ANNEX W
Sheet 4

(1)	(2)	(3)	(4)	(5)
				violent reaction from the unions which could well mean industrial action in the Whitehall area again and a refusal to co-operate any longer in productivity measures; and would mean a slower response to breakdowns of eg heating, lighting and lift systems. These civil servants are not a charge on the administration vote, and the total effect would be disproportionate to any financial saving.
	PSA Supplies Division, close down Cleaning Advisory Unit	80	25	The unit can save its own cost each year in economies on the total annual cleaning bill for Government offices of £20m.
V = 7.9%	W = 7.6%	14,628	3,937	
Lord Chancellor				
+ LCO (£16.4m: 10,085 staff)	Reduce juries to number 10	700	Nil	Home Affairs Committee undecided. If this saving is needed, a firm decision to reduce the size of juries is required. Legislation needed (see Annex Z(ii)).
V = 6.7%	W = 3.9%	700	Nil	
S of S for Scotland				
+ Scottish Office* (£43.4m: 12,195 staff) *Includes SRO, R Scottish Museum, and Registers of Scotland.	Scottish Office	640	171	To go beyond Annex V would involve the acceptance of options that would be very damaging politically or would be inefficient administratively. It would mean for example that Ministers would have to consider giving up some activities which are Scottish Manifesto commitments, eg it would mean reversing legislation which is even now before the House on crofting and freshwater fishing, and abandoning work on urban deprivation just as we have announced a very well received major new initiative in Glasgow. We would need also to look for savings in the administration of such things as student awards of a kind which would simply save staff at the cost of increasing expenditure in other directions.
V = 6.3%	W = 1.4%	640	171	
S of S for Social Services				
+ DHSS (£274.2m: 95,264 staff)	Abolish Regional special welfare officers	131	50	These officers deal with problem cases sent from local offices. If these posts are withdrawn local offices will have to deal with the problem cases as best they can, the quality of work will decline and payment of benefit might continue longer than otherwise would be the case. The Supplementary Benefits Commission do not favour this proposal.

(1)	(2)	(3)	(4)	(5)
	Close all DHSS caller offices	525	200	These offices are generally situated in the smaller towns and rural areas. Closure of the Caller Offices would not inconvenience the Department. There would be some increase in postal charges, administration costs and refund of bus fares may be necessary. The public would be inconvenienced and the elderly, disabled and less literate particularly so. On the grounds that many claimants would suffer inconvenience or hardship both the SBC and the Departmental Staff Side are opposed to this measure.
	Abandon proposals for further control of occupational pension schemes	26	10	Abandonment would meet with opposition from the TUC who have been pressing strongly for further controls, and would be inconsistent with the proposals, published in a White Paper, to introduce further legislation on occupational pension schemes next autumn.
	Reduce drastically the extent to which supplementary benefit claimants are visited	3,217	1,225	Although much visiting of claimants to supplementary benefit has been eliminated and supplementary pension cases are now largely reviewed by post, some visiting is still essential to ensure that all relevant information affecting entitlement has been obtained. Cuts of the extent indicated in Schedule V could be achieved but anything beyond this would mean that the Department and the SBC could not meet their basic obligations under the Supplementary Benefit Scheme. The Chairman of the SBC has stated that a cut of this level could not in any circumstances be accepted by the Commission.
	Reduce further the number of staff involved in contribution enforcement and the allocation of contributions collected to individual accounts	1,313	500	Reduction of enforcement work to the level which a cut of this size would require reduces the deterrent effect and increases the risk of losing more money by lost contributions than would be gained by staff savings. The income of the NI Fund could be seriously affected. From the public point of view a large number of pension records would be adversely affected because of contributions left unallocated to individual accounts.
	Reduce the frequency of reviewing supplementary pension cases by post	1,248	475	The Chairman of the SBC has stated that this measure, which would reduce even the postal contact with their oldest claimants, would be a sticking point for the SBC.
	Reduce work leading to recovery of money from those liable to pay maintenance to supplementary beneficiaries	1,786	680	About £31m was recovered in 1974-75 from husbands who were liable to maintain their wives, and vice versa, and from parents liable to maintain their children. Since the staff devoted to liable relatives is estimated to be less than 1,500 the overall saving per staff unit is several times the unit cost. The work also acts as an effective deterrent to abuse of the scheme because it prevents and reveals spurious claims and fictitious desertions. Any reduction of effort could only be at the risk of increasing public concern about abuse.
	Abandon war pensions welfare officer work	263	100	This measure is too politically sensitive to be acceptable. The ex-service organisations are particularly concerned about the position of war widows and that of the older war pensioners. The Department's Welfare Service serves in some degree to reassure them of the Department's concern for the needs of the war pensioners and the elimination of the service would lead to an outcry.

(1)	(2)	(3)	(4)	(5)
	Reduce the amount of work where fraud is suspected, including special investigation work	780	300	Available evidence indicates that well organised fraud investigation work more than pays for itself in real terms. After off-setting the staff costs the yearly saving is estimated to be of the order of £6,000-£7,000 per head of staff. There is also the additional unknown saving resulting from the deterrent effect of the activities of the fraud officers.
	10% reduction in typists, secretaries, messengers, etc, in office services branch	263	100	The standard of these services is currently such that cuts of this order would seriously inhibit the efficient working of the Department.
Y = 5.3% X = 3.4%		9,560	3,640	
OTHER DEPARTMENTS				
++ Treasury Solicitor (£2.0m: 445 staff)	Transfer minor litigation work for the Crown Estate Commissioners to private solicitors Use of local agent in landlord and tenant cases Gas prosecution cases - a reduction possible Savings in Rent Control and Review Applications work	14	5	Transfer of work would probably result in increased costs. Anticipated reductions in volume of these types of cases cannot be realised - rather, an increase now seems likely.
Y = 6.4% X = 0.7%		14	5	
	TOTALS	43,469	11,756	

REDUCTIONS IN EXPENDITURE ON CIVIL SERVICE MANPOWER AND RELATED ADMINISTRATION - OPTIONS LIKELY TO BE MOST DAMAGING TO DEPARTMENTAL POLICIES
(Compares with Annex C of CP(76)9)

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 (X) represent the totals in column (3) expressed as a percentage of the total financial provision by Ministerial responsibility. Those marked (V) and (W) have been brought forward from Annexes V and W.

RESPONSIBLE MINISTER AND DEPARTMENT (1)	PROPOSAL (2)	SAVINGS: EXPENDITURE (£'000) (3)	SAVINGS: MANPOWER (4)	CONSEQUENCES (5)
Minister of Agriculture, Fisheries and Food MAFF (£70.4m: 16,700 staff)	Abolish national grant schemes for Horticulture and Agriculture	1,500	750	Consultations between MAFF and Inland Revenue have led to the conclusion that additional tax reliefs could not in practice be used in place of capital grants because the relief would follow too long (up to 9 years) after the investment; farmers with high incomes would obtain the highest benefit and those paying no tax would receive no benefit; and investment could not as at present be guided towards improvements most needed in the national interest without a disproportionate increase in Inland Revenue staff. Since this option would involve an increase in staff and cost in Inland Revenue, the net saving is now shown as £1.5m and not the £3.0m in CP(76)9.
IBAP (£2.4m: 550 staff)	-	-	-	Work geared to EEC requirements.
	V = 4.7% W = 3.0% X = 2.1%	1,500	750	
Chancellor of the Exchequer Treasury (£5.9m: 1,208 staff)	Reduce Security Guard	115	48	Reduction unacceptable to CSD on security grounds. Review of procedures may produce some saving.
	Cease to value Crown Property	195	40	Local Authority objections.
	Withdrawing grant to NIESR.	90	-	Likely to result in closure - this is the only such body in the UK.
	Minimise 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 Parliaments and the Public - contrary to requirements of Mr 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 £10m 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: 12,886 staff)	Abolish SAYE, Savings Bonds, AMF projects	2,900	1,100	Not acceptable to Treasury in view of the implications for the PSBR.
National Debt Office (£0.2m: 64 staff)	-	-	-	-
Public Works Loan Board (£0.2m: 48 staff)	Abolish Local Authority work	28	7	Would result in increases in DOE staff which would probably be at least commensurate.
NEDO (£1.6m: 227 staff)	Reduce numbers of Economic Development Councils by 1	80	10	TUC and CBI objections, would 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	80	10	
	Reduce numbers of Economic Development Councils by 3	80	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)	-	-	-	-
	V = 6.2% W = 1.3% X = 1.6%	4,310	1,339	
S of S for Education and Science				
++ DES* (£17.8m: 4,127 staff) *Includes Science and V&A Museums	Further severe reductions in services and controls	1,204	269	Over significant areas DES could no longer discharge its present role; substantial enforced redundancies; possibility of 1½ or 2-day closing of departmental Museums.
	V = 6.0% W = 2.0% X = 7.0%	1,204	269	
S of S for Employment				
+ Dept of Employment (£46.1m: 19,455 staff)	Reduction in Central Policy Divisions and directly supporting administration services	389	86	Unacceptable deferment of EPA 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 central 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	534	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.
+ HSE (£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 HSC.
MSC (£0.9m: 130 staff)	Further reduction in services provided for agencies	59	13	Unable to fulfil proper role. This and the following items for TSA would require consultation with MSC.
ESA (£53.0m: 15,893 staff)	-	-	-	
TSA (£29.6m: 8,698 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 placings above present level and serious contraction of skill centre programme.
	V = 5.2% W = 5.5% X = 3.4%	5,629	1,658	
D of E for Energy Dept of Energy (£6.5m: 1,408 staff)	-	0	0	
	V = 9.9% W = 0.0% X = 0.0%	0	0	
D of E for the Environment Dept of the Environment* (£180.1m: 52,500 staff) *Excludes expenditure on Defence, Supplies work etc.	Further reduction of design effort on new building programmes	420	100	Deferment of projects related to dispersal.
	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 RCUs to carry through the already reduced road programme.
↔ Ordnance Survey (£12.4m: 4,311 staff)	Stop 1:1250 resurveys; 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	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

(1)		(2)	(3)	(4)	(5)
S of S for Prices and Consumer Protection					
DPCP (£1.6m: 343 staff)		Curtail Consumer Protection Services	90	20	Requires legislation.
OFT (£1.1m: 350 staff)		Extension of Consumer Credit Licences from 3 to 5 years Further general curtailment of work	48	12	
		Y = 12.1% W = 0.0% X = 5.1%	138	32	
S of S for Scotland					
+ Scottish Office* (£43.4m: 12,195 staff) *Includes SRO, R Scottish Museums, and Registers of Scotland	SO-	Assumes equivalent UK policy changes	2,106	618	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 UK policy options (the scope for which seems limited). He has emphasised that no savings at all are possible in Prisons and State Hospital staff (totalling about 3,000).
	RSM-	Reductions up to 15%	40	20	Cut out all temporary exhibitions including those for the Edinburgh Festival, and a drastic reduction of educational work.
	SRO-	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.
		Y = 6.3% W = 1.4% X = 4.9%	2,236	663	
S of S for Social Services					
+ DHSS (£274.2m: 95,264 staff)		Abandon unemployment review work	770	290	Remove important control. Supplementary Benefits Commission concerned. Unattractive when account taken of effect on benefit payments.
		Further cuts in Health and Personal Social Services to 15% level	740	305	Drastic curtailment of Department's role, including loss of control over NHS.
++ OPCS (£6.2m: 2,768 staff)		Reduction in level of Registration Services	50	17	Worsening service to public until personal hardship caused.
		Reduction in level of Common Service work	50	20	Efficiency of Department impaired.
		Y = 5.3% W = 3.4% X = 0.6%	1,550	632	

(1)	(2)	(3)	(4)	(5)
S of S 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 Coastguard. Material weakening of export promotion effort in key areas (eg Japan). Decline of effort in trade-marks field. Postponement sine die of provision in draft Companies Bill relating to more effective pursuit of late filing of accounts.
Export Credits Guarantee Dept (Nil: 2,144 staff)	-	-	-	
	Y = 12.7% W = 0.0% X = 4.6%	783	220	
S of S for Wales				
++ Welsh Office (£6.2m: 1,600 staff)	Reductions of 15%	310	80	Serious impairment of Department's ability to undertake its essential functions.
	Y = 10.0% W = 0.0% X = 5.0%	310	80	
OTHER DEPARTMENTS				
Cabinet Office* (£3.1m: 633 staff) *Includes CSO	5% cut in CSO	50	13	Reduction in tempo of all aspects of work.
	Further 5% cut in CSO (10% in total)	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.
	Further 5% cut in CSO (15% in total)	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	Runs counter to the trend towards open government, reduces main source of information on recent Government activity.
	Y = 0.4% W = 0.0% X = 6.4%	198	50	
Crown Estate Office (£1.0m: 133 staff)	Major policy changes	100	13	Imprudent estate management. Short-term remedy only. Danger of failing to meet contractual liability to clients. Legislation necessary.
	Y = 5.0% W = 0.0% X = 10.0%	100	13	
Director of Public Prosecutions (£1.0m: 209 staff)	-	-	-	
	Y = 4.8% W = 0.0% X = 0.0%	0	0	

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Annex X
Sheet 8

(1)	(2)	(3)	(4)	(5)
Law Officers' Department (£0.145m: 23 staff)	-	-	-	
	V = 2.8% W = 0.0% X = 0.0%	0	0	
Lord Advocate's Department* (£2.7m: 764 staff) *Includes Crown Office, Fiscal service	-	-	-	
	V = 8.4% W = 0.0% X = 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.
	V = 6.4% W = 0.7% X = 3.2%	64	14	
	TOTALS	44,901	13,132	

ANNEX Y
Sheet 1

COMPARISON OF EXISTING STRENGTHS WITH THAT OF 1 APRIL 1978
IF ALL AGREED AND DISAGREED OPTIONS ARE IMPLEMENTED

RESPONSIBLE MINISTER AND DEPARTMENT (1)	CURRENT STRENGTH 1.4.76 (STAFF IN POST) (2)	PERCENTAGE INCREASE OR DECREASE REQUIRED ON CURRENT STRENGTH TO IMPLEMENT ANNEX V OPTIONS BY 1.4.78 (3)	PERCENTAGE INCREASE OR DECREASE REQUIRED ON CURRENT STRENGTH TO IMPLEMENT ANNEX V AND ANNEX W OPTIONS BY 1.4.78 (4)
Minister for Agriculture, Fisheries and Food			
MAFF	15,624	+ 1.5%	- 4.3%
IBAP	498	+ 8.2%	+ 8.2%
Total	16,122	+ 1.7%	- 3.9%
Chancellor of the Exchequer			
Treasury	1,132	+ 4.1%	+ 4.1%
Customs & Excise	29,390	+ 2.1%	+ 2.1%
Inland Revenue	80,279	+ 7.0% ø	+ 6.7% ø
Dept for National Savings	13,420	- 12.5%	- 12.5%
National Debt Office	64	- 39.1%	- 39.1%
Public Works Loan Board	43	- 11.6%	- 11.6%
NEDO	181	+ 22.7%	+ 22.7%
Paymaster General's Office	772	+ 13.5%	+ 13.5%
Registry of Friendly Societies	120	- 5.8%	- 5.8%
Royal Mint	1,132	- 3.7%	- 3.7%
Total	126,533	+ 3.7%	+ 3.5%
S of S for Education and Science			
DES	2,918)		
Science Museum	525)	- 6.7%	- 8.3%
V & A Museum	698)		
Total	4,141	- 6.7%	- 8.3%

ø These figures do not take account of new manpower requirements which have arisen since PES 75.

(1)	(2)	(3)	(4)
S of S for Employment			
DEM	22,544	- 20.4%)	- 20.8%)
ACAS	641	+ 7.3%)	+ 7.3%)
HSE	3,281	+ 18.9%) ø	+ 6.8%) ø
MSC	187)		
ESA	14,037)	+ 12.7%)	+ 2.2%)
TSA	7,017)		
Total	47,707	- 2.6%	- 8.3%
S of S for Energy			
D Energy	1,370	- 6.1%	- 6.1%
Total	1,370	- 6.1%	- 6.1%
S of S for the Environment			
DOE	50,873*	- 2.8%	- 10.5%
Ordnance Survey	4,444	- 11.4%	- 11.4%
Total	55,317	- 3.5%	- 10.6%
S of S for the Home Department			
Home Office	32,267	+ 7.5%	+ 7.5%
Charity Commission	342	NIL	NIL
Total	32,609	+ 7.5%	+ 7.5%
S of S for Industry			
D Industry	10,140	- 4.3%	- 4.3%
Total	10,140	- 4.3%	- 4.3%
Lord Chancellor			
LCO	9,806	+ 2.5%	+ 2.5%
Land Registry	5,007	+ 4.5%	+ 4.5%
Public Trustee Office	438	- 20.1%	- 20.1%
Public Record Office	410	+ 19.5%	+ 19.5%
Total	15,661	+ 3.0%	+ 3.0%

ø These figures do not take account of new manpower requirements which have arisen since PES 75.

* Figure as at 1 January 1976.

(1)	(2)	(3)	(4)
Lord President of the Council			
Privy Council Office	43	- 2.3%	- 2.3%
Total	43	- 2.3%	- 2.3%
Lord Privy Seal			
Civil Service Department	5,461)		
Parliamentary Counsel	43)	+ 0.9%	+ 0.9%
CSPRU	38)		
Government Actuary	64)		
COI	1,371	- 10.9%	- 10.9%
HMSO	7,412	- 4.9%	- 4.9%
Total	14,389	- 3.2%	- 3.2%
S of S for Northern Ireland			
Northern Ireland Office	236	+ 3.0%	+ 3.0%
Supreme Court (NI)	100	+ 4.0%	+ 4.0%
Total	336	+ 3.3%	+ 3.3%
Minister for Overseas Development			
ODM (excluding Technical Units)	1,432	+ 8.2%	+ 8.2%
Total	1,432	+ 8.2%	+ 8.2%
S of S for Prices and Consumer Protection			
DPCP	382	- 19.1%	- 19.1%
OFT	326	- 5.5%	- 5.5%
Total	708	- 12.9%	- 12.9%

(1)	(2)	(3)	(4)
S of S for Scotland			
Scottish Office	10,747)		
Scottish Record Office	133)	+ 0.1% ∅	- 1.4% ∅
Royal Scottish Museum	181)		
Registers of Scotland	402)		
Scottish Courts Administration	748	+ 15.9%	+ 15.9%
General Register Office	379	- 1.1%	- 1.1%
Total	12,590	+ 1.0%	- 0.3%
S of S for Social Services			
DHSS	93,101	- 3.4% ∅	- 7.3% ∅
OPCS	2,645	- 3.1%	- 3.1%
Total	95,746	- 3.4%	- 7.2%
S of S for Trade			
D Trade	7,962	- 6.5%	- 6.5%
ECGD	1,915	+ 6.5%	+ 6.5%
Total	9,877	- 3.9%	- 3.9%
S of S for Wales			
Welsh Office	1,523	- 5.4% ∅	- 5.4% ∅
Total	1,523	- 5.4%	- 5.4%
OTHER DEPARTMENTS			
Cabinet Office	680	- 7.4% ∅	- 7.4% ∅
Crown Estate Office	124	+ 2.4%	+ 2.4%
DPP	191	+ 4.2%	+ 4.2%
Law Officers' Dept	18	+ 27.8%	+ 27.8%
Lord Advocate's Dept	19)		
Crown Office	39)	+ 14.7%	+ 14.7%
Fiscal Service	566)		
Treasury Solicitor	444	- 2.9%	- 4.1%
Total	2,081	+ 2.2%	+ 1.9%

∅ These figures do not take account of new manpower requirements which have arisen since PES 75.

LEGISLATIVE IMPLICATIONS OF THE OPTIONS

There are two items which could be included in a Finance Bill, and one in a Bill already before Parliament this Session, provided the necessary amendments can be made in time. Several items require Scottish legislation, and depend upon the Secretary of State for Scotland giving these proposals sufficient priority within his own list of Bills for next Session. There are several items for which no suitable Bill is in prospect, or for which a suitable Bill is planned but has poor prospects of finding a place next Session because it is only in the third priority or the Reserve category; but most of these are items for which alternatives are being sought by the responsible Departments, or which would bring only small savings. There should be no need for a separate Miscellaneous Provisions Bill next Session to sweep up legislative proposals which offer significant savings but cannot be accommodated in wider legislation.

There are two items involving quite substantial savings which may depend upon giving higher priority to a Bill in next Session's programme than it has at present. These are the DOE's agreed proposal to save £500,000 by deferring the deadline for compliance with the statutory requirement to hand back certain Government buildings to Local Authorities; and the Lord Chancellor's disagreed proposal to save £700,000 by reducing the size of juries to 10. The latter item, but not the former, could be included in the Home Secretary's Criminal Justice Bill, which is in the second priority group in the provisional legislative programme and has quite a good prospect of proceeding next Session. Both items could be included in the Lord Chancellor's Administration of Justice Bill, which is in the third priority group in the legislative programme and does not have a good chance of proceeding next Session. These savings could be ensured by giving the Administration of Justice Bill higher priority. Owing to the expected severe pressure on parliamentary time next Session, this would reduce the number of other Bills in the provisional programme which could be introduced; and it might well become impossible to proceed with one of the Bills in the second priority group for which there could otherwise have been room.

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. This Annex is divided into two parts, Z(i) describing the necessary primary legislation implied by the agreed (Annex Y) options and Z(ii) dealing with the primary legislation implied by the disagreed (Annex W) options.

PRIMARY LEGISLATIVE IMPLICATIONS IN ANNEX Y

RESPONSIBLE MINISTER AND DEPARTMENT (1)	PROPOSAL (2)	SAVINGS: EXPENDITURE (£'000) (3)	SAVINGS: MANPOWER (4)	WHETHER CONTROVERSIAL (5)	SESSION INVOLVED (6)	VEHICLE FOR LEGISLATION (7)	COMMENTS (8)
Chancellor of the Exchequer							
HM Customs and Excise (£113.2m: 31,797 staff)	Abolition of Gaming Licence Duty (except on Jackpot Machines)	130	40	No	1978-79	Would form part of a Finance Bill	
	Introduction of 'pre-entry' system for exports	445	200				The precise form of the legislation requirement, if any, is not yet clear
Registry of Friendly Societies (£0.4m: 115 staff)	Recovery of supervision costs from Building Societies	85	-	Not if part of a larger Bill	1976-77	Could be included in a Finance Bill	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<u>S of S for Education & Science</u>							
DES* (£17.2m: 4,127 staff) *Includes Science and V&A Museums	Abolition of posts dealing with instruments and articles for voluntary schools	6	2			No suitable Bill in the programme at present	Savings are so small that it would clearly not be appropriate to seek legislation for these items alone. The Department should have little difficulty in identifying alternative ways of meeting these savings.
<u>S of S for Energy</u>							
Dept of Energy (£6.5m: 1,402 staff)	Savings resulting from Plowden Committee recommendations	25	5			Would need an Electricity Bill. None in the programme before 1978-79	Other options may be substituted for these by Department of Energy. In view of small size of savings, legislation for these items alone would not be appropriate.
	Abolition of need to consent unopposed overhead electricity lines	16	4				
<u>S of S for the Environment</u>							
DOE* (£130.1m: 52,500 staff) *Includes expenditure on Defence, Supplies work, etc.	Legislation to defer the need for PSA to comply with statutory requirements to return Court facilities to the Local Authorities	500	125	No	1976-77	Could be included in an Administration of Justice Bill. Provisional programme - 3rd priority	Decision needed on the priority of this Bill (see paragraph 11). It is not clear to what extent this has the support of the Lord Chancellor.
	Implement Dobry recommendations on enforcement cases	40	11	No	1976-77	Could possibly be included in Town and Country Planning (Enforcement and Development) Bill. Provisional programme - 3rd priority	Savings are so small that it would not be appropriate to seek legislation for these items alone.
	Housing Finance	330	140 (40 staff disagreed)	No	1976-77	Could be included in Housing Bill, which is only a Reserve Bill for next Session, or possibly in the Homelessness and Housing Subsidies Bill, which is in the provisional programme - 1st priority	
	Simplification of Vehicle Type Approval work	30	20	No		Would require a Road Traffic Bill. Nothing suitable in 1976-77 programme	Savings are relatively small, and it would not be appropriate to seek legislation for these items alone.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S of S for Scotland							
Scottish Office (£30.3m)	Rundown of Inshore Fisheries Protection	95	20	Yes	1977-78	Will require Scottish legislation	Provided that the S of S for Scotland is prepared to give this the necessary priority, there should be no problem.
	Delegation to Local Authorities of Advertisements Control	3	1	No	1977-78		
	Teachers Salaries: loss responsibility for Promulgating Pay Settlements	7	2	?	1977-78		
	Rundown in Control over LAs	8	2	No	1977-78		
Scottish Courts Administration (£1.7m: 896 staff)	Abolition of Saturday Courts	24	Nil	No	1977-78	Will require a Criminal Procedure (Scotland) Amendment Bill	
	Reduction of juries to 12	50	Nil	Yes	1977-78		
S of S for Trade							
Dept of Trade (£16.9m: 7,951 staff)	Abolition of Register of Business Names	220	60	Somewhat	1976-77	Could be included in this Session's Insolvency Bill, which has already passed the Lords, if amendments can be made on Report Stage in the Commons	
	Savings resultant from passage of Insolvency Bill	260	73		1976-77		
OTHER DEPARTMENTS							
Director of Public Prosecutions (£1.0m: 209 staff)	Referral of Police Traffic Offences to DPP discontinued	10	2	Yes		Would require a Police Bill. Not at present in programme	Saving is so small that legislation clearly cannot be justified for this item alone.
Lord Advocate's Department* (£2.7m: 764 staff) *Includes Crown Office, Fiscal Service	Abolition of Saturday Courts	12	Nil	No	1977-78	Will require Scottish legislation	
	Administrative fines introduced	100	18	Probably Not	1977-78 at earliest		
	Decriminalising of certain offences	100	30	Probably not	1976-77	Could be included in Transport and Road Traffic Bill. But there is nothing suitable in the programme	DOE would introduce any legislation. HO and DOE have not yet expressed their views on this proposal.

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PRIMARY LEGISLATIVE IMPLICATIONS IN ANNEX I

RESPONSIBLE MINISTER AND DEPARTMENT (1)	PROPOSAL (2)	SAVINGS: EXPENDITURE (£'000) (3)	SAVINGS: MANPOWER (4)	WHETHER CONTROVERSIAL (5)	SESSION INVOLVED (6)	TIMETABLE CONSIDERATIONS (7)	COMMENTS (8)
S of S for the Environment DOE* (£130.1m: 52,500 staff) *Excludes expenditure on Defence, Supplies work, etc.	Abolition of VED	12,000	3,000	Yes	1977-78	Finance Bill	
	Remove right of appeal on advertisement cases	17	5	Highly	1976-77	Could possibly be included in Town and Country Planning (Enforcement and Development Control) Bill. Provisional programme - 3rd priority	
Lord Chancellor LCD (£16.4m: 10,035 staff)	Reduction of juries to ten	700	Nil	Highly	1976-77	Could be included in an Administration of Justice Bill or Criminal Justice Bill. Both in provisional programme, former 3rd priority, latter 2nd priority	Home Office opposed and Home Affairs Committee [illegible], but LCD is prepared to include in Administration of Justice Bill if necessary. Decision on the priority of such a Bill needed.
S of S for Scotland Scottish Office (£30.3m)	Accelerated disposal of Land Settlement Estates	387	98	Yes	1977-78	Will require Scottish legislation	
	Abolition of Crofters Commission	193	62	Yes	1977-78	Will require Scottish legislation	
	Abandonment of Freshwater Fisheries Control	17	5	Yes	1977-78	Will require Scottish legislation	

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1 July 1976

CABINET

PUBLIC EXPENDITURE TO 1980-81

Note by the Chancellor of the Exchequer

The attached report by the Public Expenditure Survey Committee is circulated as background to our forthcoming discussions on public expenditure. I am circulating a separate memorandum containing my own proposals on this subject.

D W H

Treasury Chambers

1 July 1976

Copy No. 502

PUBLIC EXPENDITURE TO 1980-81

Part One
Main Report

1976 Report by the Public Expenditure Survey Committee

June 1976

PUBLIC EXPENDITURE TO 1980-81

1976 REPORT BY THE PUBLIC EXPENDITURE SURVEY COMMITTEE

PART 1

MAIN REPORT

CONTENTS

1976 PUBLIC EXPENDITURE SURVEY—GENERAL REVIEW

Introduction

In March the Cabinet asked that officials should prepare a Survey Report showing base line figures and setting out proposals for additional expenditure and feasible illustrative options showing how reductions of at least 2½ per cent in 1977–78 and 5 per cent in the later years could be achieved in each department's programmes. The detailed ground rules for the Survey, as approved by the Cabinet, are reproduced at Annex A.

Developments since publication of Cmnd. 6393

2. Cmnd. 6393 was the outcome of a wide ranging review. For 1975–76 and 1976–77 it showed greater expenditure than previously planned mainly reflecting the priority given to industrial expenditure and the need to take account of the recession. The White Paper showed, consistent with the terms of the Letter of Application to the IMF, that at least during the next three years or so no overall growth in public expenditure (excluding debt interest) was planned beyond the level then envisaged for 1976–77.

3. The latest, but still very preliminary, estimates of outturn in 1975–76 suggest that most programmes were running below the totals published in the White Paper. The main exception was the housing programme, where there was substantial overspending on several elements, affecting Scotland, Wales and England. The net total for programmes seems to have fallen short of the White Paper total by a little more than the published general provision for shortfall.

4. The figures for 1976–77 incorporate some downward estimating changes but they are less than the apparent savings in 1975–76. At the same time the Government have agreed additions to some programmes in 1976–77. These have been aimed at taking the edge off unemployment and the need to finance steel stocks during the recession. There have also been improvements in social security benefits which carry through to years after 1976–77 and significantly reduce the amount of savings decided upon last December. These and other changes are summarised in Part 2.

Outcome of Survey

5. The detailed programme tables at the beginning of each programme chapter in Part 2 and summarised in Table A on page 8 reflect the Cmnd. 6393 totals adjusted for:

(i) decisions taken by Cabinet up to 31 May on use of the contingency reserve including the cost of the child benefit decision announced on 25 May;

(ii) any *reduction* in the estimated cost of individual services;

(iii) revised estimates of the unattributed EEC contributions included in programme 2.

The base line figures in the programme tables do not reflect the decision announced in Cmnd. 6393 to make blanket reductions of £50 million in 1977–78, £140 million in 1978–79 and £130 million in 1979–80 (at 1975 Survey prices) in civil service staff costs. The Civil Service Department have been conducting an exercise aimed at settling the allocation of these cuts and their proposals are likely to be considered by the Cabinet in July.

6. Potential additions to the base-line expenditure programmes are summarised at Annex B and described in Part 2. These additions are broken down into 3 categories:

(*a*) demand determined and other requirements for the maintenance of existing policies;

(*b*) proposals for new developments;

(*c*) proposals for new developments which are contingent on a particular event.

7. As instructed by Cabinet, officials have examined the scope for savings to offset additional bids and have also costed further options for reductions, amounting to at least 2½ per cent of programmes in 1977–78 and 5 per cent in later years. Details of these are summarised in Annex C and described in Part 2 of this Report.

8. The summaries at Annexes B and C exclude details of bids for additional expenditure on civil service staff related items and the scope for further reductions where a department's expenditure is predominantly on manpower. These are summarised in Annex D. Given the difficulties being met in the Lord Privy Seal's exercise to save £140 million on this expenditure, it will clearly be difficult to achieve compensating savings within this area. This implies that some increase in the size of the civil service will be an inevitable consequence of accepting these bids. Additions for nationalised industries' capital expenditure and savings options are described in a separate report (see paragraph 12 below).

9. The main figures which emerge from the Survey are:

£ million at 1976 Survey prices

	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Total programmes:						
Cmnd. 6393	54,766	54,304	53,389	52,927	53,327	—
Survey tables	54,284	54,477	53,700	53,175	53,564	53,533
Difference	−482	+173	+311	+248	+237	—
Cmnd. 6393 contingency reserve	..	825	1,050	1,425	1,650	—
Balance of Cmnd. 6393 contingency reserve after deducting difference shown above	..	652	739	1,177	1,413	—
Proposals for additional expenditure(1)	—	513	1,596	1,676	1,144	1,790
Options for reductions(1) (2)	—	—	1,062	2,325	2,585	2,873

(1) Upper end of range.

(2) Excluding nationalised industries' capital expenditure.

Special aspects

10. In the Survey it is necessary to take account of the fact that it brings together expenditure of very different kinds; different in terms of economic category and also the degree of control it is possible for Central Government to exercise over the expenditure. Some expenditure represents direct use of resources by the public sector in purchasing goods and services; other expenditure covers transfers to the private sector or the acquisition of existing assets. The demand which different kinds of expenditure place on resources varies though any addition to public expenditure has implications for monetary policy and international confidence. Survey figures are broken down by economic category in Table B.

11. The degree of Government control over expenditure programmes varies widely. Its control over its own expenditure is limited in certain cases because some benefits and services are provided on demand to any qualified recipient, *e.g.* social security benefits and family practitioner services. In such cases there is little action that can be taken in the short term to contain expenditure within a given control total, although in the longer term the level of spending can be affected by legislative or other action. The expenditure of other spending authorities is controlled only to a limited extent, and it has therefore been necessary to build up arrangements for monitoring and consultation. The special problems of local authority expenditure are described in Annex E.

12. As was the case last year, the nationalised industries' capital expenditure programmes are the subject of a separate review by Ministers which includes consideration of options. This review was presented in June as EI (76) 32. The programmes reflect the view each industry has of its contribution to the economy over the next decade and more, and the commercial policies it must pursue if it is to make that contribution. Following discussions by the Ministerial Committee on Economic and Industrial Policy decisions on the programme approvals to be given to the industries will be taken by Cabinet as part of the decisions on the Survey. The object is to take these decisions before the Recess, to the benefit of the nationalised industries and their suppliers. As the upturn in the economy develops, it is particularly important that the suppliers should not be left in uncertainty about the orders they will be getting from the nationalised industries.

Cash limits

13. In 1976–77 cash limits have been applied in one form or another to about 62 per cent of public expenditure programmes. This initiative will be carried forward into subsequent years subject to any modifications and developments which may prove desirable in the light of experience. The cash limits for 1977–78 will reflect the decisions taken by Ministers in this Survey but, as this year, the cash limits once fixed will take primacy over the volume figures.

Contingency reserve and shortfall

14. In past years Governments have added more to public expenditure by policy decisions than was provided in the contingency reserve incorporated in White Papers. In addition expenditure on some services has tended to exceed estimates for reasons beyond the immediate control of Government. These factors have contributed towards upward "creep" in figures contained in successive White Papers.

15. The Cabinet agreed on 5 February 1976 that special arrangements should be made to ensure that the contingency reserve included in Cmnd. 6393 was not over-committed. Treasury Ministers have since reported to Cabinet regularly on the state of the contingency reserve (particularly in 1976–77) after taking account of agreed and recommended claims and known potential bids. This has proved an invaluable aid to restraining expenditure. Nevertheless, but for the estimating reductions which have been incorporated in the base line figures in accordance with the ground rules, the contingency reserve balance shown in the table above would have been substantially reduced only a few months after publication of Cmnd. 6393. Moreover although account is taken of estimating reductions in this

way it should be noted that there was also provision by way of a general deduction for shortfall in Cmnd. 6393. In this Survey it is necessary to take a fresh look at the appropriate level of contingency reserve and shortfall/longfall provisions.

16. In reaching a view on the level of provision for the contingency reserve it is necessary to strike a balance between one which is so small that it is rapidly exceeded because of additions which are regarded as reasonable by Ministers and one which is so large that it undermines the discipline of maintaining programme totals. The contingency reserve must therefore be large enough to accommodate inescapable additions to programmes before they are reviewed in the next Survey without affording an incentive for major decisions to be postponed until after the Survey.

17. The amounts to be included in the next White Paper as a contingency reserve are a matter for decision. For the purpose of this report, a reserve has been included in the tables of the following amounts which (apart from 1976–77) are the same as those in the equivalent year in Cmnd. 6393, suitably rounded.

£ million at 1976 Survey prices

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Contingency reserve in this Report	400	800	1,100	1,400	1,700
Cmnd. 6393 contingency reserve	825	1,050	1,425	1,650	—

18. The extent to which programmes need to be reduced to reconstitute the reserve without exceeding the totals in Cmnd. 6393 will of course depend on the amount of additional bids in Annex B which are conceded without offsetting savings. Even on the assumption that no such additions to the programmes were allowed the comparison with Cmnd. 6393 would be:

£ million at 1976 Survey prices

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Cmnd. 6393 programmes(¹) .	54,304	53,389	52,927	53,327	—
Cmnd. 6393 contingency reserve .	825	1,050	1,425	1,650	—
Total	55,129	54,439	54,352	54,977	—
Survey programmes(¹) . .	54,477	53,700	53,175	53,564	53,533
Survey contingency reserve . .	400	800	1,100	1,400	1,700
Total	54,877	54,500	54,275	54,964	55,233
Difference from Cmnd. 6393 . .	−252	+61	−77	−13	—

(¹) Before taking account of the civil service manpower savings rising to £140 million at 1975 Survey prices in 1978–79.

Conclusion

19. Because of careful husbanding of the contingency reserve and some estimating reductions which are in the base-line figures it would be possible, if no additional bids without offsetting savings were conceded in the Survey, to include in the Survey a contingency reserve of about the same size as in Cmnd. 6393. Any net additions to programmes which are made can only mean a smaller contingency reserve or higher total expenditure. The main decisions which are required in this Survey are therefore:

(*a*) how much of the extra requirement for the major "demand-determined" services should be accepted and what policy decisions should be made to limit any addition?

(*b*) how much should be accepted of the other additional proposals without offsetting savings?

(*c*) the size of the contingency reserve;

(*d*) which of the options for reducing expenditure should be adopted?

TABLE A

Public expenditure by programme

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1. Defence	5,665·6	5,503·8	5,460·0	5,265·0	5,487·1	5,620·8	5,644·1	5,626·9	5,652·3	5,629·9
2. Overseas aid and other overseas services	765·3	928·2	978·9	935·4	814·3	1,006·9	1,275·3	1,375·2	1,471·5	1,541·7
3. Agriculture, fisheries, food and forestry	832·8	748·9	840·3	1,667·3	1,600·2	1,110·2	852·9	632·4	600·3	597·5
4. Trade, industry and employment:										
Investment grants	795·8	481·5	290·8	127·0	56·3	27·0	6·2	2·1	1·2	1·0
Other	1,494·7	2,081·9	3,044·0	3,300·4	2,892·8	2,734·9	2,599·6	2,567·2	2,547·1	2,458·9
5. Nationalised industries' capital expenditure	3,103·0	3,070·5	2,743·1	3,377·6	3,841·6	3,690·4	3,309·5	3,476·6	3,612·6	3,612·5
6. Roads and transport	2,095·6	2,256·8	2,415·2	2,663·9	2,771·7	2,685·6	2,488·5	2,283·3	2,279·3	2,264·9
7. Housing	2,722·8	2,817·5	3,737·6	5,101·3	4,635·6	4,574·1	4,435·3	4,380·9	4,468·4	4,468·4
8. Other environmental services	2,272·8	2,400·2	2,539·8	2,523·6	2,576·2	2,458·0	2,469·5	2,385·3	2,368·8	2,368·5
9. Law, order and protective services	1,448·1	1,462·0	1,549·6	1,655·0	1,756·8	1,810·8	1,833·4	1,813·1	1,816·4	1,815·7
10. Education and libraries, science and arts	6,498·9	6,922·5	7,262·9	7,302·7	7,408·8	7,500·2	7,361·9	7,246·6	7,220·0	7,248·6
11. Health and personal social services	5,394·6	5,736·7	6,016·5	6,213·0	6,459·1	6,514·8	6,609·5	6,709·7	6,812·5	6,817·9
12. Social security	8,692·7	9,176·2	9,182·9	9,857·4	10,744·8	11,447·8	11,558·2	11,473·5	11,480·0	11,451·0
13. Other public services	711·7	933·8	733·8	782·1	854·9	840·3	849·9	839·9	843·7	843·9
14. Common services	699·4	714·7	714·1	720·4	820·8	825·8	808·4	831·2	858·1	880·4
15. Northern Ireland	1,161·9	1,217·1	1,242·6	1451·6	1,563·1	1,629·1	1,597·3	1,530·4	1,532·0	1,532·4
Total programmes	44,355·7	46,452·3	48,752·1	52,943·7	54,284·1	54,476·7	53,699·5	53,174·7	53,564·2	53,533·2
Debt interest	4,558·4	4,533·5	5,329·5	5,454·0	5,382·8	6,500·0	7,500·0	8,100·0	8,200·0	8,200·0
Contingency reserve	—	—	—	—	—	400·0	800·0	1,100·0	1,400·0	1,700·0
Shortfall	—	—	—	—	—	—	—	—	—	—
Total	48,914·1	50,985·8	54,081·6	58,397·7	59,666·9	61,376·7	61,999·5	62,374·7	63,164·2	63,433·2

TABLE B

Public expenditure by economic category

£ million at 1976 Survey prices

	1975–76	1976–77	1980–81	Average annual percentage increase 1975–76 to 1980–81
Goods and services				
1. Wages and salaries	15,603·0	15,748·8	15,831·0	0·3
2. Other current expenditure	8,463·1	8,726·9	8,865·3	0·9
3. Capital expenditure*	10,336·9	10,111·3	9,332·4	−2·0
Total goods and services	34,403·0	34,587·0	34,028·7	−0·4
Transfers				
4. Current grants to persons	11,701·5	12,472·9	12,638·7	1·6
5. Grants and loans to the private sector	2,554·7	2,817·5	2,683·6	1·0
6. Other	5,624·9	4,599·3	4,182·2	−5·8
Total transfers	19,881·1	19,889·7	19,504·5	−0·4
Total	54,284·1	54,476·7	53,533·2	0·3
Debt interest	5,382·8	6,500·0	8,200·0	8·8
Contingency reserve	·	400·0	1,700·0	..
Shortfall	—	—	—	..
Grand total	59,666·9	61,376·7	63,433·2	1·2

*Including Nationalised industries' shortfall.

ANNEX A

Draft ground rules for preparation of 1976 Survey Report

1. The purpose of the Survey is to enable Ministers to review the public expenditure programmes in the light of the latest view of the economic prospects, and any other new developments including changes in basic data, without any general increase in the total amount allocated in each Survey year to programmes and the contingency reserve.

The base-line

2. For the years up to 1979–80 the "base" should be the programme figures which underlay the February 1976 White Paper (Cmnd. 6393), adjusted for:

(*a*) policy decisions taken by Ministers before the starting date for the Survey, *i.e.* 6 April;

(*b*) any estimating changes which have been accepted by Ministers as a charge on the contingency reserve before the starting date;

(*c*) any offsetting savings that may have been imposed as a condition of (*a*) or (*b*);

(*d*) any approved classification changes;

(*e*) revaluation to 1976 Survey prices.

3. For 1980–81 the "base" figures should be the same as those for 1979–80 calculated as in paragraph 2 above, except to the extent that adjustments may be necessary for a particular service (either up or down) because of specific demographic reasons accepted for the purpose of calculating the 1979–80 figures in the 1975 Survey Report.

The Survey

4. Subject to paragraph 7 below, the figures for each year in the Survey tables for each service should not be greater than the "base" figures as defined in paragraphs 2 and 3. If existing policy can now be carried out with less, the lesser figures should however be substituted.

5. Proposals for additional expenditure, *either* for the maintenance of existing policies *or* for new developments, should be separately costed for each Survey year. The Survey Report should contain a brief description of any such proposals and the reasons for them,

distinguishing between (*a*) additional requirements for services which are demand-determined and governed by statute or binding contractual commitments; (*b*) other requirements for the maintenance of existing policies; and (*c*) proposals for new developments. It should also explain how expenditure could be held within the Survey figures either by policy modifications or by other suggestions for offsetting savings within the department's programmes.

Options

6. In addition to any savings identified under the previous paragraph, the Report should also display feasible illustrative options showing how reductions of at least 2½ per cent in 1977 78 and 5 per cent in the later years could be achieved in each department's programmes. These should be costed for each Survey year, with a brief commentary on the practical and, where relevant, legislative implications of each item. Where programmes have separate Scottish and Welsh components, options should be included for these also. (Nationalised industries' capital investment will be handled separately in the report mentioned in paragraph 7 (*a*) below.)

Other points

7. The following categories should be treated as indicated below:

(*a*) The investment programmes of the nationalised industries in Programme 5 (and the Civil Aviation Authority) will be the subject of a separate report to Ministers. If decisions have been taken on that report before the Survey Report has been completed, the Survey Report should give a brief summary of the effect of those decisions on the Survey figures.

(*b*) Cmnd. 6393 mentioned certain approved expenditure proposals which had not at that stage been fully costed, and therefore represented a claim on the contingency reserve. Wherever possible, these should now be realistically costed and the figures set out separately in the Survey report so that decisions can be taken on them.

(*c*) For debt interest and unattributed EEC contributions, the latest forecast should be given.

8. The Survey Report should reflect the decisions taken to implement the savings in civil service manpower announced in Cmnd. 6393, and any consequential savings in programmed expenditure. The options in paragraph 6 should be additional to any such savings.

ANNEX B

Additional bids

The ground rules for the Survey required that proposals for additional expenditure should not be incorporated in the base line but should be described and separately costed in the Survey Report. These bids are summarised below and described in more detail in Part 2 of this Report.

A. DEMAND DETERMINED ITEMS AND OTHER REQUIREMENTS FOR THE MAINTENANCE OF EXISTING POLICIES

£ million at 1976 Survey prices

	1976–77	1977 78	1978 79	1979 80	1980–81
Programme					
Defence					
Extra bid arising from holding base line for 1980–81 at 1979–80 levels. Amount depends on decision about withdrawal from Cyprus	—				154–190
Overseas aid and other overseas services					
a. *Contribution to BBC external services pension scheme*	*0·9*	*0·9*	*0·9*	*0·9*	*0·9*
b. British Council	0·4	—	—	—	—
c. Increased subscription to FAO	—	0·6	0·6	0·6	0·6
d. United Nations Middle East emergency force	—	3·3	3·3	3·3	3·3
Total	1·3	4·8	4·8	4·8	4·8
Agriculture, fisheries, food and forestry					
a. Rephasing of compensatory allowances	13·6	—	—	—	
b. Maintenance of other services	4·5	3·2	10·4	9·6	10·3
c. Miscellaneous: Local authority capital expenditure on small holdings	3·6	4·1	2·4	2·5	3·2
d. Forestry (mainly remission of interest)	—	—	—	—	3·4
Total	21·7	7·3	12·8	12·1	16·9
Trade, industry and employment					
a. REP		1·6	6·0	10·3	16·1
b. Regional development grants	—	9·2	8·2	16·9	26·9
c. Refinancing of fixed rate export credit	130·0	100·0	100·0	100·0	100·0
d. Refinancing of home shipbuilding lending	23·0	1·0	−15·0	26·0	—
e. Residual expenditure under repealed sections of Local Employment Act 1972	—	−0·3	0·3	0·1	—
f. Selective assistance to industry	−7·1	0·1	5·5	9·9	—
g. Concorde	10·3	7·8	9·0	6·7	−0·2
h. RB211		—	—	—	1·1
i. Assistance to shipbuilding industry	2·8		8·2	—	—
j. Other support services	—	0·2	0·2	—	
k. Investment grants	2·7	1·8	0·7	0·2	—
l. Nuclear R and D		12·8	14·0	15·1	15·0
m. Centrifuge grant	—	3·5	—		
n. Shipping services		0·6	0·9	0·7	1·9
o. Air travel reserve fund	—	2·0	2·0	—	—
p. Companies and insolvency services		0·5	0·4	−0·1	—
q. Export promotion and trade co-operation	—	0·1	0·1	0·1	0·1
r. Price Commission	—	2·5	1·0	1·0	—

£ million at 1976 Survey prices

	1976–77	1977–78	1978–79	1979–80	1980–81
Trade, industry and employment (continued)					
s. Job centre rent and rates	—	—		—	1·4
t. Improvement of employment transfer scheme	·	2·6	2·6	2·6	2·6
u. *DEM computer project*	—	0·1	2·1	5·9	3·1
v. Careers service	—	2·0	1·7	1·3	1·3
w. Amended TOPS training targets	—	3·1	−1·9	6·4	3·2
x. Health and Safety Executive	2·4	3·9	1·1	1·5	0·8
y. Assistance to poorer energy consumers	15·0	10·0	—	—	—
z. Offshore interest relief grant scheme		3·7	7·1	9·3	14·7
Total	179·1	168·8	154·2	148·5	188·0
Nationalised industries' capital expenditure					
a. BNOC		260·0	275·0	300·0	350·0
b. British Aerospace*	4·0	8·0	22·0	35·0	35·0
c. British Shipbuilders	26·0	56·0	56·0	56·0	56·0
d. Other	25·0	45·0	46·0	−149·0	−106·0
Total	55·0	369·0	399·0	242·0	335·0

* This item is partially offset by reductions in Department of Industry research and development expenditure of £1·8 million in 1976–77 and £3 million in each of the succeeding years.

	1976–77	1977–78	1978–79	1979–80	1980–81
Roads and transport					
a. Concessionary fares expenditure by local authorities		21·5	20·8	20·7	22·5
b. Subsidies to Scottish Transport Group	—	0·2	0·2	0·2	0·2
c. CAA: Grant-in-Aid	3·3	1·0	−0·1	6·3	—
d. CAA: capital investment	−3·4	-1·1	0·8	0·4	—
e. Local authority capital expenditure	−6·5	11·6	0·3	1·5	
f. Other civil aviation services	0·5	−0·5	−1·3	−1·7	—
g. Shipping services	—	0·6	0·9	0·7	1·9
Total	−6·1	10·1	21·0	27·3	24·6
Housing					
a. England	180·8	112·9	35·5	−168·8	−171·2
b. Scotland	8·4	−13·9	−15·6	16·7	7·1
c. Wales	2·2	38·8	43·6	41·3	42·8
Total	174·6	137·8	−7·5	−144·2	−121·3
Other environmental services					
a. Local environmental services (England and Wales)	—	—	30·0	30·0	30·0
b. Scotland:					
Water and sewerage	—	2·1	4·5	6·0	6·0
Local services	—	32·6	34·7	34·4	34·4
Town and country planning	3·3	4·5	2·7	2·7	2·7
c. Community Land Scheme	1·7	3·9	7·9	6·2	6·2
d. Thames tidal defence	12·6	24·9	33·7	8·4	−21·3
Total	17·6	68·0	113·5	87·7	56·0
Law, order and protective services					
a. ENGLAND AND WALES					
i. Courts	—	3·1	3·8	3·6	3·9
ii. Legal aid	0·8	1·5	2·4	1·8	6·7
iii. Criminal injuries compensation	—	..	—	0·2	1·3
iv. Prisons	—	5·2	6·3	8·3	8·3
v. Probation and after care	—	−0·2	0·5	0·3	0·5
vi. Police	2·4	9·6	15·8	17·0	26·7
vii. Fire and other protective services	0·1	0·2	0·3	0·4	0·4
viii. Civil defence—oil pipeline and food stockpile	—	4·3	12·8	13·5	7·9
ix. Crown prosecutions	—	0·5	0·5	0·4	0·5
Total England and Wales	3·3	24·2	42·4	45·5	56·2

	1976–77	1977–78	1978–79	1979–80	1980–81
					£ million at 1976 Survey prices
Law, order and protective services (continued)					
b. SCOTLAND					
i. Courts and prisons	—	0·2	–0·2	0·4	1·5
ii. Divorce bill					0·2
iii. Legal aid	—	0·6	0·5	0·6	0·7
iv. Criminal injuries compensation		—	—	—	0·3
v. Prisons	—	1·6	2·1	2·5	2·9
vi. *Police*		*2·7*	*2·4*	*1·2*	*1·2*
vii. Fire	—	—	—	0·1	0·1
Total Scotland	—	5·1	4·8	4·8	6·9
Total	3·3	29·3	47·2	50·3	63·1
Education and libraries, science and arts					
a. Teachers salary drift (GB)	1·0	14·2	21·3	28·5	30·5
b. ENGLAND AND WALES					
i. School transport	—	2·4	4·3	5·6	6·5
ii. More special school pupils	—	—	—	—	1·4
iii. More students and higher non-teaching unit costs		—		—	16·0
iv. College of education redundancy payments	—		—	0·6	1·0
v. In-service training		—		—	15·4
c. SCOTLAND					
i. Slippage in school building	4·9	5·3	1·1		—
ii. Revised estimate of primary pupils and 1½ per cent annual increase in non-teaching unit costs	1·2	5·7	6·4	7·2	7·2
iii. School meals	1·9	0·7	1·3	1·2	1·1
iv. Higher and further education 1½ per cent annual increase in non-teaching unit costs and meeting 96 per cent of natural demand	1·0	1·7	2·3	4·1	5·5
v. Social and recreational education—libraries and administration	—	6·0	6·0	6·0	6·0
d. Arts Council—grant-in-aid		—	3·5	2·5	2·5
e. Capital for museum projects	—	—	0·5	1·0	1·0
f. National Theatre building		—	0·5	—	—
g. Local museums and galleries: Scotland	—	0·6	0·8	0·8	0·8
Total	10·0	36·6	48·0	57·5	94·9
Health and personal social services					
ENGLAND					
a. Maintenance of growth rates agreed after 1975 Survey Report		—	—	—	96·0
b. Cost of Jubilee and May Days; and leap year	—	10·0	10·0	15·0	10·0
c. Additional 1 per cent growth rate for personal social services	—	7·6	15·3	23·7	32·6
WALES					
a. Maintenance of growth rates agreed after 1975 Survey Report		—	—	—	5·6
b. Jubilee and May Days; and leap year	—	0·6	0·6	1·0	0·6
c. Additional 1 per cent growth rate for personal social services	—	0·3	0·9	1·3	1·7
SCOTLAND					
a. Maintenance of growth rates agreed after 1975 Survey Report	—	—	—	—	12·3
b. Jubilee and May Days; and leap year	—	1·4	1·4	2·0	1·4
c. Additional 1 per cent growth rate for personal social services	—	0·9	1·9	3·0	4·1
Total		20·8	30·1	46·0	164·3

£ million at 1976 Survey prices

	1976–77	1977–78	1978–79	1979–80	1980–81
Social security					
a. Estimating (demographic, etc.) changes	−4·1	67·8	146·5	185·0	220·0
b. Revised economic assumptions	−56·0	66·0	−128·0	−290·0	
Total	−60·1	133·8	18·5	−105·0	220·0
Other public services					
a. Vehicle licensing: greater than expected use of Post Office facilities	—	0·8	0·7	0·7	1·0
b. Rephasing of Customs and Excise expenditure	−0·6	0·7	—	—	—
c. Replacement of existing vessels (C & E)	—	—	0·2	0·1	0·4
d. Life assurance: change in tax relief	—	—		5·0	5·0
e. Charity relief: late claims	0·6	0·3	—	—	—
f. Royal Mint	0·1	—	—	—	
g. Public Record Office: storage accommodation	—	0·4	0·2	—	—
h. 100 per cent Census of Population, 1981	—	0·8	0·7	2·2	4·6
i. BBC rearrangement and monitoring of frequencies; and world radio conference	0·5	1·5	1·7	0·7	.
j. Customs and Excise: uniforms and telephones		0·4	0·7	0·1	0·1
k. Registration of electors: Scotland	—	0·2	0·3	0·3	0·3
Total	0·6	5·1	4·5	9·1	11·4
Common services					
a. Parliamentary Press	0·2	1·2	0·6	0·9	0·9
b. Computers and telecommunication	—	—	0·5	0·9	0·2
c. PSA rents	—	8·2	9·2	5·7	5·0
Total	0·2	9·4	10·3	7·5	6·1
Northern Ireland					
a. Economic assumptions changes:					
i. Social Security	−4·9	−9·0	−9·9	−11·5	−2·7
ii. REP	—	0·6	1·0	1·4	1·9
iii. Housing subsidies	−0·5	−0·8	—	1·2	—
b. Agriculture agency services	3·2	0·3	0·9	1·2	1·6
c. Police	0·9	6·1	9·6	13·9	17·1
d. Security guards grants	—	4·6	—	—	—
e. Organisation "Enterprise Ulster"	.	—	.	0·5	0·5
f. Development Agency	—	—	3·5	5·0	5·0
Total	−1·3	1·8	5·1	11·7	23·4
Total Category A	395·9	1,002·6	861·5	455·3	1241·2 1277·2

B. PROPOSALS FOR NEW DEVELOPMENTS

	1976–77	1977–78	1978–79	1979–80	1980–81
Overseas aid and other overseas services					
a. Belize defence force	0·3	1·0	0·5	0·3	0·5
b. EEC contributions (Italian earthquake)	0·1	1·4	1·3	—	—
Total	0·4	2·4	1·8	0·3	0·5
Agriculture, fisheries, food and forestry					
Offshore protection force (MAFF)	2·5	1·8	2·4	2·4	2·4

£ million at 1976 Survey prices

	1976–77	1977–78	1978–79	1979–80	1980–81
Trade, industry and employment					
a. Local price surveys	—	0·3	—	—	—
b. Development Commission	—	5·8	5·0	5·0	5·0
c. Mineworkers' pension fund deficiency	1·4	1·4	1·4	1·4	1·4
d. Redundant mineworkers' payments scheme	—	—	2·0	6·9	12·7
e. Pit closures—grants beyond 1977–78	·	—	12·0	13·1	14·1
f. Coal stocks	20·0	—	—		-
g. *BNFL—additional capital (on the most pessimistic* assumptions about investment and method of finance)	39·6	52·6	42·6	42·8	63·8
h. Purchase of shares in the National Nuclear Corporation	2·0	· ·	—	—	—
i. National Nuclear Corporation: additional capital	10·0	—	—	—	—
j. Offshore support under Section 8 of the Industry Act 1972	2·4	7·0	7·0	7·0	7·0
k. REP women's rate	—	35·5	35·5	35·5	35·5
l. Special redundancy scheme for fishermen after "Cod War"	1·0			·	—
m. Offshore protection force (Energy)	—	1·8	2·3	2·4	2·3
n. Fuel efficiency loan scheme	—	—	1·9	1·4	1·0
o. Consumer advice centres	—	0·7	0·7	0·7	- -
p. Other aircraft projects	1·8	0·6	0·3	0·2	0·1
q. Collective funding of apprentice training	—	30·0	40·0	40·0	40·0
Total	78·2	135·7	150·7	156·4	182·9
Roads and transport					
a. Grants to National Freight Corporation	18·2	9·1	—	—	—
b. Ports investment	−2·0	2·2	1·6	9·3	5·6
Total	16·2	6·9	1·6	9·3	5·6
Law, order and protective services					
a. ENGLAND AND WALES					
i. Urban programme, including ethnic minorities	—	2·2	7·3	9·6	9·9
ii. Fire services	- -	0·7	0·7	0·7	0·7
b. SCOTLAND					
i. Urban programme (Glasgow)		1·0	2·9	4·9	4·9
ii. Fire services	—	1·3	1·3	1·3	1·3
iii. Prisons—training and rehabilitation	·	0·5	0·5	0·5	0·5
Total	—	5·7	12·7	17·0	17·3
Education and libraries, science and arts					
a. School meals consequentials of 1976 deferment of price increase:					
England and Wales	—	40·0	49·0	42·0	7·0
Scotland	—	2·6	2·9	2·3	0·4
b. To improve the pupil/teacher ratio in deprived areas (Scotland)	—	5·0	5·0	5·0	5·0
c. National Library of Wales		0·5	0·5	0·5	·
d. Implementation of public lending right—cost of registrar and payments to authors	—	—	0·5	1·5	1·5
Total	··	48·1	57·9	51·3	13·9
Health and personal social services					
Nurse training:					
England	··	—	—	5·0	9·0
Wales	—	—		0·3	0·6
Scotland	—		—	0·8	1·5
Total	—		—	6·1	11·1

£ million at 1976 Survey prices

	1976–77	1977–78	1978–79	1979–80	1980–81
Social security					
Mobility allowance—improvement in real value	—	2·0	10·0	13·0	17·0
Other public services					
a. Devolution—Scotland and Wales	4·0	17·5	23·7	25·3	25·4
b. Cable and Wireless capital expenditure	10·9	7·6	10·0	13·5	14·4
c. Parliament—broadcasting	0·2	0·2		—	—
d. UHF TV phase II	0·1	0·2	0·4	0·8	1·8
e. 4th TV channel—Wales	0·1	2·3	5·3	7·3	5·9
f. Satellite monitoring	—	0·3	0·1	0·3	0·1
g. Royal Commissions	—	0·8	0·6	0·1	—
Total	15·3	28·9	40·1	47·3	47·6
Common services					
a. HMSO publications main distribution warehouse and new central warehouse	0·2	—	1·5	2·3	1·6
Northern Ireland					
a. REP—women's rate		3·8	3·8	3·8	3·8
b. School meals: consequentials of deferment of 1976 price increase	—	0·6	0·8	1·1	1·1
Total	—	4·4	4·6	4·9	4·9
Total B	132·8	235·9	280·1	310·3	304·8

C. CONTINGENT PROPOSALS FOR NEW DEVELOPMENTS

	1976–77	1977–78	1978–79	1979–80	1980–81
Overseas aid and other overseas services					
EEC contributions—possible change in unit of account	—	56·0	119·0	−15·0	−88·0
UNCTAD common fund*	—	—	19·0–75·0	19·0–75·0	-
Total	—	56·0	138·0–194·0	4·0–60·0	−88·0
Trade, industry and employment					
Pharmaceutical Industry—planning agreement*	—	10–20	10–20	10–20	10–20
Housing					
a. Housebuilding—further increase in number of approvals in 1976 over Cmnd. 6393 (England)	—	10·0	40·0	20·0	—
b. Failure to legislate to obtain required rent increase (England)	—	80·0	200·0	200·0	200·0
c. Wales:					
i. subsidies	—	1·0	2·3	3·8	5·4
ii. improvement grants	—	0·1	1·8	1·9	1·9
iii. improvement and other investment municipalisation and net lending	—	38·4	36·9	39·2	37·5
Total	—	129·5	281·0	264·9	244·8
Law, order and protective services					
Rhodesian refugees	—	65–140	—	—	—
Other public services					
EEC election	—	—	10·0	—	—
Ordnance Survey		0·4	0·6	0·4	0·2
Total	—	0·4	10·6	0·4	0·2
Total C	—	260·9–345·9	439·6–505·6	279·3–345·3	167·0–177·0
TOTAL ADDITIONAL BIDS IN A, B AND C ABOVE	508·7	1,499·4–1,584·4	1,581·2–1,647·2	1,044·9–1,110·9	1,713·0–1,759·0

(Civil service staff-related additional bids are in Annex D on page 24)

* The final programme allocation of these items is not yet decided. The amounts are very speculative and no offsetting savings have been sought.

ANNEX C

Policy options

The ground rules for the Survey required that for each programme, in addition to the savings necessary to offset the bids for increased expenditure, illustrative options should be displayed showing how reductions of at least 2½ per cent in 1977–78 and 5 per cent in the later years could be achieved. The notes below summarise the position on offsetting savings and illustrative options and list the main options which have been identified. They are explained in greater detail in Part 2 of this Report.

£ million at 1976 Survey prices

	1977–78	*1978–79*	*1979–80*	*1980–81*
Programme				
Defence				
a. Option:				
i. Savings of this order would affect the front line forces contributed to NATO, in one or both of the Central European and Eastern Atlantic areas	141	282	282	282
b. Balance required to meet minimum options	—	—	—	—
c. No offset to the additional bid has been offered	—	—		—
Overseas aid and other overseas services				
a. Options:				
i. Overseas aid: a decline in the United Kingdom's performance against 0·7 per cent target	14	29	30	30
ii. Reduced expenditure on the diplomatic estate	1	2	2	2
iii. Overseas information: reduced activity	1	3	3	3
iv. Other external relations and military aid: reductions in services	1	2	2	2
Total options	17	36	37	37
b. Balance required to meet minimum options	—	—	—	—
c. No offsets to additional bids quantified	—	—	—	—
Agriculture, fisheries, food and forestry				
a. Options:				
i. Terminate lime subsidy	2	4	4	4
ii. Agricultural and fisheries research	1	1	1	1
iii. Limit fisheries grants and loans	3	3	3	3
iv. Reduce farm structure schemes and land sales	1	2	2	1
v. Reductions in other agricultural grants and subsidies	2	6	6	6
vi. Reduced uptake of capital grants due to v	—	1	1	1
vii. Food subsidies	7	5	3	3
viii. Forestry	1	1	1	1
Total options	17	23	21	20
b. Balance required to meet minimum options		—	—	-
c. Offsets to additional bids*	10	16	16	21
Offsets of these amounts have been identified but not offered by departments.				

* Including £1 million per annum to compensate for additional bids on Programme 4

£ million saving at 1976 Survey prices

	1977-78	1978-79	1979-80	1980-81
Trade, industry and employment				
a. Options:				
i. Regional development grants	23	44	41	38
ii. *Regional employment premium*	5	11	12	12
iii. Scottish regional support programmes	2	3	4	4
iv. Welsh regional support programmes	1	1	2	2
v. Highland and Islands Development Board and Scottish Tourist Board	.	1	1	1
vi. *Reactor R and D*	3	7	6	6
vii. Civil oil stocks	1	1	1	1
viii. Assistance to the film industry	1	3	2	2
Department of Employment:				
ix. Cut job-centre programme by 25 per cent after 1977-78; and in 1980-81 postpone 3 rehabilitation centres		2	2	4
x. Restrict scope and use of employment transfer scheme	3	3	3	2
xi. Reduce TOPS scheme and consequential effects on local authority loan sanction	5	10	11	11
xii. Reduce assisted training in industry; and charge for direct training services in assisted areas	2	4	4	4
xiii. Reduce training allowance lead over unemployment benefit from 75 per cent to 65 per cent	2	3	3	3
xiv. *Reduce rate of redundancy payment rebate from 50 per cent to 40 per cent	—	18	18	18
xv. Reduce TES rate from £20 to £15 for last quarter of eligibility	8	—	—	—
xvi. Reduce community industry places	—	2	2	2
xvii. Miscellaneous: cut TSA management budget; 50 per cent cut in research programme; abolish Royal Commission on Distribution of Income and Wealth; and reduce Remploy workers	1	2	2	2
Total options†	57	115	114	112
b. Balance required to meet minimum options	—	—	—	—
c. *Offsets* to trade and industry expenditure might be found by cutting regional development grants. For employment services, offsets would have to be discussed with the Manpower Services Commission.				

*Legislation would be needed; and extra costs would be imposed on employers.

†Savings options for the Department of Prices and Consumer Protection are offered in Programme 3.

	1977-78	1978-79	1979-80	1980-81
Roads and transport				
a. Options:				
i. Motorways and trunk roads:				
(a) Delays in building	12	22	24	24
(b) Reductions in maintenance	3	5	5	5
ii. Local transport:				
(a) Reduced road construction	14	25	25	25
(b) Car parks	1	1	1	1
(c) Public transport investment	4	7	6	6
(d) Current	14	25	25	25
iii. Other (road safety, new bus grants, and administration)	1	2	2	2
iv. British Rail passenger subsidies	10	18	19	19
v. *British Waterways Board*	—	1	1	1
vi. Ports	2	2	2	2
vii. CAA investment	1	1	1	1
Total options	62	109	111	111
b. Balance required to meet minimum options		6	—	—
c. Offsets to additional bids have not been offered	—	—	—	—

£ million at 1976 Survey prices

	1977–78	1978–79	1979–80	1980–81
Housing				
a. Options:				
ENGLAND				
i. Limits on local authority new housebuilding	15	50	55	55
ii. Reduction in New Towns programme	2	5	10	10
iii. Reduction in Housing Association Schemes	5	10	15	15
iv. Additional rent increases of 15p in 1977–78 and 1978–79	25	50	50	50
v. Reduced entitlement to rent rebates	—	10	10	10
vi. 25 per cent increase in sales	20	25	25	25
vii. Cut in municipalisation/improvements/lending to make up balance	25	35	20	20
Total options: England	92	185	185	185
SCOTLAND				
viii. Reductions in new housebuilding approvals	16	29	32	32
WALES				
ix. Improvement investment and grants	2	4	2	-
x. Local authority mortgage lending; and slum clearance	2	3	2	1
xi. Cuts in housing association approvals	—	—	4	7
Total options: Wales	4	7	8	8
Total options: Great Britain	112	221	225	225
b. Balance required to meet minimum options	—	—	—	—
c. Offsets to additional bids have been identified for England and Scotland but not for Wales				
England	113	—	—	—
Scotland	—	—	. .	7
Other environmental services				
a. Options:				
i. Reductions in water authorities' capital expenditure	14	29	29	29
ii. Thames tidal defence scheme	2	2	1	1
iii. Other arterial drainage	1	2	2	2
iv. Land drainage maintenance	1	2	2	2
v. Local environmental services	36	71	70	70
vi. Slower New Town development	1	2	2	2
vii. Slower build up of Community Land Scheme	1	4	4	4
viii. Reduction in expenditure on ancient monuments and Royal Palaces and Parks	1	2	2	2
ix. Reduction in environmental research	1	2	2	2
x. Sports council and miscellaneous cuts	1	1	1	1
Total options	59	117	115	115
b. Balance required to meet minimum options	—	—	—	—
c. Offsets have not been quantified for England and Wales but might come from the water capital programme and local authority services.				
Law, order and protective services				
a. Options:				
ENGLAND AND WALES				
i. Courts	1	2	2	2
ii. Legal aid	7	8	8	8
iii. Criminal injuries compensation	4	4	5	5
iv. Probation	1	2	2	2
v. Police	3	22	27	29
vi. Fire and other protective services	4	3	2	2
vii. Urban programme, etc.	11	9	10	10
viii. Home Office research	3	3	3	3
	34	53	59	61

	1977–78	1978–79	1979–80	1980–81
	£ million at 1976 Survey prices			
Law, order and protective services (continued)				
SCOTLAND				
i. Legal aid	1	1	1	1
ii. Criminal injuries	1	1	1	1
iii. Fire and police	1	1	2	2
	3	3	4	4
Total options	37	56	63	65
b. Balance required to meet minimum options	8	33	27	25
c. Offsets to additional bids have not been offered or identified.	—	-	—	—
Education and Science				
a. Options				
EDUCATION AND LIBRARIES (ENGLAND AND WALES)				
i. Reduction in Computer Board expenditure	4	9	10	10
ii. Reductions in University furniture and equipment grant	21	23	11	12
iii. Revised catering and residence arrangements in higher and further education	4	10	14	15
iv. Libraries: reduced capital and current expenditure	4	8	8	8
v. Postponement of induction training and expansion of in-service training of teachers	7	21	29	35*
vi. Reduction of provision for non-teaching costs in higher and further education	10	21	33	45*
vii. Reduction of planned expenditure on higher education to 95 per cent of Cmnd. 6393 level—570,000 places in 1981–82†	8	24	35	41*
viii. Reductions in all educational building starts programmes except Primary and Secondary basic needs	17	33	41	25
ix. Reduction of planned expenditure on under fives to 80 per cent of Cmnd. 6393 level	22	33	34	35
x. Reduction of planned expenditure on non-advanced further education to 95 per cent of Cmnd. 6393 level†	8	20	24	24*
xi. School meals: further reduction of subsidy	26*	34*	27*	21*
xii. Reduction in teaching force by 1 per cent from 1977–78 (in addition to any reduction required by ix above)	10	15	15	15
xiii. Reduction of planned levels of non-teaching costs in primary, secondary, nursery and special schools	14	28	41	56
xiv. Introduction of library charges	12	12	12	12
xv. Capitation fee of £10 for school pupils and students in non-advanced further education	46	68	66	65
EDUCATION AND LIBRARIES (SCOTLAND)				
i. Libraries: user charge	2	2	2	2
ii. Abandonment of school building starts programme (other than for primary and secondary basic needs) from 1977–78	2	4	5	5
iii. Restriction of higher and further education provision to 95 per cent of Cmnd. 6393	1	3	4	6*
iv. School meals: reduction of subsidy	2*	2*	2*	2*
v. Reduction of teaching force by 1 per cent in 1977–78 and 5 per cent in subsequent years	2	12	12	12
vi. Capitation fee of £10 for school pupils and students in non-advanced further education	8	8	8	7
Total options: Education and libraries (Great Britain)	230	390	433	453
SCIENCE				
i. Further curtailment of SRC big science	1	3	3	3
ii. Reductions in resources for other Research Councils' programmes in agricultural, health and environmental research	2	4	4	4
iii. Reduction of SRC support for science and engineering	2	4	4	4
Total options: Science	5	11	11	11

*These figures assume acceptance of additional bids.

†These options are subject to revision in the light of Ministerial decisions on tuition fees.

£ million at 1976 Survey prices

	1977-78	1978-79	1979-80	1980-81
ARTS				
i. Reductions in support for Royal Shakespeare Company and other National Companies (or curtailment of support for Arts in the regions combined with a moratorium on most Arts capital projects) . . . . / ii. Shorter opening hours/weekend closures at National Collections	2	3	3	3
iii. Reductions in current expenditure on local museums and galleries	1	1	1	1
Total options: Arts	3	4	4	4
b. *Balance required to meet minimum options*	—	—	—	—
c. Offsets to additional bids for England and Wales have not been separately identified but are included in the options above. Offsets for additional bids have not been offered for Scotland	—	...	—	—
Health and personal social services				
a. Options:				
Increased charges:				
i. Prescription charges	25-35	25-35	25-35	25-35
ii. Road accident levy on insurance companies	—	40	40	40
iii. Hospital meal charge of £1 a day	-	25	25	25
iv. Dental treatment	22-30	22-60	22-60	22-60
v. 100 per cent charge for lenses	6	6	6	6
Cuts in services:				
i. Health capital expenditure	25-35	35-70	35-70	35-70
ii. Restrict growth in health current expenditure (0-½ per cent) .	40-60	71-110	103-162	83-162
iii. Personal Social Services—capital	0-28	0-30	0-30	0-30
iv. Personal Social Services—current	—	0-10	0-18	0-9
Total options	118-194	224-386	256-446	236-437
b. The minimum options are within the above ranges.				
c. Offsets to additional bids have not been identified.				
Social security				
a. Options:				
i. Uprating long-term benefits in line with the movement of prices*	5	49	167	327
OR				
Uprating long-term benefits by more than the movement of prices but less than the movement of earnings*	3	25	87	169
ii. Uprating short-term benefit by 1 per cent less than the movement of prices*	7	21	33	50
iii. Uprating long-term child dependency benefits by the movement of prices*	—	1	3	6
iv. Raising pension age for women*	-	—	12	36
v. Deferment of the start of the new pension scheme	—	—	28-42	66-109
vi. Restricting unemployment benefit for occupational pensioners*	-	12	12	13
vii. Deferment of the introduction of non-contributory invalidity pension for housewives	21	21	22	22
viii. Means tested maternity and death grants*	—	25	25	25
ix. Raising age limit for supplementary benefit to 18*	..	25	25	25
x. Removing entitlement for flat-rate unemployment benefit for the first six days of any period of temporary suspension .	30	25	25	25
xi. Abolishing Earnings Related Supplement*	—	190	160	160
xii. Removing entitlement to flat-rate unemployment or sickness benefit for the first six days of the period of complete interruption of employment*	—	69	66	67
Total options	61-63	414-438	498-592	664-865
b. Balance required to meet minimum options	234	122	—	—
c. Offsets to additional bids not offered	—	—	—	—

*All these items require legislation.

£ million at 1976 Survey prices

	1977–78	1978–79	1979–80	1980–81
Other Public Services				
a. Options:				
i. Department of National Savings	1	1	1	1
ii. Electoral registration	—	8	—	8
iii. Broadcasting	1	1	1	1
Total options	*2*	*10*	*2*	*10*
b. Balance required to meet minimum options	—		—	—
c. No offsets to additional bids offered	—	—	—	—
Common Services				
a. Options:				
i. Office and accommodation services:				
(*a*) Reductions in capital expenditure—new works, furniture and equipment	3	9	9	9
(*b*) Savings on maintenance and running costs; and rents	4	5	5	5
ii. HMSO	2	5	5	5
iii. Computers and telecommunications—cancellation and deferment of projects	1	2	2	2
iv. Home publicity	—	1	1	1
Total options	10	22	22	20
b. Balance required to meet minimum options	10	20	21	24
c. No offsets to additional bids		—		
Northern Ireland				
Northern Ireland departments:				
Agriculture, fisheries, food and forestry		1	1	1
Trade, industry and employment	8	11	12	13
Roads and transport	—	3	4	4
Housing	9	12	12	12
Other environmental services	—	2	2	2
Education and libraries, science and arts	6	13	13	13
Health and personal social services	5	12	12	11
Social security	9	18	18	18
Other public services	—	1	1	1
Common services	—	1	1	
United Kingdom departments:				
Agriculture, fisheries, food and forestry	1	1	1	1
Total options	38	75	77	76
Balance required to meet minimum options	—	—	—	—
Offsets to additional bids identified but not offered	11	13	19	22
Total options (Civil Service staff-related options are in Annex D on page 24)	969–1,047	2,109–2,295	2,271–2,555	2,441–2,843

ANNEX D

Civil Service Staff Related Additional Bids and Options

£ million at 1976 Survey prices

	1976–77	1977–78	1978–79	1979–80	1980–81
a. Options					
Overseas representation	—	3	6	6	6
Customs and Excise	—	4	7	7	7
Inland Revenue	—	8	16	16	16
Central management of the Civil Service	—	—	1	1	1
Total options	—	15	30	30	30
b. Additional bids					
1. Dispersal of FCO staff to Merseyside	—	—	—	—	0·5
2. Dispersal of ODM staff to East Kilbride	—	—	—	—	0·5
3. Staff increases for Employment Protection and TU Labour Relations Act	—	2·9	2·9	2·8	2·8
4. Dispersal of MSC staff to Sheffield	0·2	2·1	7·4	7·7	2·7
5. Staff for ESA vacancy survey, etc.	—	—	—	0·4	1·2
6. DE administration	—	0·2		−0·6	−0·8
7. MSC staff	—	0·1	0·1	0·1	0·1
8. TSA staff and dispersal costs	—	2·3	4·2	4·0	7·2
9. Home Office dispersal	—	—	—	—	1·5
10. PSA administration	—	−1·1	−0·5	0·5	1·6
11. Inland Revenue	3·5	2·5	9·2	12·6	8·2
12. Customs and Excise	—	0·4	0·7	0·1	0·1
13. Dispersal of OPCS staff to Southport	—	0·1	0·4	0·8	0·2
14. Treasury Solicitor	—	0·3	0·4	0·2	0·2
15. E and AD manpower	0·1	0·3	0·5	0·5	0·5
16. Lord Chancellor's Department	—	1·3	2·3	3·1	3·4
17. Ordnance Survey	—	0·4	0·6	0·4	0·2
18. HMSO	—	0·1	0·5	0·9	1·0
Total bids	3·8	11·9	28·7	33·5	31·1

ANNEX E

Local authority expenditure

1. The base line figures provide for total local authority expenditure as follows:

£ million at 1976 Survey prices

	1974–75	1975 76	1976–77	1977–78	1978 79	1979–80	1980–81
Current	10,109	10,795*	10,610	10,560	10,492	10,541	10,557
Capital:							
Housing	3,033	2,609	2,117	1,947	1,946	1,947	1,947
Other	2,028	1,858	1,698	1,553	1,392	1,309	1,299
	15,170	15,262	14,425	14,060	13,830	13,797	13,803

* Includes estimated overspending of £150 million in England and Wales and £55 million in Scotland.

Control of local authority expenditure

2. The Government can influence the level of local authority *current* spending but has no formal powers of control either over its total or over its allocation between services. Through its control of local authority borrowing the Government does have effective control over programmes of *capital* expenditure, but as a deliberate policy it does not exercise its power to restrict new housebuilding, which accounts for the bulk of housing capital expenditure.

Recent developments

3. During the past 12 months, the Consultative Council on Local Government Finance has met frequently and developed as a useful forum for consultation and improved understanding between central and local government. In particular, the local government members of the Council have expressed a strong wish to be involved as directly as possible in the annual public expenditure reviews, so that their views on local authority services and expenditure can be taken fully into account when Ministers take decisions. For the 1976 Survey therefore the local government members have been assured that they will be consulted during the review; and preparatory work is being undertaken at official level between Departments and the local authority associations.

4. The quarterly collection of figures of local authority staff numbers, which was begun last year, and the publicity involved in the announcement of these figures, continue to draw attention to

the need for economy in staffing. Particular interest in the implications of developing policies for the numbers of staff employed has been shown by the trade unions and by the TUC Local Government Committee on their behalf. A continuing series of meetings between Ministers and the Committee on this aspect of local government affairs can be expected to be held so long as the pressure is maintained for restraint in the labour intensive services which local authorities provide.

5. Thus it was not until the matter had been discussed in the Consultative Council, and informally with the trade union leaders mainly concerned, that the Government announced its reaction to the figures of local authority current expenditure shown in the recent DOE/CIPFA returns. These suggested that local authorities in England and Wales had exceeded the provision in Cmnd. 6393 by some £150 million in 1975–76 and were planning to overspend by some £350–450 million in 1976–77. The returns may well have exaggerated the prospective overspending; but local authorities have been told, with the endorsement of the Council, that the excess is in any case unacceptable to the Government. They have been asked to revise their expenditure plans so as to eliminate the excess altogether, and to submit revised returns by mid-July.

6. Parallel action is being taken in Scotland where the prospective overspending in 1976-77 amounts to some £40 million. The reorganisation of local government with effect from the beginning of 1975–76 appears to have been followed by a substantial increase in expenditure by the new district councils on miscellaneous environmental services. The need to accommodate this increase is adding considerably to the Government's task in seeking to contain total expenditure within restricted totals.

7. Meanwhile, the Layfield Committee on Local Government Finance has reported and its recommendations are being examined. The Committee have suggested that Ministers might have a much more limited role in determining policies in local services in future. On the control of local authority expenditure, however, the Committee accepted without qualification that the Government need, for macro-economic reasons, to be able to control total spending, whatever the respective roles of central and local government in determining policies in individual services. In considering the Report therefore officials are examining possible ways in which the Government might secure more effective control over expenditure.

Estimates of current expenditure

8. The recent DOE/CIPFA returns suggested overspending in England and Wales in 1975–76 (compared with Cmnd. 6393) of some £150 million made up in very round terms of:

	£ million at 1976 Survey prices
Education	75
Personal social services	10
Home Office services	25
Local transport	20
Environmental services	—
Housing	20
Employment	
	150

9. These figures suggest that any overspending may have been spread fairly widely between services. It is doubtful whether any further significance should be attached to the precise figures for individual services. More reliability can be attached to the estimate of total overspending but this also is of course liable to be further revised when fuller annual returns are received in the autumn.

10. The Scottish figures for 1975–76 (and indeed 1974–75) understate the probable outturn because of the problem of collecting data during the period of local government re-organisation, the main deficiencies occurring in Other environmental services. The addition of £55 million which has to be made is therefore a more tentative estimate than for England and Wales. It assumes that Scottish authorities have spent around £10 million more in 1975–76 than was expected at the time of the rate support grant negotiations for 1976–77.

11. For *1976 77*, it is reasonable to expect that authorities will respond with some substantive action towards eliminating the prospective overspending. But complete elimination would require a lower level of expenditure (and hence fewer staff) than in 1975–76. The Chief Secretary has pointed out in his reports to Cabinet on claims on the contingency reserve that there might be overspending of the order of £100 million. It is the general view of the Departments concerned that it would be imprudent to assume that overspending in England and Wales will, in the event, be less than this: it could well be £200 million. Similarly, in Scotland it would be prudent to assume overspending of the order of £20 million.

12. The Government has already announced publicly that local authorities' total current expenditure in England and Wales in *1977–78* must be confined within the figures shown in Cmnd. 6393 (and paragraph 1 above). These figures will not be increased in the

rate support grant negotiations this autumn: indeed, in determining the amount of grant in 1977–78, the Government will assume that their expenditure in 1976 77 has been kept down to the approved level and that any money which they could have used to finance additional expenditure will be available for use in 1977–78. Local authorities will thus be under strong pressure from the Government and from their own ratepayers to keep down their spending. The Cabinet have agreed that comparable action in all respects should be taken in Scotland.

13. On the other hand, in view of the difficulties which some local authorities will face, particularly in reducing staff numbers, the Departments concerned have no great confidence that, in the absence of further measures, they will retrench sufficiently in 1977–78 to recover any ground lost in 1976–77. Perhaps the best that can reasonably be hoped for is that there would be no increase on whatever level is reached in 1976–77. If an actual reduction is to be achieved between 1976–77 and 1977–78, the alternative courses would be:

(*a*) To impose an even tougher rate support grant settlement. But it is possible that it would take a really large reduction in grant, and therefore a large increase in local rates, to force authorities to cut back.

(*b*) To give specific, and more restrictive, guidance to authorities on the policies to be followed in individual services. (The options are outlined in the programme chapters in Part 2 of this Report.) But the local government side of the Consultative Council have repeatedly warned that, to be effective, such guidance must be given before the Summer Recess.

Either course would of course have to face the opposition of the trade unions and the TUC Local Government Committee in defence of their interests; and the resentment at large rate increases caused by reduced grant would not necessarily be directed solely at local authorities.

14. It is not possible to comment in detail on the prospects for *1978–79 and later years*. Developments over the next 12 months will demonstrate what can (or cannot) be achieved with the means of influence at present at the Government's disposal. Restriction of the amount of rate support grant is clearly a limited weapon. One implication of what has already been announced for 1977–78 is a reduction of several per cent in the present rate of grant; and action under (*a*) above would mean an even larger reduction. Continuing

action of this sort, relying on the unpopularity of large rate increases to contain expenditure, could prove impracticable. Substantial off-setting savings in local authority capital expenditure would have to be considered as an alternative, although the limitations on such action are illustrated by the figures in paragraph 1 above. In any case, whatever can be achieved in the short to medium term in conditions of general stringency, there are clearly strong grounds for improving the present arrangements for central control and influence over total local authority spending, and this is being pursued in the context of the Layfield Committee's Report.

ANNEX F

Public expenditure in cost terms

In the three years between 1972–73 and 1975–76 public expenditure increased from 50 per cent of GDP at factor cost to about 59 per cent. Much of this increase was due to the fact that public expenditure increased by 17 per cent in volume over this period while the increase in output was not more than 2 per cent. But a significant proportion, about one-third, reflected the fact that prices in public expenditure increased by 6 per cent more than domestic prices in general represented by the GDP deflator.*

2. If current prices can be taken to represent the relative costs of different items of expenditure, it is clear that the volume measurement of public expenditure, at unchanging prices, did not represent adequately over this period the increase in the real cost of expenditure. A separate series of figures is therefore prepared " at constant prices in cost terms, including the relative price effect ". These take account of price movements relative to the GDP deflator and thus bear the same relation to GDP at constant prices as does public expenditure at current prices to GDP at current prices. Table C on page 32 shows public expenditure in these terms in programme detail. The total " relative price effect " is shown on a cumulative and year-to-year basis at the foot of the table in £ million at 1975–76 prices, together with the year-to-year relative price changes which cause it.

3. The outstanding feature of the last five years is the sharp increase in the relative price of public expenditure in 1973–74 and 1974–75 and the fall back in 1975–76. The rise was due to a number of special factors, including the increase in import prices, especially oil, which also, of course, affected prices paid by the private sector, though not (directly) the GDP deflator which reflects home costs only; the increase in land prices and construction costs; and some large public service pay increases as the statutory wage restraints were relaxed.

4. Chart A on page 33 shows the main components of the relative price increase of public expenditure, in terms of economic categories—capital and current expenditure, pay, procurement and so on. A major element in the increase was the explosion in land prices and construction costs from 1972. Land prices were affected

* It does not follow that the public sector paid more than the private sector for similar goods and services. In general the public sector buys a larger proportion of the things that tend to increase most in price. Also, during this period almost all unsubsidised prices rose faster than the GDP deflator, which is not directly affected by import prices.

immediately, with relative increase in 1972 73 of over 30 per cent over 1971–72. Construction contract prices also began to rise sharply, but actual expenditure in 1972–73 was little affected. As contracts got under way expenditure more and more reflected the cost increase, first in dwellings and a little later in other construction work. In 1973–74 procurement costs began to be affected by the world increase in commodity costs and in 1974 75 they were affected by this general increase and even more by the increase in oil prices. Pay increases in the public services, following the relaxation of the statutory incomes policy, also contributed substantially to the increase in relative costs in 1974–75.

5. This was also however the first year to show the effect of the collapse of the construction and land prices bubble, with a sharp fall in the average price paid for land. The fall in tender costs was apparent in a relative fall in prices paid for public sector housing work in 1975–76, and a check to the relative increase in other construction costs. Thus the price movement of the various elements in public expenditure between 1974–75 and 1975–76 was very uneven. This unevenness is also reflected in the change between 1975 and 1976 Survey prices, and hence contributes to the difference between the programme pattern of expenditure as shown at 1975 Survey prices in Cmnd. 6393 and as revalued to 1976 Survey prices in this Report.

6. Chart B shows an analysis of the overall relative price movement of public expenditure between the main programmes. The divergence between programmes is smaller than the divergence between economic categories, simply because most programmes are made up of a mix of economic categories. But the influence of construction costs on housing and to a lesser extent on other environmental services, and of the 1974 pay increases on education and health, is clear.

7. The charts also show the basis of the provision for the relative price effect in the years to 1980–81. The projection of relative price movements is extremely hazardous. At this stage there seems no reason to expect exceptional price movements like those of recent years. Only limited and formalised allowances have been made for relative price changes. The general trend of wage and salary costs is upwards relative to the GDP deflator, because of the way in which they are conventionally measured. The projections take account of this trend, and also of the TUC policy on pay settlements. A relative fall in construction costs over the next few years is forecast, based partly on information on the prices in contracts already signed,

and partly on the assumption that they will move back towards the relation to other prices which they have borne in the past. Procurement prices have been estimated directly for 1976–77 and thereafter are assumed to show the same sort of trend relative to the GDP deflator as in the past. The net effect is a small relative price increase from 1976–77, of less than ½ per cent a year on average.

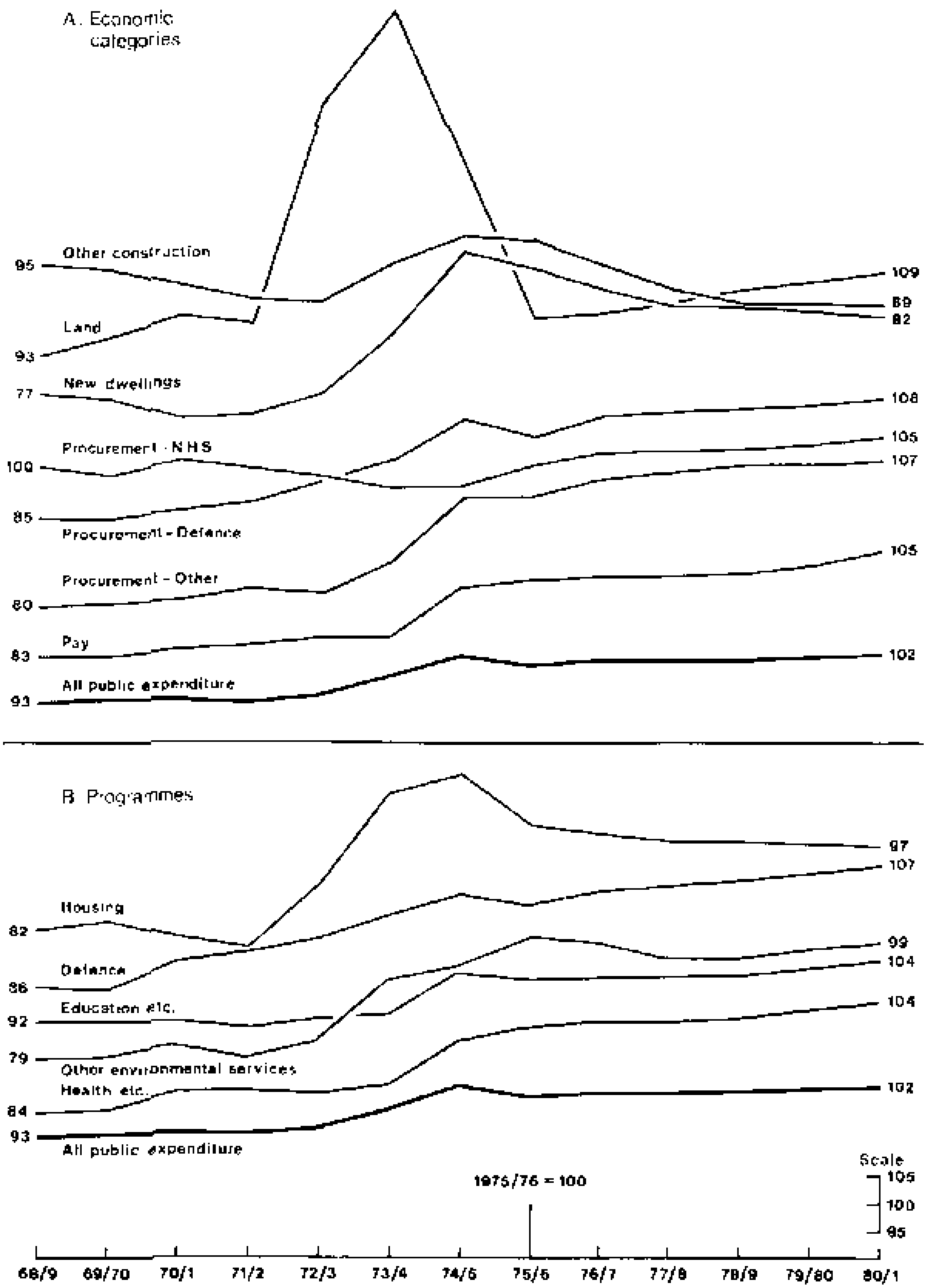
TABLE C

Public expenditure by programme in cost terms: 1971–72 to 1980–81

£ million

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
At 1975–76 prices including the relative price effect										
1. Defence	4,988	4,977	5,126	5,181	5,293	5,553	5,595	5,627	5,718	5,777
2. Overseas aid and other overseas services	687	812	900	889	757	956	1,222	1,317	1,410	1,483
3. Agriculture, fisheries, food and forestry	784	675	825	1,583	1,475	1,037	804	605	579	579
4. Trade, industry and employment	2,190	2,421	3,134	3,353	2,784	2,665	2,465	2,405	2,380	2,297
5. Nationalised industries' capital expenditure	2,963	2,886	2,644	3,319	3,595	3,490	3,084	3,213	3,355	3,355
6. Roads and transport	1,861	2,025	2,228	2,569	2,660	2,583	2,358	2,149	2,151	2,147
7. Housing	2,151	2,474	3,847	5,393	4,535	4,390	4,211	4,159	4,234	4,228
8. Other environmental services	1,749	1,908	2,271	2,316	2,495	2,343	2,314	2,230	2,242	2,271
9. Law, order and protective services	1,277	1,333	1,441	1,550	1,658	1,720	1,741	1,737	1,765	1,796
10. Education and libraries, science and arts	5,740	6,209	6,581	7,155	7,144	7,267	7,137	7,087	7,151	7,295
11. Health and personal social services	4,618	4,909	5,222	5,866	6,266	6,395	6,490	6,634	6,818	6,928
12. Social security	7,740	8,096	8,305	8,824	9,545	10,326	10,400	10,332	10,341	10,322
13. Other public services	667	843	686	727	832	827	837	834	850	865
14. Common services	627	647	635	656	768	786	772	796	829	860
15. Northern Ireland	1,039	1,104	1,177	1,404	1,516	1,583	1,541	1,480	1,491	1,503
Total programmes	39,081	41,319	45,022	50,785	51,323	51,921	50,971	50,605	51,314	51,706
Debt interest	4,103	4,083	4,797	4,907	4,845	5,850	6,750	7,300	7,400	7,400
Contingency reserve	—	—	—	—	—	375	750	1,050	1,325	1,600
Shortfall	—	—	—	—		—	—	—	—	—
Total in cost terms	43,184	45,402	49,819	55,692	56,168	58,146	58,471	58,955	60,039	60,706
Less relative price effect	−3,000	−2,650	−1,200	600	—	400	300	450	800	1,250
Total in volume terms at 1975–76 prices (rounded)	46,200	48,050	51,000	55,100	56,150	57,750	58,150	58,500	59,250	59,450
Change in relative price effect over previous year		+350	+1,450	+1,800	−600	+400	−100	+150	+350	+450
Relative price change over previous year (%)		+1·2	+3·3	+3·5	−1·1	+0·7	−0·2	+0·3	+0·6	+0·7

Relative prices in public expenditure: price changes relative to the GDP deflator



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PUBLIC EXPENDITURE TO 1980-81

Part Two

Detailed Analysis of Programmes and Special Analyses

1976 Report by the Public Expenditure Survey Committee

June 1976

PUBLIC EXPENDITURE TO 1980–81

1976 REPORT BY THE PUBLIC EXPENDITURE SURVEY COMMITTEE

PART TWO

CONTENTS

Unless otherwise stated all figures in this Report are at 1976 Survey prices.

PART TWO

DETAILED ANALYSIS OF PROGRAMMES

1. Defence

TABLE 1 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Defence Budget	5,713·1	5,560·0	5,504·6	5,305·4	5,491·7	5,632·5	5,647·2	5,633·4	5,636·0	5,636·0
National Accounts adjustments	-47·5	-56·2	-44·6	-40·4	-4·6	11·7	·3·1	-6·5	16·3	-6·1
Grand Total	5,665·6	5,503·8	5,460·0	5,265·0	5,487·1	5,620·8	5,644·1	5,626·9	5,652·3	5,629·9
Changes from Cmnd. 6393 revalued:										
Defence Budget					118·1	—	—	—	—	
Cmnd. 6393 revalued					5,609·8	5,632·5	5,647·2	5,633·4	5,636·0	
National Accounts adjustment					+14·6	−0·3	−0·3	−0·3	−0·3	
Cmnd. 6393 revalued					−19·2	−11·4	-2·8	−6·2	16·6	

Defence Budget

Implications of Survey figures

1. The baseline figures assume that defence spending would continue at the level agreed for the years up to 1979–80 following the Defence Review and the further reductions in the support structure announced in Cmnd. 6393.

2. The figures for the years up to 1979–80 embody the savings which the Defence Secretary has undertaken to make and are agreed. The Ministry of Defence do not accept the figure for 1980–81, which they consider should be higher by up to some £190 million.

Additional bid

3. The Defence Review figure for 1980–81 is £5,871 million, or £235 million above the baseline in the table above. The Ministry of Defence point out that our Allies are aware that expenditure at this level is planned, and that they know the level of capability which it represents. Consequently their view is that any significant reduction in 1980–81 which cannot be represented as consistent with the level of capability which we have justified to our Allies following the Defence Review and the reductions announced in Cmnd. 6393 will be seen by NATO as yet another cut in the resources which the Government is prepared to devote to defence. As with the policy options discussed below, a decision to reduce the 1980–81 Defence Budget to the figure already approved for 1979–80 (*i.e.* to the baseline level), on top of the Defence Review and the Cmnd. 6393 reductions which have already caused our Allies serious misgivings, would have the most serious and far-reaching implications for the Alliance.

4. Assuming that receipts from the Federal Republic as offset to the costs of United Kingdom forces in Germany were to continue at the rate assumed for 1977–78 to 1979–80 (£50 million a year) the figure of £5,871 million for 1980–81 could, taking also into account increased receipts from Hong Kong, be reduced to £5,811 million, or £175 million above the Survey baseline of £5,636 million. If the Government were ready to accept the political consequences of a withdrawal from Cyprus by 1979–80, the figure would be brought down by a further £36 million to £5,775 million or £139 million above the Survey baseline.

5. On the other hand, in addition to the cost of the present defence programme allowance has also to be made in 1980–81 for the costs of dispersal to Cardiff and Glasgow. The Ministry of Defence consider that the Defence Budget figure will have to be increased to take account of these costs, which could add a further £15 million in 1980–81 and will need to be separately identified in subsequent years.

6. Taking all these factors into account, the Ministry of Defence additional bid above the baseline figure is for either £154 million or £190 million for 1980–81 depending on the decision about withdrawal from Cyprus.

7. The Treasury consider that it should be possible to meet our present NATO commitments in 1980–81 without increasing defence expenditure above the broadly stable level of preceding years. They believe that, taking account of the continuing savings which should arise from the reductions of nearly £200 million a year made since the Defence Review in the years 1976–77 to 1979–80, together with such other miscellaneous measures as may be necessary, the Defence Budget figure for 1980–81 could be held at the baseline level of £5,636 million without significant adverse effect on the Alliance.

8. The Treasury do not accept the Ministry of Defence view that the cost of dispersal should be additional to the Cmnd. 6393 figures for the Defence Budget. Dispersal has been firm Government policy since 1974 and its net cost should be met without an additional claim.

Policy options

9. Application of the percentage reductions laid down in the Survey ground rules to the defence figures in Table 1 above gives the following savings, the implications of which are explained below:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
141	282	282	282

The baseline figure for 1980–81 is already below the previously planned (*i.e.* Defence Review) Defence Budget for that year. The total reduction implied by the options is therefore nearly £1,200 million for the four years in question. Such reductions would be additional to the Defence Review savings already made for these years and to the further cuts reflected in Cmnd. 6393.

10. The Ministry of Defence point out that the reductions achieved in the Defence Review and the further cuts reflected in Cmnd. 6393 already total some £2,900 million for the three years 1977–78 to 1979–80, or about 15 per cent of the pre-Defence Review planned expenditure. Cuts of this size are still being explained to NATO only with great difficulty. On the basis that the Defence Review identified the critical level of military capability necessary to support our essential NATO commitments and that the Cmnd. 6393 cuts, found largely from the support area, were an extension of the Defence Review and compatible with that critical level, we have been able to present the cuts as a coherent whole and in the least damaging light possible. Nevertheless our Allies, and particularly the Americans and the Germans, expressed serious misgivings on both occasions. The Alliance has not yet completed its consideration of the Cmnd. 6393 reductions.

11. But the Defence Review has now been exhausted as a source of savings. Finding £1,200 million as in paragraph 9 above would leave no choice but to seek the major part of the saving from the frontline forces which we contribute to NATO in one or both of the Central European and Eastern Atlantic areas. A reduction of that order in our commitments would clearly be wholly inconsistent with the critical level of capability. It would entail a fundamental change in the Government's current foreign and defence policy; and, because of the reappraisal of our commitments and the restructuring of the forces that would be required, a further Defence Review, comparable in thoroughness to that carried out in 1974, would have to be undertaken.

12. Such an exercise could hardly be kept secret; indeed there would be strong arguments for keeping NATO fully informed in order to limit the ensuing damage. But undertaking an exercise that even appeared to imply a third round of major reductions after the Defence Review and the 1975 public expenditure exercise would have an incalculable impact on our political credibility generally; and on the view of our seriousness as an ally which would be taken by NATO in general, and by the United States of America and the Federal Republic of Germany in particular. The cohesion of the Alliance itself could be put at risk and the morale of the Armed Forces would be seriously affected.

13. The domestic political and industrial implications would be considerable. There would be a further loss of employment. This would be over and above the cuts of 78,000 servicemen and civilians, and the 60,000 direct and 80,000 indirect job opportunities lost in industry, as a result of the Defence Review and the 1975 Survey. And the

losses of industrial employment would fall heavily on the newly nationalised shipbuilding and aerospace industries. Apart from these more general considerations, action on these lines would make it much less likely that the Germans would be prepared to enter into a new offset agreement from which, under the 1975 public expenditure review, receipts of £50 million a year have been assumed. Thus in the *Ministry of Defence view there are no feasible* options for further savings in the Defence Budget of 2½ per cent in 1977–78 and 5 per cent thereafter.

14. The Treasury point out that the agreed objective on German offset is to secure £100 million a year up to 1980–81. Receipts in excess of the £50 million level assumed in the Survey calculations would enable *part of* the illustrative savings to be met. They consider that it should, moreover, be possible to achieve part of the policy option cuts by some further squeeze on support costs (*e.g.* expenditure on quarters and non-military stores) and other minor measures which would not have a serious effect on our defence posture. They agree that if the Survey options were to be implemented in full this would involve some reduction in the capability of our front line forces. Nevertheless if the overall expenditure situation were sufficiently difficult, Ministers would need to consider whether to accept the adverse operational consequences and the implications for the Alliance of further reductions in the Defence Budget.

National accounts adjustments

15. The figures for the National accounts adjustments sub-programme incorporate a classification change affecting capital expenditure by the Royal Ordnance Factories. Expenditure on stocks financed by pre-payments from overseas customers is now excluded from the figures from 1976–77 onwards.

2. Overseas Aid and other Overseas Services

TABLE 2

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Overseas aid:										
Aid programme	452·7	476·4	432·2	429·3	486·8	515·8	544·0	578·9	600·7	600·7
Other net investment by the Commonwealth Development Corporation (CDC)	5·0	5·2	13·4	4·0	8·2	2·9	−0·6	2·5	4·4	4·4
Total	457·7	481·6	445·7	433·3	495·0	518·7	543·4	581·4	605·1	605·1
Overseas aid administration	8·7	9·0	9·0	8·6	10·5	10·8	11·8	11·9	12·2	12·2
Overseas representation	148·8	150·4	145·1	141·7	146·6	150·6	153·4	151·8	151·5	151·8
Overseas information	64·9	64·5	63·3	62·7	64·6	67·7	65·4	62·8	62·6	62·6
Other external relations	71·2	76·1	77·8	81·3	88·2	87·6	84·8	86·6	89·4	89·3
Military aid	14·0	10·6	10·9	3·6	1·5	1·5	1·5	0·7	0·7	0·7
Total	307·6	310·6	306·1	297·9	311·4	318·2	316·9	313·8	316·4	316·6
Contributions to the European Communities, etc. (net)		63·9	191·3	−9·4	7·9	170·0	415·0	480·0	550·0	620·0
Sterling area guarantees		72·1	35·8	98·6	—	—	—	—	—	—
Special assistance to the Crown Agents				115·0	—	—	—	—	—	—
Grand Total	765·3	928·2	978·9	935·4	814·3	1,006·9	1,275·3	1,375·2	1,471·5	1,541·7
Changes from Cmnd. 6393 revalued					−58·2	−38·8	+149·5	+163·4	+193·5	—
Cmnd. 6393 revalued					872·5	1,045·7	1,125·8	1,211·8	1,278·0	—

Overseas aid

Implications of Survey figures

1. The Survey figures imply a growth in the aid programme in real terms by 16·5 per cent over the period 1976–77 to 1980–81. In 1974 the Government accepted in principle the United Nations' target of 0·7 per cent of GNP for official development assistance. Although no undertakings have been given about the date of reaching this target and it has been made clear that progress must be subject both to the pace of the United Kingdom's economic recovery and to the other calls on our resources, the Government have said that in the years ahead they will seek to move towards it. The United Kingdom's performance rose from 0·35 per cent in 1973 to 0·38 per cent in 1974 but remained static in 1975. Although accurate forecasts are not possible, the figures shown in Table 2 above are likely to result in no more than a very slight improvement in our performance. At the same time the demands on the programme seem likely to increase because of a number of factors—among them pressures from developing countries in the wake of the fourth United Nations Conference on Trade and Development (UNCTAD IV); the possibility of substantial debt relief; the growing demands of the EEC aid programme (now some 10 per cent of aid programme allocations); and the need to keep an adequate contingency provision against a settlement in Rhodesia.

Policy options

2. The effect of reductions of 2½ per cent in 1977–78 and 5 per cent in 1978–79 to 1980–81 would be as follows:

£ million

	1977–78	1978–79	1979–80	1980–81
Aid programme (Net)	13·6	28·9	30·0	30·0

Reductions of this order would not involve cutting back on existing commitments. However, the Ministry of Overseas Development consider that reductions would make it difficult to maintain an unallocated margin adequate for the type of contingencies referred to in paragraph 1 and at the same time to press ahead with implementing the agreed aid strategy of concentrating aid on the poorest countries. Any reductions would therefore entail reducing planning allocations to individual countries and international institutions, but the distribution of any cuts would necessarily be determined by the situation (including degree of commitment) existing at the time the decision to cut was made, and cannot be predicted in detail at this stage.

3. At the same time the Ministry consider it most important to have adequate room for manoeuvre in dealing with the outcome of the Conference on International Economic Co-operation and UNCTAD IV, which may well result in sharply increased international pressure on the donor countries to move towards the 0·7 per cent target. The 2½ per cent and 5 per cent reductions would mean that the United Kingdom's performance against the target would almost certainly decline, which would be contrary to Ministerial statements of intention and would provide grounds for criticism domestically and internationally.

Overseas aid administration

Additional bid

4. The Ministry of Overseas Development require an additional £0·5 million in 1980-81 to meet additional expenditure for dispersal to East Kilbride.

Review of overseas representation

5. The four sub-programmes dealt with in paragraphs 6 to 22 below, either in whole or, in the case of Other external relations, in part, are the responsibility of the Foreign and Commonwealth Office (FCO). The policies underlying this expenditure are currently the subject of the Review of Overseas Representation announced in the House of Commons on 14 January 1976. In common with other Departments for which manpower costs form a major component of expenditure, the FCO is not presenting illustrative cuts for certain manpower-intensive elements of their activities, viz. those staff-related sections of the Overseas representation and overseas information sub-programmes which fall to be considered in the context of the Lord Privy Seal's review of civil service staff costs. With these exceptions, illustrative cuts of 2½ per cent in 1977-78 and 5 per cent in later years are shown on a strictly *pro rata* basis in each of the remaining sub-programmes or element thereof. The way in which any options for 1978-79 and later years might actually be implemented and any reduction in manpower costs achieved will need to be considered in the light of the Review of Overseas Representation.

Overseas representation

Implications of Survey figures

6. This expenditure includes the cost of the FCO in London, representation abroad and official delegations to international organisations and conferences. It also includes the cost of Passport Offices, the communications organisation supporting the Diplomatic Service and expenditure by the Property Services Agency (PSA) on the Diplomatic Estate. Expenditure on overseas representation declines slightly over the period to 1979-80, mainly as a result of more effective concentration of resources and cuts in staff and staff-related costs. In 1980-81 however, provision is made for expenditure arising from the United Kingdom's Presidency of the EEC in 1981. Existing policies can be maintained though with some reduction in services during this period.

Additional bid

7. £0·5 million is sought in the year 1980-81 to meet additional expenditure arising from the commitment to disperse 500 FCO jobs to Merseyside by 1981-82.

Policy options

8. On a *pro rata* basis, cuts in planned expenditure of 2½ per cent in 1977-78 and 5 per cent in the following years on that part of this programme which does not fall to be considered in the context of the Lord Privy Seal's review of civil service staff costs would be:

£ million

	1977-78	*1978-79*	*1979-80*	*1980-81*
Diplomatic estate .	0·9	1·7	1·7	1·7

9. Such cuts would lead to a slow-down in the 10-year purchasing and building programme for the Diplomatic Estate announced in 1971. Maintenance of the existing estate would suffer.

Overseas Information

Implications of Survey figures

10. This programme covers expenditure by the British Council (other than overseas aid); the BBC's External Services; FCO information staff at home and abroad; and supporting services of the Central Office of Information (COI) and the Stationery Office. Expenditure on the programme as a whole will decline slightly then level off over the period covered, reflecting the cuts included in Cmnd. 6393.

Additional bid

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
1·3	0·9	0·9	0·9	0·9

11. From 1976–77 onwards £0·9 million a year is sought to cover an extra contribution to the BBC external services pension fund and £0·4 million in 1976–77 to provide a loan for working capital for the British Council's educational services to foreign countries. (This was agreed in principle last year, but the money has not yet been drawn.)

Policy options

12. Cuts in planned expenditure of 2½ per cent in 1977–78 and 5 per cent in the following years, applied on a *pro rata* basis to each element within this sub-programme other than Diplomatic Service staff (see paragraph 5), would be as follows:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
FCO Operational expenditure	0·1	0·1	0·1	0·1
BBC External Services .	0·7	1·3	1·3	1·3
British Council (FCO share) .	0·4	0·9	0·9	0·9
COI/HMSO	0·2	0·5	0·5	0·5
Total	1·4	2·8	2·8	2·8

13. Cuts of this order could not be made by general pruning but would involve the reduction or cessation of activities in a number of fields, as follows:

(*a*) In external broadcasting there would be a reduction in the effective operation of both BBC and FCO relay stations carrying the external services. The overdue renewal of transmitting equipment essential to the effectiveness of those services would have to be further postponed. In addition a number of foreign language services would have to be terminated or reduced and it would not be possible to expand such services to areas of increasing importance to British interests.

(*b*) Similar reductions to the British Council grant-in-aid would necessitate withdrawal from some countries and major reductions in others, as well as general diminution in supplies and headquarters services. Increased representation in East Europe or elsewhere would be postponed indefinitely.

(*c*) Comparable reductions would be required across a wide range of activities undertaken by the Official Information Services including a reduction in the material produced by the COI and the Stationery Office in support of the information activity of Diplomatic Service posts abroad. There would be significant reductions in the sponsored visits programme.

Other external relations

Implications of Survey figures

14. The main items of expenditure are the United Kingdom's assessed contributions to international organisations such as the United Nations and NATO; other payments to meet Her Majesty's Government's other international commitments; provision for the United Nations Force in Cyprus; and grant-in-aid to the Commonwealth War Graves Commission. The gradual rise in planned expenditure over the period allows for increases in the level of activity of some of the international organisations.

Additional bids

15.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
3·9	3·9	3·9	3·9

In 1977–78 and subsequent years £3·3 million is sought for a contribution to the support of the United Nations Emergency Force in the Middle East which is likely to continue to operate in the foreseeable future. A further £0·6 million a year is

sought to maintain Her Majesty's Government's subscription to the Food and Agriculture Organisation of the United Nations at the level which has been agreed for 1976–77.

Policy options

16. Cuts of 2½ per cent in 1977–78 and 5 per cent in each of the following years would amount to:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Commonwealth War Graves Commission	0·1	0·2	0·2	0·2
Other	0·6	1·2	1·3	1·3

17. The Commonwealth War Graves Commission has already undertaken to reduce its staff by 50 in 1977–78, following earlier reorganisation which produced reductions of 250. The savings listed above could only be achieved by further staff reductions of about 35 in 1977–78 and another 35 in 1978–79, which would drastically affect the Commission's power to carry out its duties.

18. Since international obligations rule out unilateral reductions in United Kingdom subscriptions to international organisations, the other savings listed above would, in addition to cuts in many small items, require the following measures: ending the grant to the Commonwealth Institute; withdrawing from Council of Europe partial agreements in the social and health fields; restricting severely the use for foreign visits of VIP facilities at airports; and cutting back or eliminating the repatriation of distressed British subjects.

Military aid

Implications of Survey figures

19 This programme consists mainly of courses in the United Kingdom for overseas service personnel and to a lesser extent the loan of British service personnel to a few developing countries for training purposes. Programmed expenditure is level throughout the review period.

Additional bid

20. The following provision totalling £2·6 million over the Survey period is sought as the United Kingdom contribution to the cost of establishing and training a Belize Defence Force:

£ million

1976 77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
0·3	1·0	0·5	0·3	0·5

Policy options

21. Cuts of 2½ per cent in 1977–78 and 5 per cent in the following years would amount to:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·1	0·1	0·1	0·1

22. Cuts of this order would imply a one-third reduction in the loan of British service personnel to overseas Governments.

Contribution to the European Communities, etc. (net)

23. This comprises United Kingdom contributions to the European Communities' budget (excluding amounts attributed to aid and other programmes); capital contributions to the European Investment Bank (following agreement, in July 1975, to increase its capital); and receipts by the United Kingdom from the Communities' budget. Conversions from units of account into sterling have been made at the present budget unit of account rate of 2·4 units of account to the £.

24. In accordance with the ground rules approved by Ministers the latest forecasts of this expenditure have been included. They have been built up by applying the forecast United Kingdom percentage share of the Communities' budget in each year to estimates of the cost of carrying out existing Community policies. These estimates take account of modifications which are expected to occur in those policies. The United Kingdom's share of the budget is fixed at 19·24 per cent in 1977 and will increase progressively in the following two years as the United Kingdom moves to the full own resources system in 1980.

25. The forecasts are substantially higher than those in Cmnd. 6393. This is due to a revised forecast of the United Kingdom's relative share of the

budget in 1980 resulting from revised assessments of customs duties and agricultural levies, an increase in the estimated cost of the Common Agricultural Policy, and a reduction in forecast United Kingdom receipts due to monetary compensatory amounts (MCAs) being paid to the exporter rather than the United Kingdom importer. These increases are partially offset by a reduction in expenditure of £71 million on Programme 3 as a result of the changed arrangements for paying MCAs; in balance of payment terms the change will be neutral.

Additional bids

26. The first Supplementary Budget of the European Communities for 1976 will provide assistance to Italy for reconstruction following the earthquake in May. In addition a possible change in the unit of account from 1 January 1978 may lead to an increase in our contribution to the Community Budget:

£ million

	1976-77	*1977-78*	*1978-79*	*1979-80*	*1980-81*
1976 Supplementary Budget . . .	0·7	1·4	1·3	—	—
Change in unit of account . . .	—	56·0	119·0	−15·0	−88·0
	0·7	57·4	120·3	−15·0	−88·0

27. The following table gives a breakdown of the forecast contribution to, and receipts from, the Community Budget; it shows the individual areas of Community expenditure from which the figures in Table 2 are built up and the cost to the United Kingdom of the main Community policies:

£ million

	1976-77	*1977-78*	*1978-79*	*1979-80*	*1980-81*
Contributions					
Administration, miscellaneous, payment of "Own Resources" collection costs, etc.	79·0	94·4	111·2	133·3	156·9
Hydrocarbons	1·9	2·1	2·4	2·6	2·9
Euratom, etc.	6·6	10·3	10·8	9·8	10·4
Social Fund	22·3	31·0	42·0	61·4	81·3
Regional Development Fund	15·4	24·5	32·4	36·5	40·2
European agricultural guidance and guarantee fund (EAGGF)—Guarantee	400·3	500·8	555·6	623·3	680·0
—Guidance	14·4	24·6	33·6	33·9	31·6
Less United Kingdom's share of the Communities' miscellaneous receipts	−6·4	−6·6	−7·7	−8·6	−9·3
Total (PESC basis)	533·5	681·1	780·3	892·2	994·0
Aid	18·1	20·0	23·2	26·4	29·0
Complementary programmes	0·3	0·3	0·3	0·3	0·3
GROSS UNITED KINGDOM CONTRIBUTION	551·9	701·4	803·8	918·9	1,023·3
Receipts					
Social Fund	40·9	38·1	42·2	53·9	63·5
Regional Development Fund	29·2	42·0	49·3	48·6	47·6
EAGGF—Guarantee	222·7	102·3	122·7	122·7	122·7
—Guidance	16·3	13·6	13·5	12·8	11·7
Miscellaneous receipts, refund of "Own Resources" collection costs, etc.	56·4	71·6	74·8	107·2	127·6
Total (PESC basis)	365·5	267·6	302·5	345·2	373·1
EAGGF—Individual guidance	5·8	9·9	9·6	7·1	4·5
Research and investment	1·5	1·5	1·5	1·4	1·4
TOTAL UNITED KINGDOM RECEIPTS	372·8	279·0	313·6	353·7	379·0
Net United Kingdom contribution to the Community Budget	179·1	422·4	490·2	565·2	644·3
PESC basis					
Contributions	533·5	681·1	780·3	892·2	994·0
Receipts	−365·5	−267·6	−302·5	345·2	373·1
EIB	4·9	4·4	4·1	3·9	—
ECSC receipts	−2·9	2·9	−1·9	−0·9	−0·9
NET UNITED KINGDOM CONTRIBUTION (PESC BASIS)	170·0	415·0	480·0	550·0	620·0

3. Agriculture, Fisheries, Food and Forestry(1)

TABLE 3 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Market regulation and production support:										
Market regulation under Common Agricultural Policy (CAP) of the EEC	—	0·5	133·2	272·5	321·7	255·1	135·7	135·3	135·3	135·3
Price guarantees on products supported by the CAP	183·7	119·2	180·4	0·3	.	.		.	.	.
Price guarantees on other products	37·1	23·9	−6·8	6·7	10·9	7·6	6·4	6·4	6·4	6·4
Production grants and subsidies	133·2	108·5	86·8	146·3	86·7	42·4	34·5	12·4	6·6	6·4
Support for capital and other improvements	130·8	117·2	118·9	92·6	65·0	67·4	81·0	84·6	88·4	87·7
Support for agriculture in special areas	56·4	54·3	54·7	87·8	39·2	56·6	52·9	46·7	44·1	43·7
Total	561·2	423·6	587·2	606·2	523·5	429·1	310·5	285·4	280·8	279·5
Other assistance to agricultural production, food processing and marketing(2)	83·9	146·1	109·2	179·7	234·7	118·9	102·0	98·4	96·4	95·2
Food subsidies	—	—	—	728·2	649·5	408·9	280·3	84·1	56·1	56·1
Covent Garden Market Authority	9·1	8·4	8·8	1·4	2·6	0·4	—	—	—	—
Central and miscellaneous services	65·7	48·9	61·9	69·7	73·1	71·9	72·5	74·1	74·2	74·2
Total—Agriculture and food	719·9	627·0	767·1	1,585·2	1,503·4	1,029·2	765·3	542·0	507·5	505·0
Support for the fishing industry	19·9	26·2	28·0	18·7	32·3	18·9	22·1	22·2	22·4	22·1
Forestry	93·0	95·7	45·2	63·4	64·5	62·1	65·5	68·2	70·4	70·4
Grand Total	832·8	748·9	840·3	1,667·3	1,600·2	1,110·2	852·9	632·4	600·3	597·5
Changes from Cmnd. 6393 revalued:					−15·4	−11·1	114·3	115·0	−116·7	—
Cmnd. 6393 revalued					1,615·6	1,121·3	967·2	747·4	717·0	—

(1) Part of the expenditure on this programme will be recoverable from the European Agricultural Guidance and Guarantee Fund. Receipts from this source are included in Table 2 Overseas aid and other overseas services.

(2) These figures include payments in respect of the marketing of sugar.

AGRICULTURE AND FISHERIES

Implications of Survey figures

1. The Government's objectives and priorities for agriculture are set out in the White Paper "Food from our own Resources" (Cmnd. 6020). A large part of expenditure on market regulation and agricultural support is determined in the context of the annual reviews of agriculture which are conducted both nationally and on an EEC basis. The forecasts take account of the determinations at the 1976 reviews. They reflect the completion in 1978 of the transitional period for aligning our agricultural prices (as expressed in EEC units of account) with the original members of the EEC. They also allow for the difference between the market rate of sterling against the "joint-float" currencies and the representative rate—currently fixed at a higher level—for converting units of account into sterling for agricultural transactions. This difference gives rise to the payment of monetary compensatory amounts (MCAs) which act as subsidies on our agricultural imports and as levies on our agricultural exports. The forecasts assume no change in the differential (some 20 per cent) which existed between

the two rates at the end of May. The Government have, however, undertaken to keep the representative rate under review and there are indications that the United Kingdom will come under considerable pressure to reduce the present differential.

2. Expenditure in Northern Ireland on price guarantees (except milk and wool), on production and capital support measures, and on support in special areas is included in Programme 15, Northern Ireland.

Market regulation under the CAP

3. This expenditure is incurred by the Intervention Board for Agricultural Produce in implementing the support arrangements under the EEC's Common Agricultural Policy (CAP) and the EEC Food Aid Programme. Most of the expenditure under the CAP, and all the food aid expenditure, is funded by advances from the EEC. The forecast for 1976–77 includes £30·1 million as the cost of support buying net of sales and also provides £35 million for the cost of the Beef Premium Scheme, to which it is estimated that the EEC will contribute £6 million. As there is no approval for the Scheme to extend beyond March 1977, a sum of £35 million has been added to the cost of support buying for later years. The 1976–77 forecast also includes expenditure of £140 million for MCAs on Intra-Community and Third Country trade. The lower figures forecast for 1977–78 to 1980–81 reflect the recent agreement of the Council of Ministers that the exporting country will be responsible for payment of MCA subsidies arising on Intra-Community trade after 16 May 1976. The required option cuts on the United Kingdom funded portion of expenditure under this programme would be £2·4 million in 1977–78 and £3·6 million in subsequent years. The Treasury supports the Board's view that it would be impossible to implement such savings since expenditure under this programme is almost entirely governed by EEC Directives and Regulations and cannot be unilaterally adjusted by the United Kingdom.

Price guarantees, grants and support in special areas

4. *For price guarantees on products outside the* CAP arrangements—sheep, wool and potatoes—the figures for 1977–78 and later years are conventional, being based on projections of the estimates for the current year. The forecasts allow for the decisions announced after the 1976 Annual Review to improve the capital grants and to end the beef cow subsidy after 1977 and the calf subsidy for calves born after April 1977. The figures for production grants and subsidies and for support in special areas are deflated, *i.e.* they take account of the extent to which grants and subsidies at fixed rates lose their value as prices rise.

Other assistance to agricultural production, food processing and marketing

5. The forecasts include continuing expenditure by the agricultural departments on the eradication and control of animal disease and on research and advisory services. The reducing level of expenditure in the later years is mainly due to the falling cost of eradicating brucellosis as eradication nears completion.

Fisheries support

6. No provision has been made in the forecasts for any measures of restructuring required in the light of changes in access to fishing waters or for additional research and development which may be desirable as a result of such changes.

Additional bids and estimating changes: Agriculture and Fisheries

7. Expenditure on price guarantees and other forms of agricultural support cannot be reliably predicted since it is demand-determined, and the figures for these items are therefore subject to wide margins of error. The following table shows the additional bids required for the maintenance of existing policies or new developments:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Total additional bids	24·2	9·1	15·2	14·5	16·6
of which:					
Price forecasting changes	0·2	0·5	1·9	3·2	1·0
Changes due to reclassification or rephasing	13·6	—	—	—	—

8. Throughout the Survey period the additional bids are less than the downward estimating changes included in the Survey figures, and the difference is substantial in 1977–78 and later years. The

Treasury point out, however that about half the downward estimating changes is accounted for by the savings on price guarantees, which were taken into account by Ministers in the 1976 price review determinations. Moreover, the figures for price guarantees beyond the current year are purely conventional (see paragraph 4 above).

9. As regards the additional bids, the only item classified as rephased expenditure is the £13·6 million arising from delays in payments of the compensatory allowances, introduced in January 1976 under the Directive on Less Favoured Areas, with a consequent carry-over of expenditure from 1975–76 into 1976–77. The other additional bids include local authority capital expenditure on smallholdings (arising mainly from reductions in estimated proceeds of land sales), the cost of support vessels off Iceland together with provision for the agricultural departments' share of expenditure by the Ministry of Defence in protecting offshore resources (already approved by Ministers), and other miscellaneous items.

Offsetting savings

10. For 1976–77 most of the expenditure of the agricultural departments is fully committed. Payments of capital grants in 1976–77 will in general be in respect of proposals which have already been approved by departments. It would be unprecedented for Ministers to seek to cut the levels of, for example, the livestock subsidies which they had announced at the previous Annual Review. It is feasible to alter the timing of some of these subsidies, *e.g.* by announcing that, solely because of the need for financial stringency, no payments of the beef cow or Less-favoured Area (LFA) allowances in respect of the qualifying date of 1 January 1977 would be made until after 31 March. This would reduce expenditure in 1976–77 by £22·9 million on the LFA allowances and by £7·3 million on the beef cow subsidy. But it would run counter to strong pressure from the industry for early payments and would be likely to cause serious financial difficulties to some farmers. Moreover, the delay on LFA allowances would have to continue indefinitely if the additional expenditure were not simply to be pushed into a later year. As the beef cow subsidy is due to end after the 1977 payment, the saving in 1976–77 would produce a corresponding increase in the additional bids for 1977–78.

11. So far as the additional bids for 1977–78 and later years are concerned, it would be feasible to reduce the rates of grant under the Farm Capital Grant Scheme (FCGS), but the considerations set out in paragraphs 19 and 22 would apply. Reducing the basic (20 per cent) rate of FCGs grant to about 10 per cent would wholly offset the additional bids for the last three years, although the saving in 1977–78 would be only about half that required. Part of the saving could be found from a cut in special rates (50 and 70 per cent) of grant for drainage: a reduction of 10 percentage points would save roughly £2·4 million in 1978–79 and later years, with a saving of, say, £0·9 million in 1977–78. (Alternatively, if the policy options set out in paragraphs 13 to 22 below were not adopted, they could be used for this purpose.)

12. The agricultural departments consider that the adoption of any of these offsetting savings would run counter to the Government's present objectives and recently announced policies.

Policy options

13. Illustrative options for savings, as required by the ground rules, are set out below and the practical and legislative implications are set out in the following paragraphs.

£ million

	1977–78	1978–79	1979–80	1980–81
(*a*) Lime subsidy—termination	1·9	4·0	3·8	3·7
(*b*) Farm structure schemes—reduction to minimum	0·4	0·9	0·9	1·0
(*c*) Research	1·4	1·0	1·3	1·4
(*d*) Sales of land	0·4	0·9	0·7	—
(*e*) Fisheries grants and loans—limit to current level	2·6	2·9	2·9	3·4
(*f*) Agricultural support (see paragraph 19)	1·8	6·2	6·4	6·4
(*g*) Additional savings on FCGS uptake consequential on (*f*)	0·5	1·1	1·2	1·2
Total	9·0	17·0	17·2	17·1
of which: MAFF	6·6	12·4	12·2	12·1
DAFS	2·4	4·6	5·0	5·0
Savings required by ground rules	9·0	16·7	16·4	16·2
of which: MAFF	6·6	12·4	12·2	12·1
DAFS	2·4	4·3	4·2	4·1

Lime subsidy

14. The last Conservative Government decided to end this subsidy on 31 July 1974 but the decision was reversed by the present Government soon after taking office. The savings illustrated assume an announcement following the 1977 Annual Review that the subsidy would end at 30 June 1977, the end of the "lime year". No legislation would be needed to terminate the subsidy. DAFS maintain that, in view of special problems in Scotland, some alternative form of assistance may be necessary, particularly in the more remote areas with acid soil.

Farm structure schemes

15. Following the recent PAR study, agricultural Ministers decided that these Schemes should be continued, but not actively promoted, until the EEC review of Directive 72/160 in 1977. The savings illustrated assume that these Schemes are varied so that they provide the minimum assistance required by the Directive. The Schemes are made by Statutory Instruments which would have to be amended. Existing annuity commitments to outgoers would continue.

Research

16. The savings illustrated assume little growth in the staff numbers engaged on research and development in agriculture and fisheries. The White Paper "Food from our Own Resources" (Cmnd. 6020) pointed out that the rapid growth in agricultural productivity had been materially helped by the application of research findings and that there was need for a continuing investment in the scientific improvement of agricultural technology. The savings would be likely to hinder the realisation of potentially higher output, by limiting the amount of new work commissioned. DAFS would prefer additional cuts on this heading in preference to cuts on agricultural support as described in paragraphs 19 to 22.

Sales of land

17. The Minister of Agriculture could seek to sell up to about 7,000 acres of agricultural land. Most of this land is tenanted and would therefore be difficult to sell. Its sale to private landlords would be open to political criticism. For these reasons, and because of the possible development value of a small part of the land, the illustrative savings shown are only a broad indication of possible receipts.

Fisheries grants and loans

18. The illustrative savings assume that grants and loans to fishermen are limited to the current level of expenditure. These savings would be without prejudice to any additional expenditure needed if the Government adopts a new fisheries policy involving major restructuring in the light of changes in access to fishing waters and in conservation measures. DAFS would prefer to limit this option to 1977–78, since the uncertainties surrounding the industry make such a long-term decision inappropriate.

Reductions in other agricultural grants and subsidies

19. The options already mentioned do not produce the total illustrative savings required by the ground rules. The method of achieving reductions in other agricultural grants and subsidies would have to be considered in the light of the annual reviews referred to in paragraph 1. There are three areas where reductions could be considered: the guidance premiums, the allowances paid in less favoured areas (LFAs) and the rates of assistance under the Farm Capital Grant Scheme (FCGS).

Guidance premiums

20. These premiums are payable under EEC Directives to farmers whose development plans are concentrated on cattle and sheep for meat production and the rates are prescribed in the Directives. An amendment to the Directives would have to be negotiated in Brussels, making the rate of payment a matter for national decision, and the corresponding Statutory Instrument would then have to be amended. The 25 per cent contribution from the EEC would be reduced accordingly.

LFA allowances

21. The EEC Directive on Less Favoured Areas provides for the payment of compensatory allowances on cattle and sheep. In 1975–76 these allowances contributed about one-third of hill farm income. The rates are set in cash terms and the Survey figures imply that their real value is allowed to be eroded as prices rise. The level of assistance to hill and upland farmers is a sensitive area and a reduction would be controversial. A reduction, say, at the beginning of 1979 would fall on the incomes of hill farmers at the time when these were beginning to feel the full effect of the ending of the calf subsidy. The feasibility of a reduction would

need to be assessed in the light of the prospects for hill farmers' incomes at the time. A reduction in the allowances would require amendment of the Statutory Instrument and the 25 per cent contribution from the EEC would be reduced proportionately.

Reduction in FCGS rates

22. Statutory Instruments giving effect to the increased rates of certain capital grants announced after the 1976 Annual Review, and restating the basic (20 per cent) rate, which applies to the generality of farm buildings and improvements, have recently been approved by Parliament. It would be feasible by means of a further Statutory Instrument to reduce the basic rate; but apart from the difficulty of justifying such a change of policy, its possible effects on capital investment in agriculture and hence on the level of production and the balance of payments would have to be considered.

FOOD SUBSIDIES

23. Food subsidies are currently paid on milk, butter, cheese, bread, household flour and tea. A small part of the butter subsidy in 1976–77 is paid from EEC funds. The Survey figures assume that one or more subsidies are phased out, and others reduced, in 1976–77; and that the programme is then reduced sharply, to leave some £56 million in the last two Survey years to allow for any EEC-financed subsidy which may be available at that time.

24. There is no additional bid for expenditure on food subsidies, but the Department of Prices and Consumer Protection prefers to show compensating savings for bids on other programmes here. These comprise:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Price Commission	2·5	1·0	1·0	1·0	1·0
DPCP administration*	—	—	0·1	0·1	0·1
Regulation of Trading Practice	—	0·3	—	—	—
Total	2·5	1·3	1·1	1·1	1·1

* See Programme 4, paragraph 95.

The necessary savings could be found by slightly earlier cuts in the individual subsidy rates.

25. Similarly, the illustrative options for reductions shown in the table below include that required for the Department of Prices and Consumer Protection's services (carried on Programme 4). The options would require a more rapid reduction in the subsidy programme.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
7·2	4·6	3·1	3·1

FORESTRY

Implications of Survey figures

26. This item covers the Forestry Commission's activities in promoting the interests of forestry, the establishment and maintenance of adequate reserves of growing trees and the production and supply of timber. The Commission's activities divide between the Forestry Enterprise (a Government Trading Service) and the Forestry Authority. The forecasts include interest on capital (increasing from £32·4 million to £41·9 million) and depreciation but do not include the net surplus on Commission trading accounts which form part of the Gross Trading Surplus.

27. The demand upon resources is measured by the cost of capital employed by the Forestry Commission at the ruling Government rates of interest and by cash expenditure. Towards the cost of capital employed there is a subsidy to cover the difference between the target rate of return of 3 per cent set by the Government and the ruling Government lending rate. The interest remitted is calculated on the total capital investment, including the value added to the plantations through expenditure on maintenance and protection, and so increases each year. There are other subsidies on activities which are not capable of producing the target rate but which the Commission undertakes for social reasons.

28. The Forestry Enterprise is carrying out a combined planting and restocking programme of up to 22,000 hectares a year of which about 18,000 hectares is new planting. Over the Survey period the forest estate is planned to increase from about 825,000 hectares to 915,000 hectares with a plantable reserve of about 90,000 hectares. Approximately 600 kilometres of new roads will be constructed and about 10 million cubic metres of timber harvested. The Commission provides substantial

recreational facilities including camping sites and self-catering accommodation, information centres, picnic places and viewpoints with associated parking facilities, forest walks and nature trails.

29. As the Forestry Authority, the Commission undertakes research into all branches of forestry, controls felling in private woodlands and provides technical advice to private woodland owners. The *Commission pays grants for planting of timber-producing species* subject to the acceptance by the owner of obligations relating to the management of the woodlands designed to secure sound forestry practice, good land use, environmental benefits and opportunities for recreation.

Additional bids

30. In accordance with paragraph 3 of the ground rules the 1980–81 base figures are the same as those for 1979–80. Additional provision of £3·4 million is necessary for this year as follows:—

(i) *Subsidies* (+£2·6 million). Since the investment on which remission of interest is calculated automatically increases in value each year (see paragraph 28 above), the 1980–81 subsidy element has to be increased from £40·8 to £43·4 million due to an increase of £2·6 million in the remission of interest element compared with 1979–80.

(ii) *Sale of land and buildings* (+£0·4 million). The 1979–80 provision of £1·1 million is exceptionally high as it includes a substantial receipt for final settlement compensation in respect of the Kielder Reservoir project. The provision for 1980–81 should be £0·7 million in line with the other years in the Survey period.

(iii) *Increase in value of stocks* (+£0·4 million). This includes interest at 3 per cent which increases each year with the continuing investment in plantations. Additional interest of £0·4 million is required for 1980-81 compared with 1979–80. This will increase the provision for Increase in Value of Stocks from £18·1 million to £18·5 million.

Offsetting savings

31. To offset these additional bids by savings would involve a cut of some 14 per cent in cash expenditure, and consequently a big reduction in capital investment, including the purchase of plantable land. The Commission consider that this would affect the future planting and harvesting and marketing programme to a quite unacceptable degree.

Policy options

32. Some 60 per cent of the forestry figures relates not to cash expenditure but to remission of interest *on capital employed which, as explained in paragraph 28 above*, automatically increases each year as the plantations increase in value. Cash expenditure, on the other hand, is declining over the Survey period. Reductions calculated on the total Survey figures would therefore mean that a progressively larger cut would have to be found from progressively lower cash expenditure; and the cuts in cash expenditure would in each case be far higher than the 2½ and 5 per cent required by the ground rules:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
1. Total Survey figures	65·5	68·2	70·4	70·4
2. Deduct—interest	35·5	38·8	41·9	41·9
planting subsidy	3·6	3·6	3·6	3·6
3. Cash expenditure	26·4	25·8	24·9	24·9
4. Reductions calculated on total Survey figures	1·6	3·4	3·5	3·5
5. As percentage of cash expenditure (line 3)	6·1	13·2	14·1	14·1
6. Alternative basis reductions calculated on cash expenditure	0·7	1·3	1·2	1·2

33. To implement reductions calculated on the total Survey figures (line 4), representing cuts of some 6 per cent in cash expenditure in 1977–78 and 13 to 14 per cent in the later years (line 5), would mean a drastic alteration in the Commission's activities of progressively increasing severity. This would involve the ending of all expansion of recreational facilities; cuts in expenditure on maintaining and protecting the plantations and on crop improvement (which would involve loss of future production and the risk of increased damage); and a substantial reduction in planting and the acquisition of land. By 1980–81, the area of new land planted annually would have to fall by some 5,000 hectares to 13,000 hectares; acquisitions would have to be reduced correspondingly, representing a cut of some 30 per

cent in the later years of the Survey period. The reduction in industrial and administrative jobs would be about 400, or 5 per cent, by 1978–79; substantial redundancies would be unavoidable.

34. However an alternative method, which the Commission believes is more appropriate and logical, would be to take as a starting point reductions of 2½ and 5 per cent in actual cash expenditure, *i.e.* total Survey figures minus remission of interest and planting subsidy. Reductions on this basis are shown in line 6 of the table above. They would involve smaller reductions in expenditure on the maintenance and protection of the plantations and on the provision of recreational facilities. During the Survey period acquisitions of land would have to be reduced by some 2,000 hectares and planting would be reduced in the last two years by about 1,000 hectares per year. Resultant reductions in industrial and non-industrial staff would be about 200 by 1979–80; some redundancies would be involved.

4. Trade, Industry and Employment

TABLE 4 — £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Regional support and regeneration										
Regional development grants	—	13·6	138·0	227·0	259·0	265·0	274·8	289·8	301·1	301·1
Provision of land and buildings	*22·2*	*21·2*	*19·7*	*25·9*	*26·1*	*26·9*	*29·4*	*25·6*	*24·1*	*25·1*
Selective assistance to industry in assisted areas	—	0·8	37·8	42·3	64·1	54·3	57·6	57·6	55·3	53·2
Other regional support	10·6	10·6	12·1	12·6	12·4	14·5	14·4	14·2	14·0	14·0
Regional employment premium	210·8	176·7	171·7	209·6	237·7	214·2	216·8	221·8	226·8	226·8
Residual expenditure under repealed section of the Local Employment Act 1972	62·7	85·9	52·1	6·0	4·8	−12·2	−9·6	−9·1	−6·3	−6·3
Scottish and Welsh Development Agencies	—	—	—	—	12·8	62·6	73·2	81·8	91·8	91·8
Total	306·3	308·8	430·8	523·4	607·3	625·3	656·6	681·7	706·8	705·7
Industrial Innovation										
General industrial R and D	35·7	33·6	37·6	39·5	42·5	53·9	59·4	64·2	68·0	67·0
Technological and industrial sponsorship	2·9	6·0	5·6	4·8	7·0	8·4	11·3	11·8	11·8	11·8
Aircraft and aero-engine general R and D programme	17·6	22·3	25·7	25·1	20·0	19·3	15·4	15·3	15·2	14·9
Concorde—Development	116·5	86·5	62·3	55·8	45·0	22·9	15·6	11·9	10·7	10·7
Production	27·1	46·1	54·1	46·2	37·0	13·9	11·8	7·6	1·7	1·7
RB 211	131·0	89·7	30·9	48·5	−2·7	−4·0	−10·5	−3·4	·4·7	−4·7
Other aircraft and aero-engine projects and assistance	32·3	−1·4	32·5	28·0	93·3	−1·3	−2·0	−1·8	1·3	−1·3
Space	15·1	13·9	17·6	21·9	25·5	30·1	26·4	19·8	19·9	19·9
Nuclear	93·4	88·5	102·3	89·7	106·4	134·3	100·7	98·6	89·3	89·3
Total	471·6	385·2	368·6	359·5	374·0	277·5	228·1	224·0	210·6	209·3
General support for industry										
National Enterprise Board	-	—	—	—	17·7	225·0	225·0	225·0	225·0	225·0
Selective assistance to individual industries, firms and undertakings	—	17·4	33·2	35·5	391·7	150·5	173·1	150·2	108·3	73·2
Promotion of tourism	22·0	30·5	52·7	24·2	16·9	18·6	18·1	18·2	18·5	19·0
Refinancing of home shipbuilding lending	- -	85·8	148·7	127·0	114·5	57·0	49·4	49·6	46·2	20·0
Assistance to the shipbuilding industry	7·3	19·4	26·1	59·2	29·2	36·5	32·3	13·7	0·5	1·1
Other support services	−27·2	−26·5	−22·1	230·6	1·3	5·3	4·1	−0·1	−0·1	-0·3
Investment grants	795·8	481·5	290·8	127·0	56·3	27·0	6·2	2·1	1·2	1·0
Total	797·9	608·1	529·4	603·5	627·6	519·9	508·2	458·7	399·6	339·0
Support for Nationalised Industries (other than the transport industries)										
Compensation for price restraint	73·7	88·4	530·0	791·8	72·1	—	—	—	—	—
Assistance to the coal industry:										
Coal Industry Act	*224·9*	*139·4*	*468·7*	*89·8*	*44·0*	*54·2*	*53·6*	*38·5*	*35·1*	*29·9*
Pneumoconiosis scheme	—	—	—	60·0	40·0	—	—	—	—	—
Other compensation	- -	19·9	8·1	10·5	11·8	63·9	21·0	14·1	6·9	4·3
Safety and product quality and other services	1·1	1·1	1·2	1·2	1·3	1·3	1·1	1·1	1·1	1·1
Total	299·7	248·8	1,008·0	953·3	169·2	119·4	75·7	53·7	43·1	35·3

TABLE 4 (*continued*)

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
International trade										
Export promotion and trade co-operation	12·1	10·8	12·4	12·6	12·8	16·9	16·3	16·0	16·1	16·1
Refinancing of fixed rate export credits	—	581·2	631·9	612·8	575·2	386·9	452·3	521·2	532·7	515·0
Cost escalation guarantees	—	—	—	—	−0·4	−1·8	2·9	2·1	0·5	−0·1
Total	12·1	592·0	644·3	625·4	587·6	402·0	471·5	539·3	549·3	531·0
Regulation of domestic trade and industry and consumer protection	—	2·1	3·1	5·4	3·8	−1·2	−6·9	−7·5	−4·9	−4·3
Functioning of the labour market										
Employment services and industrial rehabilitation	55·5	64·2	73·2	69·0	109·5	126·7	121·9	127·7	132·5	132·8
Industrial training	59·0	84·5	90·9	106·6	211·8	283·8	285·8	265·5	283·4	283·4
Redundancy fund payments	114·5	77·8	50·0	60·6	109·0	100·3	73·3	73·3	73·3	73·3
Industrial relations and other labour market services	8·0	40·4	10·1	9·0	26·2	177·9	63·4	22·5	22·4	21·7
Total	237·0	266·9	224·2	245·2	456·5	688·7	544·4	489·0	511·6	511·2
Central and miscellaneous services										
Employment	60·7	55·7	81·3	53·6	63·8	70·2	72·2	73·3	75·2	75·2
Other	47·4	42·9	44·8	58·0	59·3	60·1	56·0	57·1	57·0	57·5
Set additional payments	0·3	0·4	0·3	0·1	—	—	—	—	—	—
British petroleum rights issue	57·5	52·5	—	—	—	—	—	—	—	—
Grand Total	2,290·5	2,563·4	3,334·8	3,427·4	2,949·1	2,761·9	2,605·8	2,569·3	2,548·3	2,459·9
Changes from Cmnd. 6393 revalued:					−114·1	+145·7	+137·1	+ 46·7	+16·3	
Cmnd. 6393 revalued					3,063·2	2,616·2	2,468·7	2,522·6	2,532·0	

1. This Programme covers expenditure by the Departments of Industry, Energy, Trade, Prices and Consumer Protection, Employment, Environment, Export Credits Guarantee Department and the Scottish and Welsh Offices. The table opposite shows the apportionment between these departments. The greater proportion of this is intended to lead to industrial investment or to encouraging industry to innovate and to be more efficient.

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Department of Industry	969·3	955·2	918·2	863·0	802·9
Department of Energy	236·1	199·2	178·3	165·9	161·4
Department of Trade	37·9	32·9	31·4	35·3	34·9
Department of Prices and Consumer Protection	14·6	7·3	7·0	6·8	6·8
Department of Employment	971·4	831·6	782·3	811·8	811·4
Export Credits Guarantee Department	378·6	449·5	517·7	527·2	509·3
Scottish Office	116·5	85·2	86·1	89·2	85·6
Welsh Office	26·3	32·6	36·2	38·6	38·7
Other	11·2	12·3	12·1	10·5	8·9
Total	2,761·9	2,605·8	2,569·3	2,548·3	2,459·9

Policy options

2. For the Department of Industry and the Scottish and Welsh Offices the illustrative reductions required by the ground rules, and where relevant savings to offset additional bids, are considered for Programme 4 as a whole in paragraphs 3 to 5, 7 and 8 below. Policy options and offsetting savings covering Department of Trade expenditure within this Programme and Programme 6 are dealt with in paragraph 6. Policy options for the Department of Energy are dealt with in paragraphs 32 and 60 and for the Department of Employment in paragraphs 88 and 93.

Department of Industry

3. The total of additional bids on Department of Industry programmes is as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
40·7	20·7	32·4	33·8	28·1

The Department must show how offsetting savings of these amounts could be made, and in addition, they are obliged to identify optional savings of the following amounts:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
23·0	44·1	41·3	38·3

4. By far the greater part of expenditure by the Department of Industry is accounted for either by continuing industrial support schemes or by projects where cancellation is the only effective option. Programmes containing any built-in flexibility are small and have borne substantially more than their share of recent public expenditure cuts; the Department do not feel able to seek further savings in these areas. They are therefore looking to the major industry support services for potential savings of the magnitude set out above. Believing it necessary to continue to give priority to the National Enterprise Board (NEB), and counter-productive to make cuts in the industry support schemes that have only recently been approved, they would propose to find any offsetting or optional savings from the provision for regional development grants (RDGs). Over 80 per cent of the Department of Industry's expenditure on regional support is accounted for by RDGs, and if any cuts have to be made then it would do least damage to the regional programme for RDGs to bear them all.

5. Savings rising to £70–80 million a year would represent up to 25 per cent of forecast expenditure on RDGs. The simplest method of finding savings would be by a straight cut in the rate; a cut of 1 percentage point in the rate of grant would yield savings of about £15 million. But this would harm industry's confidence in the stability of regional incentives, and would do nothing to concentrate resources in areas, or industrial sectors, of greatest need; nor would it offer any savings in administrative costs or manpower. These disadvantages could only be accepted in exchange for substantial savings. Alternatives would be to downgrade those areas where incentives are least needed, and possibly to exclude certain sectors of industry from the coverage of the scheme. For example, withdrawal of grant from the intermediate areas would save about £33 million. (If the intermediate areas were abolished altogether this would yield further savings on the selective regional assistance programme.) Exclusion of the non-mobile industries of construction and mining would save about £20 million a year, though in the latter case this would be inconsistent with other measures to encourage exploitation of native mineral resources and could increase unemployment in some areas. Both these measures would offer significant savings in administration. In the Department of Industry's view, savings on RDGs should be considered along with other regional policies in the context of the current PAR on regional incentives which is expected soon.

Department of Trade

6. The total of additional bids by the Department of Trade, including those within Programme 6, is as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
3·8	4·2	3·4	8·6	2·0

The Department does not consider that the reduced Air Travel Reserve Fund repayments or Local Authority expenditure on aerodromes on Programme 6 should be treated as additional bids on their programmes. Reductions of $2\frac{1}{2}$ per cent in 1977-78 and 5 per cent in later years would involve savings of:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
2·1	3·8	3·6	2·4

A number of Department of Trade programmes are fee earning, and any reduction in expenditure is likely to lead to an equivalent reduction in income with no net savings. A number of other programmes are required to discharge statutory obligations. In the Department's view the only programmes on which there is any significant flexibility are tourism, export promotion, and support to the film industry. They do not, for these reasons, feel able to offer policy modifications which would result in the required level of offsetting savings and options. They would however be prepared as a contribution to a general public expenditure savings

exercise to limit support to the film industry to the £5 million contained in the Prime Minister's statement of 29 March. For the 1977–78 total saving the Department would propose to find about £1 million from the provision for support to films and around £1 million each from the other two programmes. Cuts in the provision for films would save a further £7·4 million over the last three years of the period. In the Treasury's view, further significant savings, of the order of a further £1 million per annum could be saved from the tourism programme without seriously jeopardising the Government's policy of support for the industry.

Scottish Office

7. The Scottish Office component of this Programme comprises the Scottish Development Agency (SDA), Selective Financial Assistance (SFA), the Highlands and Islands Development Board (HIDB) and the Scottish Tourist Board (STB). Standard percentage reductions on the two Boards would be feasible and would yield £0·3 million in 1977–78 and £0·6 million in the other years. To achieve the full quota of illustrative reductions it would be necessary to cut expenditure on the SDA (which would represent well over half the total of the reduction) and in Selective Financial Assistance. The savings would be as follows:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
SDA	1·2	2·8	3·2	3·2
SFA	0·2	0·5	0·5	0·5

A cut in Selective Financial Assistance could only be made on a United Kingdom basis and would be controversial because of its potential effect on employment. A cut in the SDA provision which has been the subject of intense Parliamentary and public interest, would be highly damaging politically.

Welsh Office

8. Standard percentage reductions if applied to the Welsh Development Agency would yield £0·5 million in 1977–78, £1·2 million in 1978–79 and £1·4 million thereafter. The Welsh Office take the view that the regeneration of industry is crucial to economic recovery in Wales and the provision for industrial support and factory provision could not therefore be reduced. The effect of the cuts would therefore have to fall on the provision for environmental improvement and development. Standard cuts on selective financial assistance to industry would yield £0·3 million in 1977–78 and £0·6 million thereafter. Selective assistance to industry is demand based and the options illustrated above would need to be achieved in line with a policy to be decided on a national basis. Standard percentage cuts applied to the Welsh Tourist Board would generate £0·1 million in 1978–79 and 1979–80. These reductions would be, in the view of the Welsh Office, difficult to achieve in the light of current policy to concentrate expenditure on the Development Areas and of Wales' declining share of the tourism budget in recent years.

REGIONAL SUPPORT AND REGENERATION

Regional Development Grants

9. Regional Development Grants have been available only since 1972 and previous estimates were affected by a shortage of statistical data as well as the inherent uncertainties in forecasting eligible investment. More statistics are now available, but the latest forecasts are still subject to a wide margin of error either way. They are slightly higher than in Cmnd. 6393, giving rise to an additional bid of £9·2 million in 1977–78, £8·2 million in 1978–79, £16·9 million in 1979–80 and £26·9 million in 1980–81. This is due to faster processing of applications and a rising trend of expenditure. It would be feasible to hold expenditure in 1977–78 to the Cmnd. 6393 figures by processing applications more slowly, but in the Department of Industry's view the objections are overwhelming. It would also be possible to hold the expenditure to Cmnd. 6393 figures by reducing the rate at which grant is paid, or reducing the range of qualifying activities, or reducing the geographical area over which grants are paid. There are substantial objections to all three courses in the present employment position and all three courses would be contrary to the Government's overall industrial strategy. Nevertheless if such cuts were necessary a reduction in the geographical area would probably be the least disruptive. It could also be argued that the disadvantages inherent in making any change, most notably in having to go back on undertakings to maintain continuity of incentives, could only be acceptable if the savings proposed were substantial. A reduction in the rate of grant by 5 percentage points for example could be expected to reduce expenditure by some £80 million.

Provision of land and buildings

10. It is assumed that the programme of land acquisition and factory building, and the provision of factories to industry's requirements will continue. The forecasts are consistent with Cmnd. 6393 after taking into account additional funds made available in the Chancellor's employment creating packages of September and February. Provision is also made for expenditure of £11 million over the Survey period as part of the interim strategy for the shipbuilding industry recently agreed by Ministers.

Selective assistance to industry in assisted areas

11. It is assumed that Section 7 of the Industry Act will continue to be the main source of selective financial assistance for employment creating projects in the assisted areas and for maintaining employment in those areas in cases where there would otherwise be redundancies. The forecast is based on continuation of present criteria but will be affected by factors which are subject to a considerable margin of error. The forecasts are consistent with Cmnd. 6393.

Scottish and Welsh Development Agencies

12. The provisions in Table 4 are consistent with the approved programmes at 1975 prices of £200 million for the Scottish Development Agency (SDA) and £100 million for the Welsh Development Agency (WDA) over five years. The main objectives of the Agencies is to accelerate the economic and industrial development of Scotland and Wales and to improve the environment consistently with that objective. In particular they plan, develop, maintain and manage industrial estates in Scotland and Wales and provide advance and purpose built factories. The Agencies also undertake derelict land clearance programmes, where it is envisaged present and planned levels of work will be increased, and they will undertake major environmental schemes. The SDA will be playing a major part in a comprehensive attack on urban deprivation, particularly in Glasgow. The Agencies also carry out in Scotland and in Wales the regional development functions of the NEB.

Special assistance for rural and highland areas

13. The provision covers the grant in aid to the Highlands and Islands Development Board (HIDB) and the Development Commission. The forecasts for the HIDB provide for the same level of expenditure as Cmnd. 6393.

Additional bid

14. For the Development Commission there is an additional bid of £5 million per annum from 1977-78. The Chairman of the Development Commission is pressing for this increase primarily for employment creation to carry on and expand the efforts made possible in 1976–77 by the addition of £1·8 million from special and temporary employment creating programmes. This approach is supported by the Department of the Environment who are not however in a position to make extra funds available from within their own resources. This proposal has not been discussed in detail with the Treasury but in the Department of the Environment's view a decision is essential on the level of funds for the Development Commission to implement, in England, the decision taken by Ministers in December 1974 that measures to stem rural depopulation should be increased when resources permitted, since uncertainty is making forward planning impossible. The figures also provide for additional expenditure of £750,000 in 1977–78 to meet the costs of the dispersal of the Head Office of the Council for Small Industries in Rural Areas to Salisbury as agreed by Ministers as part of the Hardman proposals on dispersal.

Policy options

15. For the Department of the Environment the illustrative reduction would fall, in the short term, on the employment creating activities of Development Commission since these are the most flexible. This would conflict with the 1974 Ministerial decision to expand the Commission's activities, for which they are already significantly short of funds and for which an additional bid has been made.

Regional employment premium

Additional bid

16. The following additional provision is required for the continued payment of REP at current money levels to manufacturing industry in development areas:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
1·6	6·0	10·3	16·1

REP is demand determined and this additional bid reflects revised estimates of the level of qualifying employment over the period. Expenditure could be held within the Survey figures by changing either

the rates of the premium, qualifying activities, or qualifying areas. All these would present substantial problems in the current employment situation. The Department of Employment are responsible for practically all of this expenditure but the Department do not consider that there is any possibility of offsetting savings within their other programmes. The Department of Employment are also proposing that the women's rate of REP be increased to equal the men's. This would cost £35 million a year from 1977–78. The future of REP is, however, under review.

Policy options

17. Expenditure on REP could be reduced by either reducing the level of the premium, the qualifying activities, or the qualifying areas. Of these the most convenient, at least administratively, is a reduction in the qualifying areas. The illustrative reductions would yield:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
5·4	11·4	11·3	12·1

Residual expenditure under repealed sections of the Local Employment Act 1972

Additional bid

18. The provision is for outstanding commitments under the Act. There is an additional bid of £0·3 million in 1978–79. The figures for 1976–77 and 1977–78 are below Cmnd. 6393. The increase in 1978–79, and the decreases in 1976–77 and 1977–78 are a result of revised estimates of the phasing of residual expenditure already committed.

INDUSTRIAL INNOVATION

General industrial research and development

19. The programme includes the Department of Industry's Industrial Research Establishments (IREs) and the Computer Aided Design Centre, work sponsored by the Departments of Industry and Energy at the Atomic Energy Authority and the National Environment Research Council (NERC), contract support for industrial research associations, extramural contracts with industry and the universities, and grants in aid to the Design Council and National Computing Centre. Expenditure at the IRE is expected to remain at broadly its present level during the Survey period. There will be variations from year to year to reflect the incidence of major new capital items. Extramural R & D now accounts for rather more than half the total programme.

Technological and industry sponsorship

20. This programme covers cost-sharing research and development contracts with industry, universities and other research bodies, including some financed through the EEC (£0·5 million in 1976–77 and £0·1 million in the later years); pre-production orders for advanced machinery and equipment; work by the NERC on mineral exploration; and mineral exploration grants.

21. The United Kingdom contribution to the international tin stockpile, estimated at £6 million, will be a charge to this programme, and the phasing of expenditure between the years may need to be adjusted when the timing of this requirement is known.

Aircraft and aeroengine general research and development

22. The estimates in Table 4 do not reflect reductions of £1·8 million in 1977–78 and £3 million in each of the later years resulting from the transfer to British Aerospace of responsibility for research work relevant to its activities, see Programme 5, paragraph 3. The extent of the Department of Industry's continuing responsibilities in these fields are under discussion with the new Corporation and the above figures are therefore tentative. The Department will continue to support certain other research work, for example on air safety and the reduction of aircraft noise, and also work related to aeroengines and aviation equipment.

Concorde

23. The estimates are related to the completion of the authorised 16 aircraft programme. No allowance has been made for receipts from the sale of aircraft other than those to British Airways and Air France.

Additional bid

24. The Department of Industry have submitted an additional bid for:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
10·3	7·8	9·0	6·7	−0·2

The total increase of £33·6 million is the result of re-estimating the cost of the work to be carried out on in-service development and completion of the production programme; and of the receipts from the sale of engines and spares to airlines. In a number of areas the estimates are still not firm. For example, the extent of further development work will depend on performance and utilisation of the aircraft in service.

25. The bid includes expenditure on certain items not costed in Cmnd. 6393. In particular, £5·6 million is included for certain spares and £2·6 million for engines in respect of aircraft not yet sold. Of course, no airlines would be prepared to purchase those aircraft without engines; and the Department considers that there would also be no purchasers unless spares are available when the aircraft are delivered. The bid also provides for an increase of £9·1 million in the four years 1976–77 to 1979–80 in respect of the Department's payments to the MOD Procurement Executive for work carried out in the latter's R & D establishments. These costs had previously been incorrectly calculated by the establishments concerned.

RB 211

Additional bid

26. The Cmnd. 6393 estimates have been reduced by £3·8 million over the Survey period mainly as a result of a re-assessment of receipts. An additional bid has been made in respect of 1980–81. The estimate for that year is £1·1 million above the latest estimates for 1979–80 due to the incidence of expenditure on the RB 211-524.

Other aircraft and aeroengine projects

Additional bid

27. The Department of Industry have submitted an additional bid of:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
1·8	0·6	0·3	0·2	0·1

This increase is in respect of payments to the MOD for the services of MOD headquarters staff in the administration of Department of Industry aircraft and aeroengine projects. These payments are based on a formula which takes into account certain aircraft expenditure and receipts on DOI Votes. The increase claimed by the Department flows partly from the bid for increased expenditure on Concorde but mainly from a re-interpretation by the Department and MOD of the way in which the formula should be applied from 1975–76 onwards. The additional bid reflects different re-interpretations of the formula for 1976–77 and for the later years. If the basis used for the latter years was applied to 1976–77 the increase in that year would be only £1·1 million.

28. In the view of the Treasury there is no justification for changing the basis which the departments had used previously, and the following increases would be justified solely by reference to the application of that basis to the latest estimates of aircraft expenditure and receipts:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*
0·4	0·3	0·2	0·1

Space

29. Provision is made for the main part of the United Kingdom contribution to the European Space Agency and for a small supporting national programme. The forecasts cover the contribution to the Agency's existing programmes and also provide, in the later years, for a contribution to future programmes. The balance of the United Kingdom contribution to the Agency, covering its Science programme, is paid by the Science Research Council and is included in the provision for the Research Councils (see Programme 10, paragraphs 54–56). The purpose of the national programme is to maintain an independent source of research in order to support the competitive position of the United Kingdom space industry.

Nuclear energy

Implications of Survey figures

30. Expenditure could be contained within the Survey figures only by substantial changes in our nuclear policy objectives as a result of Ministerial discussions on the fast reactor and the steam generating heavy water reactor (SGHWR) scheduled for the autumn.

Additional bids

31. To maintain current programme objectives the following increased expenditure is essential on reactor systems, our manufacturing capability

(National Nuclear Corporation), the tripartite centrifuge projects and our fuel cycle capability generally (British Nuclear Fuels Ltd. and centrifuge support).

£ million

	1976-77	1977-78	1978-79	1979-80	1980-81
Reactor R & D	—	12·8	14·0	15·1	15·0
Additional capital for BNFL	39·6	52·6	42·6	42·8	63·8
Share purchase in NNC	2·0	—	—	—	—
Additional capital for NNC	10·0	-	—	—	—
Centrifuge grant to BNFL	—	3·5	—	—	—
Total	51·6	68·9	56·6	57·9	78·8

Policy options

32. The illustrative savings required from the Department of Energy on Programme 4 could be achieved if the following cuts were made to Reactor R & D in addition to those described in paragraph 60.

£ million

1977-78	1978-79	1979-80	1980-81
3·4	7·0	6·4	6·4

Cutting gross expenditure to eliminate the additional bid and produce these savings would require decisions by Ministers to postpone some of the work on the Steam Generating Heavy Water Reactor (SGHWR) and cancel the fast reactor. Cancellation of the SGHWR might yield a greater reduction in expenditure in 1977-78 and cancellation of the fast reactor would produce significantly higher reductions in all years. These calculations make no allowance for severance, etc. payments to Atomic Energy Authority staff who would have to be made redundant on so radical a change in reactor policy. The implications for the plant manufacturers could also be serious. Ministerial decisions on these two projects are scheduled for the autumn.

GENERAL SUPPORT TO INDUSTRY

National enterprise board

33. Provision is made for capital investment by way of share acquisition and loans by the National Enterprise Board (NEB). Pending the formulation of a corporate strategy by the Board, the provision is arbitrary and will need to be kept under review. It is based on an allocation of the £1,000 million provided for under the Industry Act 1975 and is in cash terms.

34. The £1,000 million is not the only important source of funds for NEB companies, who themselves are eligible to receive assistance under the Industry Act 1972. The provision for 1980-81 has been held at the same level as that for the earlier years; if actual expenditure matched the present provision then legislation to increase the existing financial limit would be necessary before the end of the Survey period.

35. The Department of Industry view is that on present indications the annual provision will be inadequate for the NEB to fulfil the role envisaged for it, but estimates of the amount that will be required to enable the Board to meet its existing commitments are not yet firm enough for an additional bid to be submitted at this stage.

Selective assistance to individual industries, firms and undertakings:

SECTION 8 OF THE INDUSTRY ACT 1972

36. The forecasts include, at Survey prices, expenditure of the £325 million in cash announced between July 1975 and April 1976 for industry schemes and accelerated capital projects. £205 million has been allocated to industry schemes, including those assisting the machine tools, ferrous foundries and paper and board industries. £120 million has been provided for accelerated projects. Provision is also included for the Wool Textile Industry Scheme, begun in 1973.

37. The forecasts also include £250 million (cash) for British Leyland, phased as follows:

£ million

1976-77	1977-78	1978-79	1979-80	1980-81
30	60	60	50	50

These sums are in addition to the funds assumed to be available to British Leyland from the National Enterprise Board (£350 million).

38. The Government agreed last year to provide Chrysler (UK) Ltd. with loans of £55 million, to meet possible losses over the period to 1979 up to a maximum of £72·5 million, and to guarantee a private sector loan of £35 million (with a counter-guarantee from the Chrysler Corporation). Current provision covers only the loans and estimated losses of £40 million up to the end of 1976-77. Any additional expenditure would be a call on the Contingency Reserve.

39. Provision is also made for minor rescue cases already approved by Ministers.

40. The provision made for the Department of Energy's Offshore Supplies Interest Relief Grant Scheme is sufficient to meet expected calls on the scheme in respect of existing contracts and projects. Provision for other assistance under Section 8 of the Industry Act 1972 is limited to approved projects.

Additional bids

41. On the basis of the latest forecast, the Department of Industry believe that repayment of assistance by ICL cannot start until 1979-80 and will be at a lower level than assumed in the 1975 Survey. The additional bid is for £1·6 million in 1978–79 and £6·7 million in 1979–80. Rephasing of the paper and board and wool textile industry schemes results in an additional bid of £0·1 million in 1977–78, £3·9 million in 1978–79, and £3·2 million in 1979–80. There is a corresponding reduction of £7·1 million in 1976–77.

42. Further projects for assistance under Section 8 would be a call on the Contingency Reserve, but the Department of Energy has agreed to try to work to a ceiling of £7 million a year. The Offshore Interest Relief Grant scheme is currently under review. Unless this review offers scope for savings there will be the following additional bids:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
3·7	7·1	9·3	14·7

Promotion of tourism

43. The forecasts include provision for the grants in aid to the British Tourist Authority and the English, Scottish and Wales Tourist Boards, and for selective assistance for tourist projects in development areas under Section 4 of the Development of Tourism Act 1969. The forecasts show a small reduction on those in Cmnd. 6393.

Refinance of home shipbuilding lending

44. This programme provides for the refinancing of part of the guaranteed credit made available by the banks at a preferential fixed rate of interest to United Kingdom purchasers of ships built in United Kingdom shipyards. The purpose of the programme is to enable our shipbuilders to compete on equal credit terms with foreign yards. The refinancing is worked in conjunction with similar arrangements for export credit financing. The service is demand determined, and the refinancing depends upon the level of net shipbuilding advances, the level of export lending and the threshold (currently 18 per cent of non-interest bearing sight deposits) below which finance is provided solely by the banks.

Additional bids

45. The estimates are subject to a considerable margin of error, particularly this year because of uncertainties about the future levels of export lending. Compared with Cmnd. 6393, the latest forecast for 1976–77 shows a sizeable increase, which has to be treated as an additional bid. This is largely because of a faster rate of shipbuilding lending than hitherto expected. In later years, there are substantial reductions, mainly reflecting the expected decline in the industry's order book.

46. The additional bid is as follows:

£ million

1976-77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
+23	1·1	15	−26	—

Assistance to the shipbuilding industry

47. Compared with Cmnd. 6393, the Survey figures have been revised to reflect part of the expenditure on the Interim Strategy for the industry agreed by Ministers on 6 May. Cmnd. 6393 included an unallocated provision for shipbuilding assistance. This covers a substantial portion of the Interim Strategy. The remainder is now partly covered by an agreed claim on the Contingency Reserve. (The principal element in the Strategy not covered is expenditure on advance orders.)

48. The forecasts for the first three years of the Survey period provide for new merchant shipbuilding subsidies and a special redundancy scheme for shipyards workers. (The Interim Strategy also provides for additional funds for advance factories in shipbuilding areas, and these are included in the provision for land and buildings under Regional Support.) The forecasts also include for 1976–77 provision for capital support to Govan and Cammell Laird under existing schemes, although (depending on the timing of nationalisation) not all of it may be required. In addition there is a small provision for the Cost Escalation Insurance Scheme for shipbuilders, which runs on throughout the Survey

period. No provision is made here for capital expenditure by British Shipbuilders: this is covered in Programme 5.

Additional bids

49. There is an additional bid on this programme as follows:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
2·8	—	8·2	—	—

In 1976–77 this is due principally to rephasing of agreed assistance to Govan and Cammell Laird. In 1978–79, it is due to lower receipts because British Shipbuilders will have taken over the Department's present loan commitments, and because a further £4 million is required to implement the Interim Strategy (excluding any provision for advance orders).

Other support services

50. No expenditure is provided for in this sub-programme by the Department of Industry though there is token provision for contingent liabilities in connection with computer leasings, outstanding marine insurance claims, and any liabilities which may arise as a result of agreements entered into by the Industrial Reorganisation Corporation. The forecasts cover repayments of the QE 2 loan, the ex-IRC loans and the loans to Anglesey Aluminium Metal Ltd. and British Aluminium Co., Ltd. There are small variations from Cmnd. 6393 due to rephasing of the loan repayments.

51. Following the recent decision by Ministers that new support should be made available to the film industry, the Department of Trade have made provision for total expenditure of £15 million in cash terms over the Survey period. Support under existing legislation up to a total of £2·8 million is included within the total.

52. Provision by the Department of Energy is sufficient to meet its current commitments provided guarantees in connection with oil platform construction sites (up to £11·5 million plus interest charges) and guarantees to financiers of developers of North Sea oilfields (up to £60 million plus interest charges) are not called. If the guarantees were called there would be a claim on the contingency reserve.

Additional bids

53. The Department of Energy's payment for the cost of oil rig guard ships cannot be met from within the existing provision. A further Fuel Efficiency Loan Scheme is needed after 1977–78.

£ million

	1977–78	1978–79	1979–80	1980–81
Oil rig guard ships	1·8	2·3	2·4	2·3
Fuel Efficiency Loan Scheme	—	1·9	1·4	1·0

Investment grants

54. This expenditure is for outstanding commitments under this scheme. The figures represent an additional bid of £2·5 million in 1976–77, £1·8 million in 1977–78 and £0·7 million in 1978–79. The increase is due to revised estimates of cost and to changes in the phasing of qualifying projects.

SUPPORT FOR NATIONALISED INDUSTRIES (other than Transport Industries)

Assistance to the Coal Industry

Implications of Survey figure

55. Provision covers the contribution to the Mineworkers' Pension Fund on the basis of the current actuarial deficiency; also covered are payments in connection with pit closures, the Redundant Mineworkers' Payments Scheme and early retirement benefits up to 26 March 1978.

Additional bids

56. The actuarial deficiency in the Mineworkers' Pension Fund is likely to increase every year as pensions are increased to match the rise in the cost of living. In addition, the intention is to introduce a Bill which, *inter alia*, will extend beyond 1978 the Redundant Mineworkers' Payments Scheme and grants in connection with pit closures. Some assistance to NCB towards the cost of stocking will be necessary this year and, most probably, next year too, though the scale of assistance in that year cannot yet be quantified. Some further unquantifiable assistance, may be needed. Measures under consideration include an assisted coal burn policy to reduce stocks and some form of regional grant to the industry.

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Grants in connection with pit closures	—	—	10·5	11·5	12·4
Redundant Mineworkers' Payment Scheme	—	—	2·0	6·9	12·7
Early retirement to elderly redundant mineworkers	—	—	1·5	1·6	1·7
Miners' Pension Scheme	1·4	1·4	1·4	1·4	1·4
Stocking aid	20·0	—	—	—	—
Total	21·4	1·4	15·4	21·4	28·2

57. These costs could be reduced if the grants in connection with pit closures were reduced to the level necessary to attract maximum grant from the ECSC. Further reductions could be achieved if the Redundant Mineworkers' Payments Scheme were limited in the same way and if early retirement benefits ceased.

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Limiting grants in connection with pit closures to levels necessary for ECSC support would reduce claim by	—	—	8·0	9·5	10·4
Limiting grants in connection with pit closure and RMPS to levels necessary for ECSC support and stopping early retirement benefits would reduce claims by	–	—	10·7	16·3	22·6

Compensation for price restraint

58. These subsidies have now been phased out and accordingly there is no provision in the forecast period. The figure for 1975–76 represents a reduction of £35 million on the provision in Cmnd. 6393.

Other compensation

59. Provision of £6·8 million is also made for the re-adaptation benefits scheme for redundant steel-workers, which came into operation on 1 July 1974 and offers a range of benefits. The forecasts show a reduction of £2·1 million on the provision in Cmnd. 6393. Up to half the cost is met from ECSC funds and these receipts are credited to "Contributions to the European Communities, etc. (net)" under Programme 2.

Other services

Policy options

60. The Department of Energy's oil storage programme is under review. If the review concludes that existing stocks could be disposed of the following savings could be achieved:

£ million

1977–78	1978–79	1979–80	1980–81
1·1	1·1	1·1	1·1

INTERNATIONAL TRADE

Export promotion and trade co-operation

61. Provision is made for expenditure on export promotion services which are managed by the British Overseas Trade Board and subscriptions to international trade organisations. Most of the expenditure represents assistance to British exhibitors at overseas trade fairs, but it also covers the Overseas Projects Fund, technical help to exporters, assistance to research, education and training in overseas trade, and grants-in-aid and selective grants to non-official trade organisations. There is an additional bid of £0·1 million in the years 1977–78 onward, reflecting an increase in the United Kingdom subscription to the General Agreement on Tariffs and Trade.

Refinancing of fixed rate export credits

62. The United Kingdom, like most of the main industrial countries, offers medium and long term credit at a fixed rate for major capital goods. The scheme also covers shipbuilding. This expenditure is the Export Credits Guarantee Department's (ECGD) share of the cost of refinancing that part of the fixed rate credit extended by the clearing banks for exports and home shipbuilding which exceeds 18 per cent of their non-interest-bearing sterling sight deposits; the share attributed to home shipbuilding is met by the Department of Industry and shown separately (paragraph 44 above). The expenditure recorded represents the net addition to refinancing in the relevant year.

Additional bid

63. This is a demand-determined service, the amount of additional refinancing in any one year being determined by two main variables: the net increase in the level of fixed rate export lending in that year and the level of the threshold below which the banks are required to finance the lending

themselves. As will be seen from the table below, the revised estimates are substantially higher than those in Cmnd. 6393, though they are subject to considerable uncertainty. Recently, the rate of refinancing has been increasing rapidly and if this rate is maintained for the rest of the year the claim on the Contingency Reserve could be considerably higher than the £130 million shown below.

Net annual addition to ECGD's refinancing

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Revised estimate .	516·9	552·3	621·2	632·7	632·7
Cmnd. 6393 .	386·9	452·3	521·2	532·7	—
Additional bids	130·0	100·0	100·0	100·0	100·0

64. These additional bids might be avoided by one, or a combination of three methods:

(i) By imposing a ceiling on ECGD's future commitments under the scheme.

(ii) By increasing the proportion of fixed rate export finance provided by the clearing banks.

(iii) By finding new sources of private sector funds for the scheme.

65. Method (i) could be operated in such a way as to achieve an arbitrary reduction in ECGD's future commitments, but unless this reduction was matched by an increase in private sector lending capital goods exports would be adversely affected with consequential implications for the balance of payments and employment. Whether or not method (ii) can achieve the necessary reduction in ECGD's commitments will depend on the outcome of a renegotiation of the current agreement with the clearing banks. This agreement expires in October 1977. The immediate object is to secure an increase in the banks' contribution to the scheme. Method (iii) would necessitate discussions with other potential lenders. There can, however, be no certainty that alternative sources of private sector funds will be found.

Policy options

66. The options open to the Government which, if successful, might achieve reductions in future expenditure are set out above. Reductions of 2½ per cent in 1977–78 and 5 per cent in later years could be achieved by method (i) simply by cutting off ECGD refinance at the appropriate level. Under method (ii) an increase in the bank's refinancing threshold of 1 per cent of their non-interest-bearing sight deposits would reduce ECGD's refinancing commitment by about £100 million in 1977–78 and by between £10 million to £15 million a year thereafter. A larger increase in the threshold would have a proportionate effect on the level of refinancing.

Cost escalation scheme

67. The Export Credits Guarantee Department is empowered by the Export Guarantee Amendment Act 1975 to provide insurance against increases in certain costs of manufacturing capital goods for export or performing major projects overseas. These powers extend to 26 March 1977 after which, if the scheme were to be continued, they need to be renewed annually by Parliament. The costings below relate only to actual and prospective undertakings up to 26 March 1977.

68. This expenditure represents the extent to which payments to exporters under guarantees, and administration costs, are expected to exceed the income from premium. In 1976–77 premium income is expected to exceed payments; from 1977–78 until 1979–80 net expenditure of £5·5 million is forecast with a small net surplus in the final year. These forecasts, which show lower net expenditure on the scheme than the Cmnd. 6393 figures, are however, based on the present estimates of the rate of inflation, the continuing level of demand from exporters for the scheme and the extent to which they are successful in obtaining contracts. All these factors continue to be subject to a great deal of uncertainty.

Additional bids

69. The following table compares the revised estimates with those in Cmnd. 6393.

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Revised estimate .	−1·8	2·9	2·1	0·5	−0·1
Cmnd. 6393 .	−7·7	8·6	1·8	1·7	—
Difference .	+5·9	−5·7	+0·3	−1·2	—

Although the surplus of premium over expenditure is now expected to be much lower in 1976–77 the only additional bid arises in 1978–79. Since this

expenditure in large part relates to commitments or contingent commitments already assumed by ECGD there is no way in which this can be avoided.

REGULATION OF DOMESTIC TRADE AND INDUSTRY AND CONSUMER PROTECTION

Protection of innovation

70. Provision is made for the salaries and general administrative expenses of the Patent Office, for the United Kingdom contribution to the European Patent Office, and for certain international subscriptions. Forecast receipts from fees exceed expenditure, and overall the programme shows a net saving by comparison with Cmnd. 6393.

Regulation of trading practices and consumer protection

71. The forecasts include the Department of Trade's expenditure on salaries and general administrative expenses, less receipts from fees, in connection with the Department's Insurance, Companies and Insolvency Service Divisions and the Air Travel Reserve Fund.

Additional bid

72. The forecasts take account of the increased receipts and savings expected as a result of the Companies and Insolvency Bills now before Parliament. Forecasts of receipts in 1977–78 and 1978–79 are slightly lower than in Cmnd. 6393. This has led to an additional bid of £0·5 million and £0·4 million in these two years respectively. Repayment of loans from the Air Travel Reserve Fund Agency will be lower by £2 million in 1977–78 and £2 million in 1978–79, reflecting a reduction of £4 million in the Agency loan requirement in 1975–76. The Department of Trade do not consider that this reduction in receipts should be treated as an additional bid.

73. The provision also covers the Department of Prices and Consumer Protection's expenditure on the Monopolies and Mergers Commission support for the National Council of Social Service in connection with the Citizen's Advice Bureaux, the National Consumer Council, five nationalised industry consumer councils, the Royal Society for the Prevention of Accidents, and also expenditure on research on the safety of consumer goods. The temporary support for certain consumer protection measures announced in "The Attack on Inflation" (Cmnd. 6151) is included in the first year of the Survey.

Additional bids

74. There is an additional bid of £0·3 million in 1977–78 only in order to continue for one year the Local Price Comparison Surveys which form part of the temporary consumer protection measures announced in Cmnd. 6151. Any compensatory savings will need to be found from the Department's food subsidies expenditure in Programme 3, paragraphs 23 to 25. There is also an additional bid of £0·7 million in 1977–78, 1978–79 and 1979–80 for the maintenance of consumer advice centres set up by special grant following Cmnd. 6151.

Standards and quality assurance

75. The main item of expenditure is the grant-in-aid to the British Standards Institution. Provision is also made for the Metrication Board where it is now assumed that peak activity will be reached in 1977–78 (later than earlier forecast). Expenditure on quality assurance schemes and subscriptions to two international organisations are also included in this sub-programme.

FUNCTIONING OF THE LABOUR MARKET

IMPLICATIONS OF SURVEY FIGURES

76. This programme aims to improve the functioning of the labour market through the services provided by the Department of Employment, the Manpower Services Commission and local authorities. The expenditure of the Commission and its two executive arms, the Employment Services Agency (ESA) and the Training Services Agency (TSA) is mainly financed by a grant-in-aid.

Manpower Services Commission

77. The Commission carries out its functions within a general policy framework agreed with the Secretary of State for Employment. Expenditure includes temporary additional resources (£80 million in 1976–77 and £33 million in 1977–78) to provide additional employment and training facilities to mitigate the effects of high unemployment. The Commission also operates the Job Creation Programme on behalf of the Department.

Employment services and employment rehabilitation

78. The main expenditure is on the placing service of the ESA. Some 184 job centres were opened by the end of 1975–76 and it is planned to open another 142 by 31 March 1977 as part of a temporarily accelerated programme for the years 1975 76 and 1976–77. Subsequently the Survey figures will support about 100 new centres a year. Grants and facilities under the Employment Transfer Scheme were improved as a means of assisting labour mobility in the special measures for alleviating unemployment; these improvements and the increased numbers of persons expected to be assisted to transfer are covered in the Survey for 1976–77. Provision for certain PSA services previously on an allied service basis has yet to be transferred from Programme 14.

79. A special grant of £1 million has been provided in 1976–77 to strengthen the Careers Service operated by local authorities as part of the measures to alleviate higher unemployment amongst young people. The forecasts of local authority expenditure allow for demographic growth. £3·5 million has also been provided in 1976 77 for payment to employers of a recruitment subsidy for school leavers.

Industrial training

80. Additional provision has been made in 1976–77 (£71 million) and 1977–78 (£33 million) to assist apprentice and other training in a period of high unemployment. The effect of the improvement in training allowances made as part of these measures will continue and is reflected in the Survey figures. The TSA's target for direct training, mainly in skill-centres and Colleges of Further Education, is 81,500 in 1976–77 rising to 100,000 in 1980–81. Provision for certain PSA services previously on an allied service basis remains to be transferred from Programme 14.

Redundancy fund payments

81. Payments were made from the Fund to 363,000 people in 1975–76 compared with 262,000 in 1972–73, 157,000 in 1973–74, and 210,000 in 1974–75. The forecasts assume a reduction in the latter half of 1976–77 from the high level of payments in 1975–76 to a lower level likely to continue thereafter. They also include the additional expenditure arising from the provision of the Employment Protection Act for safeguarding sums due to employees in cases where employers are insolvent.

Industrial relations and other labour market services

82. This includes the Advisory, Conciliation and Arbitration Service, the Office of Manpower Economics and DE staff engaged on manpower policy, incomes and industrial relations work. Substantial extra provision has been made in this programme for temporary measures to alleviate higher unemployment. £91 million in 1976–77 and £30 million in 1977 78 have been provided for the Temporary Employment Subsidy payable to certain employers who are prepared to retain employees who would otherwise be redundant. £63·1 million in 1976–77 has been allocated to the Job Creation Programme which supports projects sponsored by local authorities, voluntary bodies and others to provide socially-useful work for unemployed persons and particularly for unemployed young people. The grant to Community Industry has also been increased from 1976–77 onwards to raise the number of places provided for socially-disadvantaged and unemployed young people from 3,000 to 4,000.

ADDITIONAL BIDS

Employment services and employment rehabilitation

83.

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
0·2	6·9	13·9	18·0	12·0

Provision is needed for the dispersal of MSC and its Agencies to Sheffield, for which preliminary costs are now available. Staff increases are required in MSC for growing audit and manpower intelligence needs.

84. Extra staff are required by ESA for a vacancy survey in 1979–80 and 1980–81. For 1980–81 provision is also needed to meet the full-year costs of the job centre and staff build-up in the previous year. There is a bid for the Employment Transfer Service to cover the continuation from 1977–78 of the present improved level of payments, and a bid to cover a shortfall in the transfer from the Central Computer Agency in respect of the CAPITAL computer project for an improved placement service in London.

Industrial training

£ million

1977–78	1978–79	1979–80	1980–81
35·4	42·3	37·6	50·4

85. Most of this represents a contingent bid for 1977–78 onwards for the cost of introducing proposals for collective funding of initial training in industrial skills. The rest reflects a reassessment of the costs of meeting existing TOPS training targets and some change in the balance of the programme. They involve extra staff (rising to an extra 1,100 over present forecasts at 1.4.80), increased fees at Colleges of Further Education in 1977–78 and additional allowances (with associated administrative expenditure) in 1980–81, partly offset by reductions in CFE fees and in allowances in 1978–79 and 1979–80.

OFFSETTING SAVINGS

86. Offsetting savings to cover the firm MSC, ESA and TSA bids (including the costs of dispersal) would need considerable changes in most of the Commission's programmes. For instance, the ESA's jobcentre programme would need to be cut by 25 per cent in each year, the scope and usage of the Employment Transfer Scheme by one-third and the TSA's trainee targets by some 4,000 in 1977–78 progressively to 7,000 in 1980–81. However, the Commission would have to be consulted on the way in which any savings could be accommodated within its forward plans. Some savings to offset part of collective funding are possible but the figures are necessarily as tentative as those in the bid.

Industrial relations and other labour market services

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
1·0	2·9	2·9	2·8	2·8

87. *Additional provision* is needed to meet the cost of extra staff (rising to an extra 100 at the end of the period) required by the Arbitration, Conciliation and Advisory Service to meet its enhanced work loads, and in various DE Divisions to implement the Employment Protection and Trades Unions and Labour Relations Acts and to monitor the Government's pay policy. Extra staff are also required to meet the higher case load expected for Industrial Tribunals. The Government may also decide to finance a scheme of compensation for deep sea fishermen affected by the interim Anglo-Icelandic fisheries agreement.

Compensating savings would have to fall on the grant to Community Industry or the staff costs of the Office of Manpower Economics.

POLICY OPTIONS

88. The savings required by the ground rules are as follows:

£ million

	1977–78	1978–79	1979–80	1980–81
Cut job-centre programme by 25 per cent after 1977–78	..	1·6	2·3	3·0
Restrict scope and use of Employment Transfer Scheme	3·1	3·1	3·1	2·5
Postpone three new rehabilitation centres	—	—	—	0·9
Reduce TOPS scheme by 4,000 rising to 7,000 places	4·2	9·2	10·0	10·0
Effect of TOPS reductions on l.a. loan sanction	1·0	1·0	1·0	1·0
† Reduce assisted training in industry	1·7	3·2	3·3	3·4
† Charge for direct training services in assisted areas	0·7	0·7	0·7	0·7
Reduce training allowance lead over UB from 75 per cent to 65 per cent	2·4	2·6	2·8	3·0
Cut TSA Management budget	0·1	0·3	0·3	0·3
*† Reduce rate of redundancy payment rebate from 50 per cent to 40 per cent	—	18·0	18·0	18·0
Reduce TES rate from £20 to £15 for last quarter of eligibility	8·5	—	—	—
Reduce Community Industry places to 3,000	—	1·8	1·8	1·8

* Legislation would be needed.

† Extra costs would be imposed on employers.

CENTRAL AND MISCELLANEOUS SERVICES

Employment

89. This programme covers expenditure on the Health and Safety Commission, services for the seriously disabled, international relations work (mainly the United Kingdom subscription to the International Labour Organisation), the Royal Commission on the Distribution of Incomes and Wealth and central and common services.

90. Services for the seriously disabled consist mainly of grants to Remploy Limited, local authorities and other bodies providing training and employment under sheltered conditions. The forecasts provide for a rate of expansion of about 200 jobs a year to 1979–80.

91. The Health and Safety Commission (HSC), with its executive arm the Health and Safety Executive (HSE), carries out its functions within a general policy framework agreed with the Secretary of State. The Commission is financed by grant in aid. As required by the 1974 Health and Safety at Work Act, the Commission has begun the task of rationalising the structure of the various inspectorates and extending protection to some 8 million employees not previously covered by the Act. The survey includes provision for an increase in the staffing of the Factory Inspectorate. The Commission has had to delay certain parts of its programme of developments and it will be some time before it is able to meet all its responsibilities under the Act. Constraints on the level of local authority expenditure is also likely to lead to delay in those authorities taking additional enforcement functions under the Act. Provision for certain PSA services previously provided on an allied service basis remains to be transferred from Programme 14.

Additional bids

£ million

1976-77	1977-78	1978-79	1979-80	1980-81
2·4	4·2	1·4	1·1	0·6

92. The main item of extra expenditure is for premises needed for the reorganisation of HSE. More money is also needed to cover increases in rates and certain other services formerly provided on an allied service basis. In 1980-81 the other addition is for staff and associated expenditure to meet the full-year costs of the build-up in the previous year. Compensating savings would have to fall mainly on staff costs, which would impede reorganisation and delay further the implementation of the Health and Safety at Work Act.

Policy options

93. The ground rules would require the following savings:

£ million

	1977-78	1978-79	1979-80	1980-81
Cut research programme by 50 per cent	0·3	0·3	0·3	0·3
Abolish Royal Commission on Distribution of Income and Wealth	0·4	0·4	0·4	0·4
Reduce number of Remploy workers by 300 . . .	—	0·6	0·6	0·6

Department of Prices and Consumer Protection

94. Provision is made for salaries and general administrative expenses of the Department, and for the Price Commission up to 31 March 1977. No provision is included for the Price Commission during the period April-July 1977, or for any price reference work after this date.

Additional bids

95. Provision is sought for the Price Commission to fulfil its statutory obligation to operate the Price Code up to July 1977 and for its work on price reference thereafter. An additional £2·5 million is sought in 1977-78 and an extra £1·0 million in later years. A further £0·1 million is required in 1978-79 onwards for general and administrative expenses. But this apparent increase arises solely from the way in which the Survey figures have been calculated and rounded. Any compensatory savings will need to be found from the Department's food subsidies expenditure in Programme 3.9, paragraph 25.

Departments of Trade, Industry and Energy

96. Provision is made for salaries and administrative and miscellaneous expenses of the Departments (except those of the Patent Office and Insurance, Companies and Insolvency Divisions, which are carried on relevant sub-programmes).

ASSISTANCE TO POORER ENERGY CONSUMERS

Additional bid

97. Officials are working on a package of measures within a cost of £25 million designed to help a limited class of poor consumers next winter. These range from a coupon entitling consumers to £10-worth of cheap energy, to a discount of say 12½ per cent on electricity bills. It is not yet agreed whether any costs would be carried on this Programme or on Programme 12 (Social Security). There are no offsetting savings available within either Programme.

£ million

1976-77	1977-78
15·0	10·0

168270 1*

5. Nationalised Industries' Capital Expenditure

TABLE 5

Summary of capital expenditure by nationalised industries — £ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Total capital expenditure	3,103·0	3,070·5	2,743·1	3,377·6	3,841·6	3,690·4	3,309·5	3,476·6	3,612·6	3,612·5
Changes since Cmnd. 6393					205·5	−40·2	—	—	—	
Cmnd. 6393 revalued					4,047·1	3,730·6	3,309·5	3,476·6	3,612·6	

General

1. The investment programmes of the nationalised industries are the subject of a separate report to Ministers which includes consideration of options. The differences between the baseline figures shown above and those being recommended to Ministers for the Survey period are in summary as follows:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Total programme	−25·3	+305·0	−321·0	+151·1	+244·8

The increase in 1976–77 reflects the fact that the base line for this year was the cash limit included in the FSBR. In later years the comparison is distorted by the inclusion of proposed expenditure by the British National Oil Corporation (BNOC) of:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
260	275	300	350

This is because there was no provision in Cmnd. 6393 beyond 1976–77, and it was stated that when proposals were formulated they would be a charge on the Contingency Reserve.

Policy options

2. The guidelines for the Survey did not require that 2½ and 5 per cent illustrative options should be applied in detail to the investment programmes of the nationalised industries, but Ministers were told that the industries would nevertheless be asked to identify options of the same order of severity. They have been pressed to do this, and the options which were identified are set out in the separate report together with an assessment of the consequences of adopting each of them.

British Aerospace and British Shipbuilders

3. These new corporations are being considered wholly within the Survey, *i.e.* they are not within the separate report on existing nationalised industries. Accordingly an additional bid has been submitted in respect of the capital expenditure of the two corporations, assuming vesting dates late in 1976. This is an automatic consequence of nationalising the two industries. It is not possible to carry out a review of the likely future investment plans and capital requirements of the two corporations before the corporations themselves have been able to formulate their plans on the basis of information from the companies. The estimates repeat the indicative figures mentioned in the text of Cmnd. 6393 but not included in the totals and represent no more than a broad projection of the capital requirements of the vesting companies when in private ownership.

4. The estimates do not include expenditure on research and development—which is particularly significant in the case of British Aerospace—as this falls on the revenue rather than the capital account.

British Aerospace — £ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Fixed investment	4·0	8·0	10·0	10·0	10·0
Increase in stocks and work in progress	0·0	0·0	12·0	25·0	25·0
	4·0	8·0	22·0	35·0	35·0

British Shipbuilders

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Fixed investment	20·0	50·0	50·0	50·0	50·0
Increase in stocks and work in progress	6·0	6·0	6·0	6·0	6·0
	26·0	56·0	56·0	56·0	56·0

6. Roads and Transport

TABLE 6

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
ENGLAND										
Motorways and trunk roads										
New construction and improvement	394·8	362·4	430·3	417·0	427·2	372·4	360·7	327·8	329·8	328·1
Maintenance and other current expenditure	50·4	73·3	82·7	46·9	55·5	62·7	59·6	60·1	60·7	62·4
Total	445·2	435·7	513·0	463·9	482·7	435·1	420·3	387·9	390·5	390·5
Local transport										
Capital:										
Investment by local transport authorities:										
Roads—new construction and improvement	409·9	397·3	432·6	336·7	310·3	336·8	288·3	246·7	246·3	246·3
Car parks	32·6	28·0	23·9	28·1	18·3	31·4	24·7	19·4	19·2	19·2
Public transport investment	72·0	135·9	129·6	139·2	146·0	153·2	145·4	135·4	129·9	129·9
Current:										
Roads—*maintenance*	391·2	404·9	394·8	381·2	394·5	375·3	348·5	321·5	321·5	321·5
Car parks	0·4	—	−0·1	−0·3	−2·5	−6·7	−15·9	−25·1	−25·0	−25·0
Other expenditure	5·2	6·9	9·1	10·3	9·7	11·1	12·1	12·5	13·0	12·9
Local authority administration	104·9	103·4	113·4	129·6	136·0	136·1	132·2	128·1	128·1	128·1
Passenger transport subsidies:										
British Rail	—	15·4	15·0	17·6	21·0	22·0	23·0	23·0	23·0	23·0
Other	5·7	7·3	17·7	133·9	153·4	106·9	81·2	54·6	54·6	54·6
Concessionary fares	9·7	17·2	27·1	50·8	63·1	59·0	48·6	50·6	52·4	52·4
Total	1,031·6	1,116·3	1,163·1	1,227·1	1,249·8	1,225·1	1,088·1	966·7	963·0	962·9
Total England	1,476·8	1,552·0	1,676·1	1,691·0	1,732·5	1,660·2	1,508·4	1,354·6	1,353·5	1,353·4

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TABLE 6 (continued)

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
WALES										
Motorway and trunk roads										
New construction and improvement	44·6	44·7	32·4	24·9	49·0	55·0	52·3	54·9	55·8	55·8
Maintenance and other current expenditure	5·4	6·0	7·6	5·7	6·1	7·1	7·1	7·1	7·1	7·1
Total	50·0	50·7	40·0	30·6	55·1	62·1	59·4	62·0	62·9	62·9
Local transport										
Capital:										
Investment by local transport authorities:										
Roads—new construction and improvement	20·6	27·8	29·9	30·4	21·4	26·7	24·4	24·8	25·5	25·5
Car parks	1·1	1·4	1·7	2·3	2·1	1·6	1·5	1·4	1·4	1·4
Public transport investment	0·2	0·5	0·2	0·2	0·6	0·6	0·6	0·6	0·6	0·6
Current:										
Roads—maintenance	32·8	33·8	35·9	34·3	34·0	28·8	28·5	28·0	27·5	27·5
Car parks	−0·1	−0·2	−0·2	—	−0·2	−0·2	−0·2	−0·2	−0·2	−0·2
Other expenditure	0·1	0·3	0·3	0·3	0·1	0·1	0·1	0·1	0·1	0·1
Local authority administration	7·1	6·8	7·7	10·1	9·9	10·2	8·8	8·6	8·6	8·6
Passenger transport subsidies	0·4	0·4	0·7	1·4	3·0	5·5	5·5	5·5	5·5	5·5
Concessionary fares	0·4	0·9	1·1	1·9	2·4	2·5	2·6	2·7	2·9	2·9
Total	62·6	71·7	77·3	80·9	73·3	75·8	71·8	71·5	71·9	71·9
Total Wales	112·6	122·4	117·3	111·5	128·4	137·9	131·2	133·5	134·8	134·8

TABLE 6 (continued) £ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
SCOTLAND										
Motorway and trunk roads										
New construction and improvement	43·5	40·0	31·3	39·7	43·5	47·9	62·8	59·4	60·2	60·2
Maintenance and other current expenditure	8·6	9·1	11·3	7·5	8·2	9·3	9·2	9·1	9·1	9·1
Total	52·1	49·1	42·6	47·2	51·7	57·2	72·0	68·5	69·3	69·3
Local transport										
Capital:										
Investment by local transport authorities:										
Roads—New construction and improvement	59·8	69·5	72·5	63·4	52·8	53·9	49·8	47·0	47·5	47·5
Car parks	0·6	1·7	3·6	3·4	1·8	1·8	1·7	1·6	1·5	1·5
Public transport investment	3·0	5·4	4·1	8·3	11·1	19·2	23·3	21·6	24·5	24·5
Current:										
Roads—maintenance	60·4	57·2	58·0	52·0	53·6	54·6	51·4	48·6	49·0	49·0
Car parks	—	—	—	—	—	—	—	—	—	—
Other expenditure	0·4	0·4	0·5	0·5	0·5	0·6	0·6	0·5	0·5	0·5
Local authority administration	8·1	8·9	8·9	9·2	9·0	9·5	9·6	9·4	9·5	9·5
Passenger transport subsidies:										
British Rail	—	—	—	3·6	8·0	8·4	8·4	8·4	8·4	8·4
Other	0·5	3·4	6·2	7·4	7·9	14·1	13·7	13·5	13·7	13·7
Concessionary fares	2·2	3·7	5·8	5·5	10·8	15·2	16·0	17·3	18·9	18·9
Total	135·0	150·2	159·6	153·3	155·5	177·3	174·5	167·9	173·5	173·5
Total Scotland	187·1	199·3	202·2	200·5	207·2	234·5	246·5	236·4	242·8	242·8
Total Great Britain: Motorways and trunk roads and local transport	1,776·5	1,873·7	1,995·6	2,003·0	2,068·6	2,032·6	1,886·1	1,724·5	1,731·1	1,731·0

TABLE 6 (continued) £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Central Government subsidies										
NATIONALISED INDUSTRIES										
British Rail	130·3	152·7	226·0	461·3	460·1	433·2	395·6	374·9	385·6	385·6
British Waterways Board	6·4	7·0	7·6	8·8	10·3	11·1	11·5	11·5	11·5	11·5
National Freight Corporation	14·3	6·0	2·4	—	7·9	—	—	—	—	—
London Transport Board	—	—	—	—	—	—	—	—	—	—
National Bus Company	0·5	11·4	—	—	—	—	—	—	—	—
Scottish Transport Group	0·9	1·2	1·2	0·9	4·0	3·9	3·3	3·3	3·3	3·3
OTHER										
New bus grants to private operators	0·9	3·4	3·6	3·4	4·7	4·7	4·7	4·7	4·7	2·4
Other Central Government subsidies	0·5	0·3	0·4	0·7	1·1	4·8	4·7	4·6	4·6	4·6
Total	153·8	182·0	241·2	475·1	488·1	457·7	419·8	399·0	409·7	407·4
Ports and shipping										
Ports	55·9	74·0	37·7	34·0	53·8	57·7	63·8	48·1	35·4	37·1
Shipping services	7·1	6·9	8·4	9·3	11·0	10·9	10·2	9·6	9·7	9·2
Total	63·0	80·9	46·1	43·3	64·8	68·6	74·0	57·7	45·1	46·3
Civil aviation										
CAA grant in aid	—	50·2	50·2	44·5	60·5	41·2	22·3	14·3	8·6	2·1
Capital investment by the CAA and local authorities	14·8	21·9	30·4	25·7	22·1	27·1	30·1	32·9	30·2	25·2
Other civil aviation services	46·2	5·9	10·4	12·7	16·1	15·6	15·8	14·8	14·4	12·2
Total	61·0	78·0	91·0	82·9	98·7	83·9	68·2	62·0	53·2	39·5
Other transport services										
Roads and transport administration	21·6	24·1	24·0	26·3	25·5	25·1	24·4	24·8	24·7	24·7
Other	6·0	3·3	2·7	18·7	11·8	0·2	−0·9	−0·9	−0·9	−0·9
Total	27·6	27·4	26·7	45·0	37·3	25·3	23·5	23·9	23·8	23·8
VAT paid by local authorities	13·7	14·8	14·6	14·6	14·7	17·5	17·0	16·7	16·6	16·6
Grand Total	2,095·6	2,256·8	2,415·2	2,663·9	2,771·7	2,685·6	2,488·5	2,283·7	2,279·3	2,264·9
Changes from Cmnd. 6393 revalued					−66·2	−12·8	−11·2	−3·1	−3·3	
Cmnd. 6393 revalued					2,837·9	2,698·4	2,499·7	2,286·8	2,282·6	

1. The Government published a Consultative Document on Transport Policy in April 1976. Views on it are to be returned to the Department of the Environment by the end of July. The Government are committed to make a subsequent detailed statement of their views on how transport should develop.

2. In addition the Consultative Council in England and Wales and the Convention of Scottish Local Authorities have been asked to examine and comment on the Cmnd. 6393 proposals for local authority expenditure.

3. These consultations may lead to revision of the priorities set out below which are essentially unchanged from those in Cmnd. 6393.

MOTORWAYS AND TRUNK ROADS

Implications of Survey figures

ENGLAND

Capital Expenditure

4. Although the reductions announced in Cmnd. 6393 will be concentrated on lower priority schemes, the loss of economic and environmental benefit will be considerable and the completion of an inter-connected network of high quality roads, will be delayed until the mid-1980s. Many roads schemes on which preparatory work has already been in progress for several years and on which expectations have been aroused will now have to be held back for 3 to 4 years.

Current Expenditure

5. The reductions in expenditure announced in July 1975 are to be applied to all-purpose trunk roads but not to motorways. Motorway maintenance expenditure must continue to rise as more of these roads are built, and as much structural maintenance is required on the older stretches. For all-purpose trunk roads, spending on structural repairs is planned to be held steady at a low level following the increased expenditure in 1971 to 1974 under the Marshall Programme, but towards the end of the Survey period the need for this type of maintenance may grow again, in which case the present provision would be inadequate. The reductions announced in July will mainly affect the appearance of the trunk roads and their riding quality. If these reductions reduce safety margins a further review will be required.

SCOTLAND

6. The cuts announced in Cmnd. 6393 have delayed the completion of motorways in central Scotland and the improvement of major roads which are not related to oil development. Procedural and other delays, some related to the postponement of Kessock Bridge, have meant that progress on the oil related routes, notably A9, has been slower than expected.

WALES

7. The whole of Wales now has some form of assisted area status. The motorway and trunk road programme has lagged behind that of England and Scotland. In view of the importance of good road communications to industrial development, effort is currently being concentrated on the early completion of the M4 across South Wales. There remains however a need to improve east-west communications across North Wales and it is intended to concentrate resources on the A55 in the later years of the Survey period.

Policy options

ENGLAND

8. The effect on capital expenditure of the illustrative reductions would be to delay certain schemes by 3 to 4 years and to prolong the existing delays on others.

9. On current expenditure the illustrative reductions would bring forward the time when there would be a reduction in safety standards especially as the effect of these further reductions would be cumulative.

SCOTLAND

10. The application of the illustrative reductions would mean significant further delays to important schemes in the trunk road programme, including those related to oil development which have previously been exempt from cuts. Reducing expenditure on maintenance would necessarily involve some deterioration in the standard of trunk roads. If safety were affected, the situation would need to be reviewed.

WALES

11. The effect of the illustrative reductions would be to delay part of the important A55 programme or to result in the shelving of other smaller but desirable projects.

Summary of illustrative reductions

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
England				
Road construction	9·0	16·4	16·6	16·5
Road maintenance	1·5	3·0	3·0	3·1
Scotland				
Road construction	2·7	5·1	5·1	5·1
Road maintenance	0·3	0·6	0·6	0·6
Wales				
Road construction	—	1·0	2·0	2·0
Road maintenance	1·0	1·0	1·0	1·0

LOCAL TRANSPORT

Implications of Survey figures

ENGLAND AND WALES

12. Within the block transport supplementary grant (TSG) system local authorities are free to determine their own priorities, so the allocation of expenditure between headings in the local transport section of Table 6 can only be indicative of the main trends expected, especially in the later years. The extent to which existing policies can be carried out within the Survey base figures varies from service to service. Consultation on transport policy with the local authority associations and others may require some revision of priorities. For these reasons no material changes are proposed for expenditure in England at this stage apart from an additional bid for concessionary fares. However, there is likely to be great pressure on the Government for increases in certain items of local authority current expenditure and in particular for an increase to the level of revenue support for public transport. Such increases would have to be made at the expense of capital expenditure although it is possible that they could be too big to be offset by savings in local authority capital expenditure alone. If the amount of revenue support decided upon is to be held at the desired level, steps to ensure that local authorities do not exceed that level may need to include legislation to restrict the discretion of local authorities.

13. Similar considerations apply to Wales, but a switch of expenditure from road maintenance to road construction has been made to reflect the likely pattern of expenditure.

SCOTLAND

14. Inherited commitments and schemes essential to safety, or to support housing and industrial development, together with the major Glasgow Underground and Clyderail projects, take up most of the available funds. There is little scope for new schemes to implement the policies of the new local authorities.

Additional bid

CONCESSIONARY FARES: ENGLAND

15. During the RSG negotiations in late 1975 it became clear that the existing provision for 1976–77 and subsequent years was inadequate because the data on which the estimates were based was inadequate. The provision for 1976–77 only was increased by £9·5 million (1975 Survey Prices); this was partly provided from savings of £6·5 million (at 1975 Survey prices) on local transport administration. Local authorities were asked to reduce future expenditure by 10 per cent below the forecast for 1976–77. But the expenditure in 1975–76 has turned out to be higher than expected and it is now estimated that expenditure in 1977–78 and later years on existing Government policies is likely to be at least £20 million a year above the present provision. The additional bid is based on this estimate. If, however, authorities spend as their 1976–77 budget estimates suggest, expenditure would be over £25 million a year above the present provision. The Consultative Council has set up a working group to investigate current schemes; it will produce revised estimates of cost by mid June. Subject to the outcome of this review, the options are likely to be:

(a) Make additional provision to cover the cost of continuing to leave local authorities with unfettered discretion in this field.

(b) Find offsetting savings within the local transport block. Local authorities are likely to resist finding savings from other local transport services for an area of expenditure in which they believe the Government has consistently underestimated the cost. The Treasury consider that if savings from the local transport block were insufficient, the balance would be available elsewhere within the DOE's Roads and transport programme.

(c) Take steps to restrain expenditure on concessionary fare schemes. As further circulars to local authorities are unlikely to be effective, legislation would probably be required, but this would be strongly opposed particularly by the metropolitan authorities, and it may be that any national scheme could only be achieved with a net increase in expenditure.

Policy options

ENGLAND

General

16. Any prediction of how reductions in local transport expenditure would be applied by local authorities can only be indicative. The text which

follows is based on the arbitrary assumption that cuts of 2½ per cent in 1977–78 and 5 per cent thereafter will fall on each line apart from passenger transport subsidies to British Rail, current expenditure on car parks and concessionary fares. For these services no illustrative reductions are offered. To compensate, additional reductions have been made to the provision for local transport-roads capital expenditure.

Capital:

Roads—new construction and improvement

17. Whilst the illustrative reductions could be achieved without halting any road project already started the margin available for starting new projects would be even further reduced, particularly in 1977–78 and 1978–79 when a number of schemes would have to be cancelled or deferred. Coming on top of already severely restricted local authority road construction, the reductions would have a significant effect on the civil engineering industry.

Car parks

18. The reductions would require the cancellation or postponement of perhaps two medium sized multi-storey car parks in 1977–78 and three in each of the following years. That the effect is so small is due to the fact that local authority expenditure on car parks has already been reduced to a low level.

Public transport investment

19. Investment in new buses is not directly controlled by the Government but is influenced by the new bus grant. It is therefore uncertain whether in the short term the illustrative reductions are achievable. New bus investment was shielded from formula reductions last year because of the Government's commitment to public transport. The future of the new bus grant is currently under review.

20. The effect of the illustrative reductions on public transport capital projects would be that virtually nothing would be left for new projects to be started in 1977–78 and 1978–79.

Current:

Roads—maintenance

21. The Consultative Document on Transport Policy accepts that whilst maintenance standards have to be reduced these should not fall below the point at which road safety is jeopardised or road surfaces break up. Further reductions might mean that these criteria could not be met. In addition failure to preserve the structural integrity of roads would imply very heavy expenditure on their future reconstruction. Cuts in maintenance expenditure would mean even greater reduction of labour forces than cuts on new construction.

Car parks

22. The existing provision assumes the doubling in real terms of car parking revenue between 1975–76 and 1978–79. DOE officials judge that it is unlikely that this will be achieved and hence, it would be unrealistic to project a further increase in receipts. It is also unlikely that reductions in operating and maintenance expenditure could be achieved and hence no illustrative reduction is shown.

Other current expenditure

23. This line provides in the main for publicity and training for road safety. Local authorities have only recently become statutorily responsible for this function which would make it difficult to ask them to reduce their expenditure on it.

Local authority administration

24. If the illustrative reductions were introduced on local transport as a whole corresponding reductions on administration would be feasible.

Passenger transport subsidies—British Rail

25. This line covers payments by PTEs in support of British Rail services provided at their request. Because these payments are levied by British Rail after assessment of their operating deficits arising from the PTE services, the consequence of a cut would be either that British Rail would show a deficit on their passenger service or, more probably, that they would curtail or withdraw services. No reductions are therefore shown.

Passenger transport subsidies—other

26. Cmnd. 6393 already envisages a 56 per cent reduction in revenue support for buses and underground between 1975–76 and 1978–79. This follows the very rapid increase in subsidy in 1974 when fares were in many cases held down while costs rose sharply. In 1975 fares rose on average about 50 per cent and further substantial rises in real terms will be necessary in 1976 and beyond.

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27. The possibility of an illustrative reduction on these subsidies raises wider issues of the development of policy in this area where the Government is under some pressure and where there are real difficulties in controlling expenditure. These issues will be considered in the context of the consultations on transport policy.

Concessionary fares

28. In view of what has been said above about concessionary fares, no illustrative reductions are offered.

SCOTLAND

29. It would be unrealistic to expect to achieve any guaranteed savings on current expenditure: the illustrative reductions are concentrated exclusively on capital expenditure. They would mean cutting out on average 10 per cent of all new schemes in 1977–78 and later years. The effects would be cumulative and programmes would be substantially set back. New schemes would be largely limited to essential bridge replacement and support of housing and industrial development.

WALES

30. Local authorities generally are claiming that highway maintenance is at a practically irreducible level and the illustrative reductions have been concentrated on highway capital works.

31. The policy options are summarised below:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
England:				
Capital				
Road construction	8·7	14·7	14·8	14·8
Car parks	0·6	1·0	1·0	1·0
Public transport investment	3·6	6·8	6·5	6·5
Current				
Road maintenance	8·7	16·1	16·1	16·1
Other expenditure	0·3	0·6	0·6	0·6
Local authority administration	3·3	6·4	6·4	6·4
Bus and underground revenue subsidies	2·0	2·7	2·7	2·7
Scotland:				
Capital				
Road construction	3·1	5·9	6·2	6·2
Car parks	0·1	0·2	0·2	0·2
Wales:				
Road construction	2·3	4·7	3·8	3·8

CENTRAL GOVERNMENT SUBSIDIES

British Railways Board

32. The largest item in this block is support to the British Railways Board. Passenger subsidies enable the Board to meet the public service obligation laid on it by the Government under the Railways Act 1974 and, as proposed in Cmnd. 6393, are assumed not to increase in real terms over the Survey period. Transitional grants were introduced in 1975 to meet freight losses, which are not expected to be eliminated before 1978. The Board's historic pensions liabilities are also supported, including from 1979–80 provision to put these pension funds on a properly funded basis. Total subsidies are:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
433·2	395·6	374·9	385·6	385·6

Implications of Survey figures

33. The Board are still examining the implications of stabilising passenger grant; but the Consultative Document on Transport Policy says plainly that substantial increases in revenue from fares and charges, and reductions in costs are essential. Elimination of the freight deficit by 1978 would require a substantial improvement from the current position and the Board have argued strongly that they cannot achieve this.

Policy options

34. As the pensions obligation is virtually inescapable any reductions would have to fall on the railway business, as follows:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
9·9	18·7	19·3	19·3

For the reasons given above it is uncertain whether these reductions are attainable at all and a decision now would pre-empt discussion of the Consultative Document.

British Waterways Board

35. The British Waterways Board receives grants under the Transport Act 1968 for essential maintenance of waterways and improvement to modern standards of bridges carrying public roads over them. These grants have been increased marginally above

Cmnd. 6393 (offset elsewhere) to reflect late changes in the Board's forecast deficits. A report recently received from consulting engineers endorses the Board's opinion that support is still insufficient to meet its statutory obligations. Policy for the waterways is now under review in the light of both the consultant's report and the proposal to merge the Board with a reorganised water industry. In these circumstances, no increase in provision is proposed.

Policy options

36. This would entail the following reduction but for the reasons given above may not be attainable :

£ million

1977–78	1978–79	1979–80	1980–81
0·3	0·6	0·6	0·6

Scottish Transport Group

37. The Scottish Transport Group receives grants for its loss-making shipping subsidiaries David MacBrayne Ltd. and Caledonian MacBrayne Ltd., which run passenger and freight services to the Western Isles and on the Clyde, and which have no prospect of increasing revenue to cover costs.

Additional bid

38. Additional provision of £0·2 million is sought in 1977–78 and succeeding years for payment of grant to cover interest on loans to the Group's shipping subsidiaries. If this additional bid is accepted, corresponding reductions will be made from the Scottish Office's provision for new construction of roads and for ports.

Policy options

39. Cuts in grants would amount to £0·1 million in 1977–78 and £0·2 million in succeeding years and would require increases in revenue from fares greater than costs.

National Freight Corporation

Additional bid

40. The National Freight Corporation received temporary support in 1975–76. The Minister for Transport announced on 12 May 1976 that further grant up to £11 million would be paid for the coming months. Subsequent requirements will be considered in the light of a report from consultants but in the meantime the NFC's investment programme has been reduced to allow for token additional bids of £18·2 million in 1976–77 and £9·1 million in 1977–78.

New bus grants to private operators

Implications of Survey figures

41. These are 50 per cent grants made towards the cost of buying new buses for use on stage services. Total investment in new buses by public sector bodies appears as part of their capital programmes, and only the grants to the private sector are shown here. The future of these grants is currently under review. Present powers expire in September 1980 and no provision is made beyond that date.

Policy options

42. The illustrative reductions would involve savings of:

£ million

1977–78	1978–79	1979–80	1980–81
0·1	0·2	0·2	0·2

It would be difficult to make a reduction in the rate of volume of grant to the private sector without making an equivalent reduction in that to the much larger public sector.

Other

43. Grants are made under the Railways Act 1974 towards the provision of facilities for loading or unloading rail freight. Table 6 includes only the payment of grants to the private sector. Grants to public sector bodies will form part of their capital programme. Formula cuts in grants to the private sector would be £0·1 million in 1977–78 and £0·2 million in the later years. Any such reduction would cast doubt on the Government's commitment, reasserted in the Consultative Document on Transport Policy, to secure transfers of freight from road to rail where these are justified on economic, environmental or social grounds.

PORTS AND SHIPPING

Ports

44. Provision covers port investment by the independent harbour trusts and by local authorities, and grants and loans to ports in the private sector. Continuing investment needs reflect North Sea Oil developments, the continuing spread of containerisation and growth of cross-Channel traffic and a

variety of port developments designed to meet specific industrial needs. The figures do not include the costs of the Government's proposals for public ownership of ports and port businesses (see paragraph 49 below) nor for any special assistance to the Port of London Authority (see paragraph 51 below).

Oil-related work

45. Two major developments now in prospect, for which provision was not made in Cmnd. 6393, are the further extension of the oil terminal at Sullom Voe, and major new port facilities to be constructed in the Cromarty Firth in conjunction with the proposed Nigg Oil Refinery. The additional cost in the Survey period of this extra work is estimated as follows:

£ million

1977–78	1978–79	1979–80	1980–81
0·5	3·5	19·0	18·8

Non-oil-related work

46. Port development, which would cost about £15 million spread over the years 1977–78 to 1979–80, will be required if it is decided to build a new steelworks at Shotton. Pending decisions, no provision is sought for this development. Other non-oil-related projects can be accommodated within lower totals than in Cmnd. 6393, thus contributing to more than half of the additional requirements for oil-related work.

Additional bid

47. The DOE are therefore bidding for a net increase in provision for investment in ports, excluding Shotton, as follows:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
−2·0	−2·2	−1·6	+9·3	+5·6

However, since only half the crude oil handled in the Nigg Refinery would come from the North Sea, the Treasury have pressed for offsetting savings or for reconsideration of the project and the means of financing the port development.

Policy options

48. Reductions of 2½ per cent and 5 per cent in later years would be as follows:

£ million

1977–78	1978–79	1979–80	1980–81
1·5	2·3	1·7	1·8

Non-oil ports investment is already substantially reduced to accommodate additional investment in oil facilities (in 1979–80 oil-related work takes three-quarters of the total) and the DOE argue that it would not be possible to accommodate further cuts.

Ports reorganisation

49. It is not possible to give firm estimates of the timing and cost of any proposals which might be put forward in the near future for public ownership of ports and port businesses. It is not yet certain when the necessary legislation will be introduced and the cost could be up to £150 million or more depending on exemptions and the terms of compensation.

50. Acquisition of private commercial ports might cost some £60 million and of port businesses some £90 million spread over say three years. In addition the whole capital investment programmes of these ports and port businesses would count as public expenditure, at an additional cost of perhaps £5 million a year. A rough approximation of the total cost might be:

£ million

	1978–79	1979–80	1980–81	1981–82	Total
Acquisition of private ports	50	10	—	—	60
Acquisition of port businesses	—	30	30	30	90
Investment programme of former private ports and businesses	—	5	5	5	15
	50	45	35	35	165

Port of London Authority

51. There will also be additional calls for assistance from the PLA. The extent and timing of these requirements will not be known until the consultants at present examining the Authority's financial position have reported their findings to the Department. It is anticipated that these will give rise to demands of the order of £10 million per annum. No provision has been included for this in this subprogramme.

Scottish ports

53. The development of roll-on/roll-off facilities in Scotland must continue to be restricted; it is not possible to envisage any major new scheme proceeding in the years under review. The programme includes provision for a tanker jetty at Peterhead Bay Harbour to service the new power station nearby, and for the possible export of ammonia natural gas liquids. Expenditure on this facility will be matched by contributions from the prospective users of the jetty.

54. It is proposed, if additional bids for subsidies to the Scottish Transport Group and Loganair are accepted, to reduce total PES provision in respect of Peterhead harbour.

Policy options

55. The programme of investment in harbours serving the transport needs of the islands, for which Government assistance is available, could with considerable difficulty sustain a cut of £0·1 million in 1977–78 and 1978–79 by slowing down even more the provision of roll-on/roll-off facilities.

Shipping services

Implication of Survey figures

56. This programme includes the cost of the coastguard service, marine surveys, and measures for the maintenance and improvement of standards of safety at sea generally, including aids to navigation and measures to combat oil pollution. Also included is the United Kingdom subscription to the International Maritime Consultative Organisation (IMCO), and a number of miscellaneous services.

Additional bids

57. There is an additional bid on this programme as follows:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·6	0·9	0·7	1·9

This is required partly to offset a shortfall in the level of receipts from fees as compared with that forecast in Cmnd. 6393, and partly to meet the costs of the reorganisation of the coastguard for which there is at present no provision beyond 1977–78. The additional bid for 1980–81 includes provision for the expected increase in the United Kingdom subscription to IMCO when the proposed new headquarters building in London is completed: this has been specifically agreed by Ministers.

CIVIL AVIATION SERVICES

CAA grant-in-aid

Implications of Survey figures

58. The Civil Aviation Authority (CAA) has been set the financial objective of recovering its costs and securing a reasonable return on capital from those who benefit from its services as soon as possible. Meanwhile, the Authority's deficit on revenue account is being met by grant-in-aid.

Additional bids

59. The Department have made net additional bids as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*
3·3	1·0	- 0·1	6·3

The CAA's present forecasts of grant requirements have increased mainly because of decisions reached last autumn by Member States of Eurocontrol about the basis of cost recovery for *en route* navigational services. United Kingdom delegates secured some, but not all, of the changes which it was hoped would accelerate cost recovery. The present figures assume further negotiating successes.

60. The CAA has also made a bid for an additional grant of £3·3 million in 1976–77 to finance a premature retirement scheme which is estimated to yield savings of £1·1 million in each of the years 1977–83.

61. These two factors result in the net bid set out above, which is under discussion with the Treasury.

Capital investment by the CAA

Implications of Survey figures

62. This programme is being considered in the separate report to Ministers on the investment programmes of the nationalised industries.

Additional bids

63. The review of the CAA programme suggests that there will be net savings over the period made up as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*
−3·4	1·1	0·8	−0·4

Policy option

64. The option described in the Nationalised Industry Investment Review is a cut of £2·5 million spread over the four years 1977–78 to 1980–81 (split £0·5 million, £0·6 million, £0·7 million and £0·7 million), mainly by a further rephasing of air traffic control (ATC) capital expenditure. This would result in rather higher revenue costs falling on airlines, including British Airways, because of somewhat greater ATC delays, and higher revenue costs falling on the CAA because of the greater maintenance costs of equipment subject to delayed replacement.

Local authority capital expenditure

Implications of Survey figures

65. The programme relates mainly to developments at Manchester and Birmingham airports.

Additional bids

66. The local authorities forecasts of expenditure have been adjusted by the Department of Trade for realism and in the period 1976–1980 the programme is some £17 million below Cmnd. 6393 although in one year there is an additional bid of £1·5 million. The breakdown is as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*
6·5	−11·6	−0·3	1·5

Other civil aviation services

Implications of Survey figures

67. The forecasts provide for expenditure on aviation security measures, the cost of United Kingdom subscriptions to Eurocontrol and to the International Civil Aviation Organisation, and various minor services in the United Kingdom and overseas, including a subsidy from the Scottish Office to Loganair for operating third level air services to the Highlands and Islands.

Additional bids

68. Within the total, an increase in the forecasts for aviation security measures is more than offset by increased receipts over the period as a whole, but there is an additional bid of £0·5 million in 1976–77 for extra expenditure on aviation security. This bid is under discussion between the Treasury and the Department.

69. The Scottish Office have bid for PES provision for the Loganair subsidy of £0·1 million a year for the period 1977–80 and have confirmed that offsetting savings would be made from their provision for new construction of roads and ports.

70. The net additional bids for aviation services are as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*
0·5	0·5	−1·3	−1·7

OTHER TRANSPORT SERVICES

71. The illustrative reductions would involve savings on roads and transport administration of:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·5	1·1	1·1	1·1

7. Housing

TABLE 7 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974 75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
ENGLAND										
Subsidies										
(i) Central Government and rate fund contributions	429·9	412·9	562·1	865·3	936·0	952·5	899·5	841·3	857·0	857·0
(ii) Rebates and allowances	—	122·9	290·0	301·8	292·9	320·6	364·9	380·6	393·1	393·1
(iii) Option mortgage subsidy	32·7	48·2	78·8	100·8	118·9	123·9	135·2	144·0	150·4	150·4
Investment										
(i) By local authorities:										
(a) New housebuilding	1,049·4	906·5	903·1	1,035·7	1,186·9	1,031·1	1,074·8	1,107·6	1,102·2	1,102·2
(b) Acquisition	55·2	55·2	84·3	305·3	156·2	188·1	155·0	155·0	155·0	155·0
(c) Improvement work	215·0	383·0	491·6	435·4	360·8	361·0	316·3	317·5	317·5	317·5
(d) Other	70·3	47·9	57·1	85·0	79·8	48·9	43·8	43·8	43·8	43·8
(ii) By new towns	112·0	95·1	117·4	147·1	153·3	180·2	183·5	186·9	186·9	186·9
(iii) Sales	−182·3	−399·7	−166·6	−26·9	−40·4	· 68·4	·107·1	154·4	154·4	−154·4
Loans and grants to housing associations										
Gross	112·5	160·3	160·9	236·9	342·0	461·8	473·7	429·6	443·1	443·1
Net	111·6	159·2	159·5	235·5	340 7	405·3	416·9	424·7	437·6	437·6
Loans and grants to the private sector										
(i) Improvement grants	84·1	141·4	188·9	152·2	76·0	111·2	111·7	111·7	111·7	111·7
(ii) Lending to tenants for purchase of council and new town dwellings										
Gross	97·2	236·1	97·3	9·9	15·5	11·8	11·7	11·4	11·4	11·4
Net	87·2	223·6	75·8	−11·8	2·1	−6·4	−4·4	−3·4	−3·4	−3·4
(iii) Lending to other persons for house purchase and improvement										
Gross	285·9	239·9	405·2	686·2	501·6	256·1	257·6	259·9	261·1	261·1
Net	71·4	23·5	180·0	479·9	255·0	35·0	33·4	36·0	42·4	42·4
(iv) Other lending (net)	33·1	4·8	·4·2	147·2	−129·4	−5·6	−2·5	−2·3	−2·3	−2·3
Administration	18·0	21·1	26·8	27·7	34·8	35·7	40·9	41·0	41·1	41·1
Total England	2,121·4	2,236·0	3,044·6	4,280·2	3,819·4	3,713·1	3,661·9	3,630·0	3,678·6	3,678·6

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TABLE 7 (continued) £ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
WALES										
Subsidies										
(i) Central Government and rate fund contributions	27·1	19·7	18·9	35·9	51·7	51·8	37·0	34·9	36·5	36·5
(ii) Rebates and allowances	.	8·8	16·9	15·5	14·7	15·8	17·4	17·6	18·2	18·2
(iii) Option mortgage subsidy	0·5	0·7	1·2	1·7	2·0	2·7	3·1	3·6	4·2	4·2
Investment										
(i) By local authorities										
(a) New housebuilding	47·7	38·0	33·4	63·7	83·3	92·5	54·1	53·0	51·9	51·9
(b) Acquisition	.	—	—	5·4	2·7	1·1	1·1	1·1	1·1	1·1
(c) Improvement work	5·9	7·8	20·8	39·1	16·3	16·0	11·3	10·6	10·3	10·3
(d) Other	1·3	1·3	1·4	1·8	1·8	1·9	2·0	2·0	2·1	2·1
(ii) By new towns	3·8	1·8	2·5	5·6	8·1	7·9	5·1	3·4	2·8	2·8
(iii) Sales	−3·2	−13·1	−7·7	2·8	−0·5	−0·4	−8·1	−9·4	−9·2	−9·2
Loans and grants to housing associations										
Gross	3·5	1·0	3·7	3·7	7·0	11·4	18·3	18·3	21·0	21·0
Net	3·5	1·0	3·7	3·7	7·0	11·4	18·3	18·3	21·0	21·0
Loans and grants to the private sector										
(i) Improvement grants	6·7	14·0	24·9	33·3	10·9	17·3	15·0	13·3	13·2	13·2
(ii) Lending to tenants for purchase of council and new town dwellings										
Gross	1·1	9·8	6·2	1·4	0·2		0·8	0·8	0·8	0·8
Net	1·1	9·8	6·2	1·4	0·6	−0·7	0·4	0·4	0·4	0·4
(iii) Lending to other persons for house purchase and improvement										
Gross	24·1	17·8	18·5	30·2	26·7	17·8	15·9	17·1	16·5	16·5
Net	17·8	10·4	9·3	20·4	14·4	4·0	1·9	−0·6	−1·3	−1·3
Administration	0·8	1·2	1·3	1·2	1·3	1·4	1·3	1·3	1·3	1·3
Total Wales	113·0	101·4	132·8	225·9	213·1	222·7	136·1	149·5	152·5	152·5

TABLE 7 (continued) £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
SCOTLAND										
Subsidies										
(i) Central Government and rate fund contributions	153·0	160·9	195·8	205·1	209·8	221·1	226·1	234·1	255·6	255·6
(ii) Rebates and allowances	—	13·6	29·7	29·8	27·7	35·4	40·8	41·4	40·0	40·0
(iii) Option mortgage subsidy	0·2	0·4	0·6	0·8	0·9	0·9	1·0	1·0	1·0	1·0
Investment										
(i) By local authorities										
(*a*) New housebuilding	285·7	219·9	183·6	193·9	208·0	211·9	191·1	183·3	189·9	189·9
(*b*) Acquisition	—	—	—	—	—	—	—	—	—	—
(*c*) Improvement work	18·7	36·9	85·2	87·2	73·5	84·6	74·6	68·3	64·6	64·6
(*d*) Other	0·6	4·4	5·0	9·7	10·6	7·4	6·6	6·0	5·9	5·9
(ii) By new towns	21·3	24·3	24·4	25·6	44·8	37·1	35·6	26·5	34·4	34·4
(iii) Sales	−9·0	−20·3	−15·1	−5·8	−6·2	−6·8	−7·9	−10·4	−9·7	−9·7
Loans and grants to housing associations										
Gross	4·5	4·5	7·1	6·4	17·0	29·7	29·8	31·6	35·3	35·3
Net	3·7	3·6	6·1	4·7	15·7	28·5	28·6	30·5	34·2	34·2
Loans and grants to the private sector										
(i) Improvement grants	9·5	22·8	29·0	28·6	8·1	9·4	12·5	13·2	13·9	13·9
(ii) Lending to tenants for purchase of council and new town dwellings										
Gross	2·8	12·0	7·5	2·3	2·1	2·5	2·5	2·2	2·1	2·1
Net	2·0	10·2	5·4	0·1	-0·1	1·3	1·3	1·1	1·3	1·3
(iii) Lending to other persons for house purchase and improvement										
Gross	10·4	7·7	13·2	20·6	14·9	12·5	12·5	12·5	12·5	12·5
Net	1·4	0·7	7·1	13·0	7·8	4·9	4·4	3·8	3·6	3·6
Administration	1·3	2·7	3·4	2·5	2·5	2·6	2·6	2·6	2·6	2·6
Total Scotland	488·4	480·1	560·2	595·2	603·1	638·3	617·3	601·4	637·3	637·3

TABLE 7 (continued) £ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
GREAT BRITAIN										
Subsidies										
(i) Central Government and rate fund contributions	610·0	593·5	776·8	1,106·3	1,197·5	1,225·4	1,162·6	1,110·3	1,149·1	1,149·1
(ii) Rebates and allowances	—	145·3	336·6	347·1	335·3	371·8	423·1	439·6	451·3	451·3
(iii) Option mortgage subsidy	33·4	49·3	80·6	103·3	121·8	127·5	139·3	148·6	155·6	155·6
Investment										
(i) By local authorities										
(a) New housebuilding	1,382·8	1,164·4	1,128·1	1,293·3	1,478·2	1,335·5	1,320·0	1,343·9	1,344·0	1,344·0
(b) Acquisition	55·2	55·2	84·3	310·7	158·9	189·2	156·1	156·1	156·1	156·1
(c) Improvement work	239·6	427·7	597·6	561·7	450·6	461·6	402·2	396·4	392·4	392·4
(d) Other	72·2	53·6	63·5	96·5	92·2	58·2	52·4	51·8	51·8	51·8
(ii) By new towns	137·1	121·2	144·3	178·3	206·2	225·2	224·2	216·8	224·1	224·1
(iii) Sales	−194·5	−433·1	−189·4	−35·5	−47·1	−75·6	−123·1	−174·2	−173·3	−173·3
Loans and grants to housing associations										
Gross	120·5	165·8	171·7	247·0	366·0	502·9	521·8	479·5	499·4	499·4
Net	118·8	163·8	169·3	243·9	363·4	445·2	463·8	473·5	492·8	492·8
Loans and grants to the private sector										
(i) Improvement grants	100·3	178·2	242·8	214·1	95·0	137·9	139·2	138·2	138·8	138·8
(ii) Lending to tenants for purchase of council and new town dwellings										
Gross	101·1	257·9	111·0	13·6	17·8	14·3	15·0	14·4	14·3	14·3
Net	90·3	243·6	87·4	−10·3	−2·8	−5·8	2·7	−1·9	−1·7	−1·7
(iii) Lending to other persons for house purchase and improvement										
Gross	320·4	265·4	436·9	737·0	543·2	286·4	286·0	289·5	290·1	290·1
Net	90·6	34·6	196·4	513·3	277·2	43·9	35·9	39·2	44·7	44·7
(iv) Other lending (net)	−33·1	−4·8	−4·2	147·2	−129·4	−5·6	−2·5	−2·1	−2·3	−2·3
Administration	20·1	25·0	31·5	31·4	38·6	39·7	44·8	44·9	45·0	45·0
Grand Total Great Britain	2,722·8	2,817·5	3,737·6	5,101·3	4,635·6	4,574·1	4,435·3	4,380·9	4,468·4	4,468·4
Changes from Cmnd. 6393 revalued	—	—	—	—	256·1	96·0	—	—	—	—
Cmnd. 6393 revalued	—	—	—	—	4,379·5	4,478·1	4,435·3	4,380·9	4,468·4	—

IMPLICATIONS OF THE SURVEY FIGURES

ENGLAND

1. About two-thirds of expenditure on the housing programme is not subject to control. The programme is therefore particularly subject to estimating changes. The following table sets out changes from the Survey figures that at the start of the Survey were estimated to be needed to carry out existing policies:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Subsidies . .	48·0	4·0	−70·8	−112·5	−108·5
Rent rebates and allowances .	5·4	16·1	61·4	66·9	80·9
Option mortage scheme . .	4·1	1·8	−5·0	−29·4	−34·4
New housebuilding	134·7	54·8	26·8	−56·2	−71·1
Loans and grants to private sector including Housing Associations (net) . .	−17·9	26·7	−4·9	−49·3	−49·8
Improvement and other investment . .	6·5	11·6	11·5	11·5	11·5
Administration .	—	−2·1	−1·0	0·1	0·1
	180·8	112·9	−35·6	−168·9	−171·3

2. The increases arise largely from a speeding up and an enlargement of (uncontrolled) local authority new housebuilding (see paragraphs 17 to 19 below); and the decreases from a fall in forecast interest rates from those assumed in Cmnd. 6393. The estimates assume that, as was implicit in the figures in Cmnd. 6393, legislation will be introduced to reduce Exchequer subsidies; and that there will be an increase in council house sales greater than that likely to arise under present guidance to local authorities.

Subsidies

3. A new forecast of local authority and New Town housing revenue accounts (HRAs) has been carried out incorporating the following revised assumptions from those underlying Cmnd. 6393.

(i) New investment and council house sales are assumed to follow the course described in paragraphs 17 to 21 below, resulting in a net increase in the council housing stock of about 2½ per cent a year over the period.

(ii) The local authority pool rate falls from 10·4 per cent in 1976–77 to 8·4 per cent in 1980–81. (Cmnd. 6393 assumed a fall from 10·6 per cent in 1976–77 to 9·6 per cent in 1979–80.)

(iii) Management and maintenance costs rise proportionately with the forecast earnings index in 1976–77 (as assumed in the rate support grant settlement), and thereafter rise at 2 per cent a year faster than the earnings index (about 2 per cent a year less than assumed in Cmnd. 6393). This assumption may well prove over-optimistic.

Of these assumptions the most critical is that made about interest rates. The size of local authority housing debt is such that a 1 per cent rise in the average interest rate now costs about £130 million (England).

4. Like the Cmnd. 6393 figures, the forecast assumes that council house rents rise in both 1977–78 and 1978–79 at a rate about 10 per cent faster than the Consumer Price Index. In money terms this requires average unrebated local authority rents in England to rise as follows:

Average standard unrebated rent, £ a week

1975–76	*1976–77*	*1977–78*	*1978–79*	*1979–80*	*1980–81*
4·33	4·91	5·85	6·93	7·36	7·70

5. These increases entail legislation early in the 1976–77 Session since they cannot be achieved without amendment to the Housing Rents and Subsidies Act 1975. Without such legislation most authorities would receive sufficient Exchequer subsidy in 1977–78 to need only a modest rent increase of around 40 pence a week. The only authorities that could next year make rent increases of over 90 pence a week without making "profits" on their HRAs (which is not allowed under the Act) are those—such as the inner London boroughs—with large deficits presently met by rate fund contributions, or with relatively expensive housing programmes. Thus without legislation the likely overspend from the Survey figures would increase by a further £80 million in 1977–78 and £200 million in the following years.

6. The Secretary of State for the Environment has questioned the political feasibility of legislation and will arrange for the matter to be discussed at

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Ministerial level in advance of the conclusions of the Survey. Moreover, without special measures there could be no way of ensuring that local authorities did not increase rate fund contributions to mitigate rent increases. For illustration it might be assumed that there would be real increases of 5 per cent a year in 1977–78, 1978–79 and 1979–80 rather than 10 per cent in each of the first two years. But this would still require legislation; and expenditure on subsidies would exceed the figures in paragraph 1 above by £40 million in 1977 78, £100 million in 1978 79, and £55 million in 1979–80 and 1980 81.

Rent rebates and allowances

7. *The forecast of rebates* assumes that the proportion of council tenants in receipt of rebates remains constant in years when rent increases are in line with general price increases. However, in 1977–78 and 1978–79 the 10 per cent increases in real rents will be reflected in an increase in the proportion of tenants eligible for rebate under present rebate policies. This is responsible for the increases in estimated rebate payments in those and following years. This factor was not fully taken into account in the figures in Cmnd. 6393.

Option mortgage subsidy

8. The reduction in later years largely reflects revised interest rate assumptions.

Grants and loans to housing associations

9. This programme has been increased substantially in recent years in accordance with the policy of expanding the contribution of the housing associations to supplement the local authority housing effort, especially in the housing stress areas. The Housing Corporation has been strengthened in order to undertake the general supervision of housing associations.

10. Finance for housing association projects is channelled mainly through the Housing Corporation and to a lesser extent through local authorities; local authority schemes have recently had to be reduced drastically in number to help to ensure that the expenditure provision in Cmnd. 6393 is not exceeded. The numbers of approvals that underlie the current programme are set out in the following table.

	Housing Corporation Financed		*Local Authority Financed*	
	New building	*Improvement*	*New building*	*Improvement*
1976–77 and later	22,000	10,000	3,000	4,000

11. It is now estimated that these approvals will lead to the increases shown in expenditure in 1976–77 and 1977–78, and decreases in subsequent years. This arises largely from a shift from new building to improvement schemes, which are completed more quickly, bringing expenditure forward from later to earlier years.

Local authority housing improvement, municipalisation and lending to private purchasers

12. These three programmes are all now directed towards improvement in the condition of the older housing stock.

13. The figures in Cmnd. 6393 implied a sharp *decline in activity in improvement and municipalisation* from 1977 78 onwards with lending at a relatively high level. To provide a more realistic basis for estimation, provision for improvement and municipalisation has been increased and provision for local authority lending correspondingly reduced.

14. Both improvement and municipalisation are essential features in the policy of gradual renewal of inner urban areas which has replaced the former less sensitive and frequently more expensive policy of large scale clearance and redevelopment. A study group with the local authority associations and chaired by the Minister for Housing and Construction was set up in 1975 to assemble evidence on needs for municipalisation and for renovating council-owned dwellings, and to advise on priorities. The Group has advised that there is a need for expenditure on improvement and municipalisation at the levels now indicated.

15. Local authority home loans are now running at a substantially lower level than of recent years. Authorities are now acting, in effect, as lenders of last resort, and are concentrating their lending mainly on older properties. Lending has thus become another element in the campaign to prevent older housing from deteriorating, as well as helping to give people an opportunity to become owner occupiers at the cheapest end of the market. Whilst considerable efforts have been made to persuade the

building societies to play a larger role in this lending area they need to have proper regard to their statutory responsibilities and to the interests of their investors.

Private sector improvement grants

16. Grant applications are currently running at a level well below the level in 1974–75. A number of factors have contributed to the fall-off in applications for improvement grants, but the main reason is probably the restrictive conditions introduced under the Housing Act 1974 in an attempt to direct the grants more closely to areas of greatest need. In the view of the DOE these restrictions have unintentionally impeded the implementation of the policy underlying the 1974 Act.

New housebuilding

17. The expenditure figures for new dwellings and associated land purchase allow for a programme of new dwellings approved each year by local authorities and New Towns as follows:

Thousands of dwellings

	1976	*1977*	*1978*	*1979*	*1980*
England					
Local Authorities	108·0	100·0	100·0	100·0	100·0
New Towns	15·0	14·0	13·5	12·5	12·5

Compared with Cmnd. 6393, the local authorities' approvals for England are up by 6,000 in 1975 and 8,000 in the first quarter of 1976. Because of the shortage of work in the building industry houses are being started sooner after tender acceptance and built faster once started. This has brought expenditure forward into earlier years. As a result of all these factors forecast expenditure for local authorities in 1976–77 is £131 million above Cmnd. 6393—and in 1977–78 £69 million. Conversely there will be savings in 1978–79 and 1979–80.

18. The increase in the rate of approvals this year may have been due to the bringing forward of schemes before the district council elections on 6 May. The widespread change of control resulting from those elections is likely to mean a fall in the future rate of approvals. They may therefore not reach the 108,000 assumed, and could well fall below the 100,000 assumed for later years. A fall to 90,000 in 1977 would reduce the overspend in 1977–78 from £69 million to £37 million with substantial savings in later years. On the other hand a projection of approvals at the current rate of increase would suggest a total of more than 120,000 in 1976, with large additional expenditure as a result.

Sale of council houses

19. The figures assume a large increase in sales of council houses. They require either about 10,000 new dwellings built by local authorities to be sold (building for sale) in 1977–78 and about 15,000 a year thereafter; or about 12,000 existing council dwellings to be sold in 1977–78 and 20,000 a year thereafter; or some intermediate combination of building for sale and sales of existing dwellings. They also require that most purchases should be financed by building societies, instead of by local authorities as present.

20. The present annual rates of sales are about 500 built for sale and 2,000 existing houses; and only 25 per cent of the finance is estimated to come from private sources. Some of the new district councils are likely to be more disposed towards sales than their predecessors; and there is also likely to be some increase in building for disposal on the basis of "half and half" schemes of the Birmingham type. It may also be possible to secure greater building society involvement than in the past. On this basis, and with new guidance from the Government, the projected level of receipts in 1976–77 (£68 million) might be achieved throughout the period without increasing the relatively small provision made for sales being financed by local authorities. To reach the higher level of receipts from sales assumed in later years will require wider initiatives.

21. The possibility of new initiatives on the disposal of existing council houses has already been considered by Ministers; and several schemes are under consideration in the context of the Housing Finance Review. There must remain doubts however whether in the expected economic situation as many as 20,000 houses a year would be sold, so that the savings forecast on new building in 1978–79 and later years could thus be reduced, at least in part, by a shortfall in sales.

SCOTLAND

22. The Scottish programme is subject to estimating changes for the same reasons as in England. The following table sets out the changes from the Survey figures now estimated to be needed to carry out existing policies in Scotland:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Subsidies and rebates	−8·4	−13·9	−15·6	16·7	−7·1

These changes reflect the same factors that affect the English programme, subject to the points discussed below.

Subsidies

23. The figures take account of the effects on subsidies of the lower estimates for new housebuilding in Scotland, and increased sales forecasts agreed in the 1975 Survey. The rents implied in Scotland by the policy of 10 per cent real increases in 1977–78 and 1978–79 are as follows:

Average standard unrebated rent, £ a week

1975–76	*1976–77*	*1977–78*	*1978–79*	*1979–80*	*1980–81*
2·90	3·40	4·04	4·73	5·00	5·23

Legislation will be required in 1977–78 if these figures are to be achieved, and even then there could be no guarantee that local authorities would actually make such increases.

Grants and loans to housing associations

24. Provision is made for a small programme of new building by housing associations and a larger programme of rehabilitation. This allows for a programme of approvals for the Housing Corporation of 1,000 new build schemes a year until 1978–79 and 1,200 subsequently, and 3,000 rehabilitation schemes a year; and for 400 local authority schemes a year divided equally between new build and rehabilitation.

New housebuilding

25. Investment in new public sector dwellings, which takes account of reductions made in Cmnd. 6393, assumes a modestly increasing programme of new dwellings approved over the Survey period as follows:

Thousands of dwellings

	1976	*1977*	*1978*	*1979*	*1980*
Local authorities . . .	13·3	13·5	14·5	14·5	14·5
New towns	2·7	2·8	2·3	2·8	2·8
Scottish Special Housing Association . . .	3·0	3·2	3·2	3·2	3·2

Sales

26. For Scotland a significant increase in council house sales was implied in Cmnd. 6393, though a lesser increase than in England. To achieve the target will require some relaxation of existing guidance to local authorities, and a change of policy by some of the larger authorities.

WALES

27. The figures for Wales are discussed separately in paragraphs 33 to 38 below.

ENGLAND

ADDITIONAL BIDS

28. The estimating changes set out in the table in paragraph 1 and discussed in paragraphs 1 to 21 give rise to net additional expenditure over the Survey period as follows:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
181	113	−36	−169	171

It should be noted that:

(i) Especially for the later years the figures are subject to wide margins of error. They are revised at frequent intervals, and are based on current economic assumptions about interest rates and inflation. They are also sensitive to demand (*e.g.* for rent rebates and option mortgages), to the state of the private housing market, and to local authority investment decisions.

(ii) As noted in paragraph 5, if legislation cannot be obtained to withdraw subsidy in 1977–78 there would be additional expenditure of up to £80 million rising to £200 million in 1978–79 and later years if it still remained impossible to obtain legislation.

For 1976–77 Ministers have agreed to savings of £28·5 million on improvement grants and £25·6 million on municipalisation. Possible further savings are being discussed separately by Ministers in the context of this year's Contingency Reserve. The prospective additional expenditure of £113 million in 1977–78 might be offset in a number of ways and these are discussed below.

29. DOE drew attention to the uncertainties in the figures. Among these are:

(i) If there were a fall in the rate of approvals for local authorities' new building, that could produce savings of up to about £30 million.

(ii) A larger number of council and New Town *houses might* be *sold than* the 12,000 assumed in the Survey.

(iii) There is also the possibility that if legislation on subsidies is obtained on time it might be feasible to achieve larger savings than assumed in the Survey figures, *e.g.* an additional rent increase of 15 pence would save £25 million.

30. There are obvious *difficulties in relying on any* such savings. Items (i) and (ii) are subject to no control, and if anything the uncertainties in expenditure seem to be in the other direction (see paragraphs 17 to 21 above). The problems with item (iii) are fully discussed in paragraph 6 above.

31. In the circumstances offsetting savings would therefore probably have to come as follows:

(*a*) Entitlement to rent rebates and allowances might be reduced by appropriate adjustment to the needs allowance, possibly saving a sum of the order of £10 million. Early decisions will be needed if this option is to be pursued.

(*b*) *Cuts might* be *made in spending* on municipalisation, mortgage lending, improvement grants and improvement investment. Whilst administratively, cuts in these areas are the easiest to impose, DOE believe that for the reasons set out in earlier paragraphs, these are high priority programmes which should as far as possible be protected. Nevertheless *if other savings did not materialise this* is where the balance of £103 million would need to be found.

SCOTLAND

32. The estimating changes for Scotland set out in the table in paragraph 22 give rise to net *additional* expenditure of £7 million in 1980–81. The Scottish Office suggest that this could be offset by introducing and exercising in good time controls over new housebuilding to achieve the required saving.

WALES

33. The factors described above for the housing programme in England by-and-large apply to the housing programme in Wales, subject to the following points.

34. The rate of new house*building* has been *significantly* greater than was previously forecast; and this has led to substantial excesses in capital expenditure and subsidies in 1976–77 and later years. Some of the addition has been accepted as a charge to the Contingency Reserve; and savings have also been found in 1976–77 by applying strict controls to local authority lending. In consequence:

(*a*) It has not been possible in Wales to shift expenditure into municipali*sation* and improvement investment as in England; and

(*b*) The purchase of older houses in need of repair has slowed down, and there has been a falling off in improvement grants to the *private sector.*

35. The result has been that rehabilitation of old stock through municipalisation and progress with action areas are falling behind the rate of progress which the Welsh Office consider necessary to deal with the large *proportion of old* and unfit houses in Wales.

36. The current rate of completions and approvals of new houses (7,500 a year compared with 6,500 assumed in Cmnd. 6393) is now expected to con*tinue throughout* the Survey period. It is possible that the changes in the control of the district councils following the elections in May will have some effect upon the future rate of building; *but in* view of the age and high rate of unfitness in the Welsh housing stock the new councils will remain under considerable pressure to maintain a buoyant housebuilding programme. There is also a pro*gramme* of 1,000 new build and 500 rehabilitation housing association approvals each year, all financed through the Housing Corporation. For new building in new towns in Wales provision *needs to be* made for 900 approvals in 1976–77 and, on average over the later years, for about 500 600 approvals each year.

37. Against this background, the Welsh Office has made the *following* bids *for additional expenditure* on open-ended and demand-determined parts of the Welsh housing programme.

£ million

	1976 –77	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
Subsidies . .	2·0	11·5	7·7	4·9	4·6
Rent rebates and allowances	0·2	1·7	4·4	4·6	5·5
Option mortgage subsidy	—	0·4	0·5	0·4	1·1
New housebuilding .	—	25·2	31·0	31·4	31·6
Total . .	2·2	38·8	43·6	41·3	42·8

This additional expenditure is unavoidable, given existing national policies—particularly the uncontrolled nature of the new housebuilding programme

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—and current economic assumptions. To offset it would require the virtually complete cessation from 1977 78 onwards of expenditure on improvement grants, improvement investment, municipalisation and mortgage lending, which total:

£ million

1977 78	1978–79	1979–80	1980–81
44·1	43·0	42·0	42·0

38. The Welsh Office do not consider these, or indeed any other, reductions in the Welsh housing programme acceptable. In their view, the under-estimate of the rate of new housebuilding in Wales, together with the consequential restrictions, has already resulted in a harsher treatment for the Welsh housing programme than can be justified by reference either to need or to expenditure levels elsewhere. They consider that some increases would be justified to bring the Welsh housing programme into better balance with the English. They expect their Secretary of State to propose, during Ministerial discussion of the Report, the following additional expenditure beyond that shown in paragraph 37 above.

£ million

	1977–78	1978–79	1979–80	1980–81
Subsidies	1·0	2·3	3·8	5·4
Improvement grants	0·1	1·8	1·9	1·9
Improvement and other investment (including net lending)	38·4	36·9	39·2	37·5
	39·5	41·0	44·9	44·8

There is obviously no possibility of offsetting such total additional expenditure within the Welsh housing programme. Any offsetting savings would have to be sought in other programmes for which the Secretary of State for Wales has responsibility.

POLICY OPTIONS

ENGLAND

39. The Survey ground rules require illustrative options to be shown giving the following additional savings in the English programme.

£ million

1977–78	1978–79	1979–80	1980–81
91·5	181·5	183·9	183·9

There are a number of ways in which savings of these amounts could be made. The following are technical possibilities, though no judgment is made as to their political feasibility. For 1977–78 the expenditure on new housebuilding is to a large extent already in the pipeline and substantial savings could only be achieved if the rate of approval was to slow down dramatically (or be curtailed by Government action) before the Autumn. It would therefore probably be necessary to achieve most of the savings by a further extension of the measures listed in paragraph 31 above. For 1978–79 and later years, however, reductions in housebuilding could make substantial contributions to the required savings. For these later years therefore DOE's list of possible measures is as follows:

(i) Controls could be introduced for local authority new housebuilding to achieve a reduction in the annual rate of tender approvals. A report on the feasibility of such controls is being prepared for Ministers in the context of discussion on the Contingency Reserve for 1976–77. If controls were introduced so as to cut the annual rate of approvals from 1977 onwards to 95,000 (or if such a reduction occurred naturally) there would be expenditure savings of about £15 million in 1977–78, £50 million in 1978–79 and £55 million in later years.

(ii) New Town approvals could be reduced. In most New Towns the demand for houses has recently eased with the decrease in the rate of new job creation, and the rate of approvals declines over the Survey period. As New Town industries are among those that may be expected to expand as the economy picks up, failure to allow now for sufficient houses to accommodate the necessary labour force could hamper economic recovery. If this risk is accepted however further savings of £10 million annually on house-building could be made by the latter years of the quinquennium. Consequential savings on other New Town programmes would however be small.

(iii) Savings on Housing Association expenditure would have to come from the Housing Corporation supported part of the programme. A cut of 5 per cent in the value of approvals in 1977–78 and subsequent years would produce savings of £10 million in 1978–79 rising to £15 million in 1980–81.

(iv) Legislation on subsidies to achieve a rent in 1978–79 of 30 pence more than that assumed in the baseline would result in a net saving (after allowing for additional rent rebates) of £50 million in that and subsequent years.

(v) Reduced entitlement to rent rebates and allowances could be carried through the Survey period to produce additional savings of, say £10 million a year from 1978–79 onwards.

(vi) A 25 per cent increase in sales over that assumed in the baseline, *i.e.* an annual total of 25,000 instead of 20,000, might be achieved. This would save about £25 million in 1978–79 and later years.

(vii) Cuts in municipalisation, mortgage lending, improvement grants and improvement investment are all technically feasible though at a cost to plans for rehabilitating the older parts of the national housing stock. A 5 per cent cut on the baseline total of these programmes yields £45 million although if all the above savings could be secured a lower cut than this would suffice.

40. The Treasury view is that (iv) is unlikely to prove feasible for the reasons set out in paragraph 6; and that (vi) would also be extremely difficult to achieve in view of the amount of effort that would be required with local authorities and building societies if the extra sales were not to be matched by additional local authority lending. In 1977–78 a further £45 million therefore would need to be found from (vii), though in later years some of the shortfall could be made good from (i) as well.

Summary of Options, England

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Limits on local authority new housebuilding	15	50	55	55
Reduction in New Towns programme	2	5	10	10
Reduction in Housing Association Schemes	5	10	15	15
Additional rent increases of 15p in 1977–78 and 1978–79	25	50	50	50
Reduced entitlement to rent rebates		10	10	10
25% increase in sales	20	25	25	25
Cut in municipalisation/improvements/lending to make up balance	25	35	20	20
	92	185	185	185

SCOTLAND

41. Options for Scotland need to illustrate savings of:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
15·4	30·1	31·9	31·9

The Scottish Office believe that it would be feasible to find such savings entirely by bringing the new housebuilding programme under control and introducing volume limits in 1976–77. Reductions of 1,500 in approvals in 1976, 2,500 in each of 1977 and 1978, and 2,000 in 1979 and 1980, would give savings in investment expenditure, together with consequential savings in subsidies as follows:

Summary of Options, Scotland

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Reductions in new housebuilding approvals	16·5	28·7	32·5	31·6

WALES

42. Options for Wales need to illustrate savings of £3·9 million in 1977–78, £7·4 million in 1978–79 and £7·6 million thereafter.

43. The Welsh Office have made the following suggestions:

(i) *Slum Clearance.* By continuing the emphasis on rehabilitation as an alternative to slum clearance, savings of £0·3 million could be made in the first two survey years and £0·4 million thereafter.

(ii) *Improvement Grants, Local Authority Lending and Local Authority Improvement*

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Investment. Reductions could be made in these three provisions. On a basis of comparative need, the private sector provisions should be protected as far as possible. But the public sector provision is small and could be politically sensitive. The major reductions are therefore put to the private sector, as shown in the table below.

(iii) *Housing Corporation.* Some savings could be made in later years by slowing down approvals for Housing Corporation housing association schemes.

Summary of Options, Wales

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Improvement investment	0·4	1·6	0·3	—
Improvement grants	1·5	2·7	1·5	0·2
Local authority mortgage lending	1·7	2·8	1·6	0·2
Slum clearance .	0·3	0·3	0·4	0·4
Cuts in housing association approvals	. .	—	3·8	6·8
Total	3·9	7·4	7·6	7·6

8. Other Environmental Services

TABLE 8 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
ENGLAND										
Regional water authorities	570·1	586·8	624·0	504·4	479·1	528·3	530·0	531·6	533·9	533·9
Other services	—	—	—	—	—	0·4	0·4	0·4	0·4	0·4
Total	570·1	586·8	624·0	504·4	479·1	528·7	530·4	532·0	534·3	534·3
Improvement of the environment and local facilities										
Capital: Gross expenditure	391·3	429·2	456·1	426·1	383·6	257·0	257·4	205·4	200·8	200·8
Less sales proceeds	−21·0	−20·7	−30·8	−24·4	−31·2	−57·3	−51·6	−23·7	−19·9	−19·9
Current	755·8	797·9	824·2	972·7	1,039·3	973·6	939·8	901·4	901·4	901·4
Total	1,126·1	1,206·4	1,249·5	1,374·4	1,391·7	1,173·3	1,145·6	1,083·1	1,082·3	1,082·3
Community ownership of development land:										
Local authorities	—	—	—	—	—	24·7	63·2	82·1	85·2	85·2
New towns industrial and commercial development	47·7	40·0	47·5	43·9	46·2	36·2	38·6	38·6	38·6	38·6
Royal palaces and royal parks	7·0	6·5	7·3	9·1	9·9	10·6	10·7	10·7	10·7	10·7
Historic buildings and ancient monuments	9·9	9·7	11·8	13·0	17·0	19·1	19·1	19·3	19·3	19·3
Environmental research	21·6	24·9	30·1	30·9	33·3	39·1	36·4	32·1	36·3	36·3
Central and miscellaneous environmental services	35·7	38·3	47·0	50·6	51·8	55·0	56·8	57·5	55·2	55·0
Total England	1,818·1	1,912·6	2,017·2	2,026·3	2,029·0	1,886·7	1,900·8	1,854·4	1,861·9	1,861·7
WALES										
Welsh National Water Development Authority	59·1	62·3	75·0	48·1	36·7	45·9	49·3	51·8	53·1	53·1
Improvement of the environment and local facilities										
Capital: Gross expenditure	18·0	28·9	33·8	30·1	33·3	15·5	15·4	15·3	14·3	14·3
Less sales proceeds	−0·2	−0·4	0·4	−0·6	−1·5	−1·5	−1·6	−1·6	−1·6	−1·6
Current	40·0	42·2	43·4	51·0	54·6	51·3	49·6	47·6	47·6	47·6
Total	57·8	70·7	76·8	80·5	86·4	65·3	63·4	61·3	60·3	60·3
Community ownership of development land:										
Local authorities	—	—	—	—	—	3·0	5·1	8·4	8·9	8·9
New towns industrial and commercial development	3·0	2·6	3·4	3·2	3·5	2·5	2·1	1·6	1·6	1·6
Historic buildings and ancient monuments	0·1	—	0·1	—	0·1	0·2	0·2	0·2	0·2	0·2
Central and miscellaneous environmental services	1·1	1·8	2·0	2·3	2·5	3·0	3·1	3·1	3·1	3·0
Total Wales	121·1	137·4	157·3	134·1	129·2	119·9	123·2	126·4	127·2	127·1

TABLE 8 (continued) £ million at 1976 Survey prices

	1971–72	1972–73	1973 74	1974 75	1975 76	1976 77	1977 78	1978 79	1979 80	1980 81
ENGLAND AND WALES										
Land drainage										
Capital	32·4	40·0	47·8	47·7	69·7	113·5	115·5	79·9	63·6	63·6
Current	24·1	24·9	29·0	27·8	34·4	36·0	34·1	32·6	32·6	32·6
Total	56·5	64·9	76·8	75·5	104·1	149·5	149·6	112·5	96·2	96·2
SCOTLAND										
Water supply and conservation										
Capital	62·8	63·1	62·4	57·0	64·9	57·9	57·9	55·5	51·5	51·5
Current	8·1	11·8	12·1	12·0	12·4	16·3	12·5	12·3	12·3	12·3
Total	70·9	74·9	74·5	69·0	77·3	74·2	70·4	67·8	63·8	63·8
Improvement of the environment and local facilities										
Capital: Gross expenditure	61·2	63·4	61·4	55·0	66·0	53·1	51·6	49·0	45·9	45·9
Less sales proceeds	−2·7	−3·9	−2·3	3·5	3·3	2·6	−2·5	−2·5	−2·5	−2·5
Current	98·5	95·5	100·1	110·0	113·5	121·7	116·9	114·4	114·4	114·4
Total	157·0	155·0	159·2	161·5	176·2	172·2	166·0	160·9	157·8	157·8
Community ownership of development land:										
Local authorities	—	—	—	—	—	2·6	5·8	8·5	7·5	7·5
New towns industrial and commercial development	13·9	17·2	16·9	14·5	14·9	14·5	15·4	15·5	15·5	15·5
Historic buildings and ancient monuments	—	0·3	0·3	0·4	0·4	1·0	0·5	0·5	0·5	0·5
Central and miscellaneous environmental services	3·4	6·1	4·7	6·4	5·9	6·7	7·0	7·1	7·3	7·3
Total Scotland	245·2	253·5	255·6	251·8	274·7	271·2	265·1	260·3	252·4	252·4
GREAT BRITAIN										
Regional water authorities	629·2	649·1	699·0	552·5	515·8	574·2	579·3	583·4	587·0	587·0
Water supply and conservation										
Capital	62·8	63·1	62·4	57·0	64·9	57·9	57·9	55·5	51·5	51·5
Current	8·1	11·8	12·1	12·0	12·4	16·3	12·5	12·3	12·3	12·3
Other services						0·4	0·4	0·4	0·4	0·4
Land drainage										
Capital	32·4	40·0	47·8	47·7	69·7	113·5	115·5	79·9	63·6	63·6
Current	24·1	24·9	29·0	27·8	34·4	36·0	34·1	32·6	32·6	32·6
Total	56·5	64·9	76·8	75·5	104·1	149·5	149·6	112·5	96·2	96·2
Improvement of the environment and local facilities										
Capital: Gross expenditure	470·5	521·5	551·3	511·2	482·9	325·6	324·4	269·7	261·0	261·0
Less sales proceeds	−23·9	25·0	−33·5	28·5	−36·0	61·4	−55·7	−27·8	−24·0	−24·0
Current	894·3	935·6	967·7	1,133·7	1,207·4	1,146·6	1,106·3	1,063·4	1,063·4	1,063·4
Total	1,340·9	1,432·1	1,485·5	1,616·4	1,654·3	1,410·8	1,375·0	1,305·3	1,300·4	1,300·4

TABLE 8 (continued)

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
GREAT BRITAIN (continued)										
Community ownership of development land:										
Local authorities	—	—	—	—	—	30·3	74·1	99·0	101·6	101·6
New towns industrial and commercial development	64·6	59·8	67·8	61·6	64·6	53·2	56·1	55·7	55·7	55·7
Royal palaces and royal parks	7·0	6·5	7·3	9·1	9·9	10·6	10·7	10·7	10·7	10·7
Historic buildings and ancient monuments	10·0	10·0	12·2	13·4	17·5	20·3	19·8	20·0	20·0	20·0
Environmental research	21·6	24·9	30·1	30·9	33·3	39·1	36·4	32·1	36·3	36·3
Central and miscellaneous environmental services	40·2	46·2	53·7	59·3	60·2	64·7	66·9	67·7	65·6	65·3
Total Great Britain	2,240·9	2,368·4	2,506·9	2,487·7	2,537·0	2,427·3	2,438·7	2,354·6	2,337·7	2,337·4
Capital	1,240·6	1,313·7	1,398·3	1,204·4	1,167·0	1,101·4	1,159·1	1,122·2	1,104·0	1,104·0
Current	1,000·3	1,054·7	1,108·6	1,283·3	1,370·0	1,325·9	1,279·6	1,232·4	1,233·7	1,233·4
VAT paid by local authorities	31·9	31·8	32·9	35·9	39·2	30·7	30·8	30·7	31·1	31·1
Grand Total	2,272·8	2,400·2	2,539·8	2,523·6	2,576·2	2,458·0	2,469·5	2,385·3	2,368·8	2,368·5
Changes from Cmnd. 6393 revalued:					−88·6	−16·8	−11·6	−6·8	−7·4	—
Cmnd. 6393 revalued					2,664·8	2,474·8	2,481·1	2,392·1	2,376·2	—

Water services

1. The bulk of capital expenditure on the services provided by the Water Authorities in England and Wales and regional and island councils in Scotland is devoted to water supply and the disposal of sewage to match domestic and industrial requirements. In determining the direction of their capital investment programmes since their establishment in April 1974 the Water Authorities have been asked by the Department of the Environment and the Welsh Office to give priority to the avoidance of public health risks and the provision of services for new housing and industry.

Implications of Survey figures

2. The figures for capital expenditure from 1976–77 onwards are expected to enable the Government's priorities for the provision of water services to be generally realised in England and Wales. The programme will however severely restrict the Water Authorities' ability to commission new works on, for example, improving rivers by bringing some sewage treatment up to standard and the renewal and replacement of obsolete and decaying sewers.

3. The Welsh National Water Development Authority (WNWDA) have decided to restrict expenditure to meet only basic priority needs thus achieving savings of £11·4 million in 1977–78, £6·4 million in 1978-79 and £7·2 million in 1979–80 on the Cmnd. 6393 figures. This results in a programme with an upward trend which will enable the Authority to meet increasing demands from the Welsh housing programme, to meet industrial requirements and to remedy supply deficiencies in certain areas. In Scotland the provision is well below the 1975–76 level and continues to show a falling profile.

Additional bid

4. For over two years now the Scottish Office has been giving consent only to water and sewerage projects essential for the servicing of new housing and industry or on public health grounds. A backlog of demand has developed and once desirable projects are becoming essential. There is a particular need to develop major new sources of supply in the East and the North-East which have suffered shortages in recent years. The following additional

bid is required to ensure that from 1977–78 onwards provision is available for these essential projects:

£ million

	1976 –77	1977 –78	1978 –79	1979 –80	1980 –81
Water services in Scotland	—	2·1	4·5	6·0	6·0

The scope for offsetting savings is considered in paragraph 21 in relation to all of the Scottish additional bids in the Other environmental services Programme.

Policy options

5. For England and Wales the illustrative options would be:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Water Authorities England	13·2	26·6	26·7	26·7
WNWDA	1·2	2·6	2·7	2·7

While it is expected that the provision in Table 8 will enable the Government's priorities to be achieved, it is possible that in England and Wales the programme will produce accumulating difficulties in particular areas in serving housing and industry; that it will lead to further deterioration in some rivers; and that it will allow insufficient scope for the substantial programme of renewal and replacement of outworn assets which the water authorities are beginning to identify as necessary. These difficulties will be exacerbated if increased expenditure becomes necessary as a result of implementation of the main water provisions of the Control of Pollution Act 1974. Therefore, any reduction in the programme could make it impracticable to meet the Government's priorities in housing, industry and the prevention of serious public health risks.

6. The Scottish Office do not consider it possible to offer a realistic option on the water programme and the possibilities of options on the Scottish provision in Programme 8 as a whole are discussed in paragraph 28 below.

Land drainage: England and Wales

Implications of Survey figures

7. The Survey figures will not be sufficient to meet present contractual commitments for the Thames Tidal Flood Protection Scheme and to complete these works by the scheduled date.

Additional bids

8. The following additional bid arises partly because of slippage in the programme in 1975–76 and partly because earlier estimates have been revised in the light of tender prices for contracts which have since been let:

£ million

	1976 –77	1977 –78	1978 –79	1979 –80	1980 –81
Thames tidal scheme	12·6	24·9	33·7	8·4	−23·3

The works consist of construction of the barrier itself and improvement of the defences downstream. To reduce expenditure below the level now forecast it would be necessary to defer the letting of contracts on the 60 per cent of the downstream defences on which work has not yet been started. The work would have to be delayed for at least two years beyond the scheduled completion date of spring 1980. Delay would expose downstream areas to the risks of flooding from a surge tide for two more years. During that period, raising the completed barrier in order to protect London from a surge tide would seriously aggravate downstream flooding because of the reflected wave effect. During the 1975 Survey Ministers agreed that delaying the downstream works would create unacceptable risks.

9. The additional expenditure needed for the Thames scheme is so large in relation to expenditure on other arterial drainage that offsetting savings could be achieved only by the virtual abandonment of other land drainage and flood protection work in the rest of England and Wales for 1977–78 and 1978–79 and by substantial reductions in 1976–77 and 1979–80.

Policy options

10. Reductions required to achieve savings of 2½ per cent in 1977–78 and 5 per cent in later years would be:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Thames tidal scheme	−2·0	−2·2	−1·4	−1·4
Other arterial drainage:				
Capital	−0·9	−1·8	−1·8	−1·8
Current	−0·9	−1·6	−1·6	−1·6

11. There are no possibilities of reductions in expenditure on the Thames scheme without delaying the completion of downstream defence

works. The savings on capital expenditure on other arterial drainage would mean delaying the provision of land drainage and flood protection work carried out by Regional Water Authorities. The work delayed would be likely to include the provision of flood protection for existing urban development and for new housing sites as well as work to improve the drainage of agricultural land. (However, investment in arterial drainage forms only a very small part of the total capital expenditure of Water Authorities.) The savings on current expenditure would affect maintenance work involving a consequent risk of flooding in some areas.

Local environmental services

12. These services include refuse collection and disposal, the provision of parks and recreational facilities, the provision of municipal offices and administrative services, activities under the Town and Country Planning Acts and a miscellany of other services. The forecast of local authority current expenditure is subject to consultation with the Consultative Council on Local Government Finance and the Convention of Scottish Local Authorities in the course of the annual rate support grant negotiations.

CAPITAL

13. Most of the services in England and Wales fall within the locally determined sector arrangements for controlling capital expenditure which allow for a block borrowing approval to local authorities. Within their block allocations they are free to spend at their own discretion together with funds from revenue or capital receipts. The sector covers a wide variety of projects including some falling in other programmes and it is not possible to forecast exactly how much will be spent on particular services. Past indications are that capital expenditure by local authorities on local environmental services have exceeded forecasts, but this has been balanced by underspend on other services. In Scotland local authority capital expenditure is subject to specific approval.

Implications of Survey figures

14. The provision remains at the reduced level as in Cmnd. 6393. The effect of this is likely to be a continuing change in the pattern of expenditure in the locally determined sector away from sport and recreational services which are costly in terms of subsequent current expenditure towards a greater concentration on and the replacement of existing facilities for refuse collection and disposal. The stimulus to derelict land reclamation provided by the introduction of 100 per cent grants in assisted and derelict land clearance areas in England, which took effect in December 1975, has resulted in increased activity in those areas. This is in line with the planned increase in the rate of reclamation in Scotland and Wales for which the new Development Agencies are now responsible.

Additional bid

15. The Scottish Office have made an additional bid as follows:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Town and country planning Scotland . .	3·3	4·5	2·7	2·7	2·7

It has emerged that the pre-reorganisation local authorities had postponed the settlement of large statutory commitments which are now expected to mature over a relatively short period. As a consequence of this the Scottish Office were misled into forecasting in Cmnd. 6393 a level of expenditure well below the recent historic level and lower than now appears necessary if the impetus on urban renewal is to be maintained at a reasonable rate. Offsetting savings are discussed in paragraph 21.

CURRENT ENGLAND AND WALES

Implications of Survey figures

16. For 1977-78 there is a reduction of 3·5 per cent below the expenditure accepted for the rate support grant settlement for 1976–77, which itself represented an overall reduction in these services of some 6 per cent below the then estimated outturn for 1975-76. The difficulties of keeping expenditure to these reduced levels are made more acute by additional costs arising from demographic factors in some areas and the revenue consequences of recent capital projects. The settlement for 1976–77 assumed that charges would be made for all services for which local authorities have power to charge.

and that the level of charges would be sufficient to cover costs wherever this was feasible. There is little scope for additional savings in real terms from increased charges in 1977–78 or subsequent years.

17. The level of expenditure accepted for 1976–77 implied that there would be an all-round reduction in the standard of services provided; reduced opening hours, or even closure, of some existing leisure and *recreation facilities and a deferment of the opening* of new ones; and a reduction in the numbers of staff engaged on central administration and on the enforcement of certain provisions in the area of public health. The reductions in expenditure for 1977–78 and subsequent years assumed in Cmnd. 6393 will require a further reduction in standards on the services in this group including those for refuse collection and the enforcement of public health provisions. These services are manpower intensive and the reductions could only be achieved through compulsory redundancies.

Additional bid

18. The scope for reductions is limited by the need to maintain basic health standards and to take account of the revenue consequences of past capital expenditure, particularly on town and country planning. A lowering of standards on some of these services has been avoided in the past by imposing additional reductions on other services in the Other environmental services Programme. But the rate of decline on those other services is now so great that it is unrealistic to look to them for further savings. Increasing expenditure on refuse, environmental health and town and country planning cannot therefore be accommodated within the Survey figures for 1978–79 onwards. An additional £30 million a year will be required for those years:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Local environmental services England and Wales current expenditure	—	—	30·0	30·0	30·0

19. Additional expenditure of this order, though not sought by the Department of the Environment, may in fact be unavoidable because expenditure by local authorities is not under the direct control of Ministers. The Department of the Environment have not identified offsetting savings but in the view of the Treasury priority must be given to finding savings to offset such unavoidable additions before consideration can be given to other additional bids or to policy options for any other purpose. The Treasury consider that the necessary savings might be found within the Other environmental services Programme, in particular from capital expenditure on local environmental services and on new towns. The consequence of these reductions would be as described in paragraph 25.

CURRENT SCOTLAND

Additional bid

20. Similar considerations apply in Scotland. The position there is, however, more serious because in the 1975 RSG settlement this programme was used to some extent as a regulator. The Scottish Office has made the following additional bid. It assumes that the local authorities' own budget estimates are the best indicator available at present of their probable spending in 1976–77; and that it is unrealistic to expect them to reduce their net expenditure in the following years. The following figures cover local authority current expenditure on water services as well as local environmental services.

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Local environmental services Scotland current expenditure	...	32·6	34·7	34·4	34·4

21. The additional Scottish bids for this Main Programme as a whole (paragraphs 4, 15, 20 and 31) total:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
3·5	39·6	42·8	43·8	43·8

The Scottish Office have not identified offsetting savings to cover these bids. They consider that within Programme 8 only capital expenditure on local environmental services and commercial and industrial development in new towns could yield any

savings. Applying the policy option percentages to the base figures would produce the following savings:

£ million

1977–78	1978–79	1979–80	1980–81
6·6	13·0	12·6	12·6

The consequences would be severe, because within these services it is impracticable to make significant reductions in refuse collection or town and country planning, and this leaves a very narrow base. It would be possible to make substantial reductions in local authority factory building. The full achievement of the savings would remove all scope for new projects in some parts of the programme for up to two years and in the services susceptible to cuts would reduce activity thereafter by over one quarter. This would inevitably hit provision, *e.g.* for sport, which is a vital element in the attack on urban deprivation.

22. In order to accommodate the additional bids it would be necessary to ask the Scottish Office to find the remainder of the savings, amounting to:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
3·5	33·0	29·8	31·2	31·2

from within that part of other main programmes which falls within the responsibility of their Secretary of State.

23. In the view of the Treasury, priority would have to be given to offsetting the unavoidable additions to current expenditure. However, even if the savings on capital expenditure in Programme 8 were all applied for this purpose, further savings of £26 million in 1977–78 and nearly £22 million a year thereafter would have to be found from other main programmes before consideration could be given to other additional bids or to policy options for any other purpose.

CAPITAL AND CURRENT GREAT BRITAIN

Policy options

24. Paragraphs 16–21 about local authority current expenditure refer to the implications of the Survey figures. The services covered by this group are in the main of purely local interest and are subject to considerable local pressures. The standards of service provided are very much within the discretion of local authorities, who on refuse and environmental health, for instance, must bear in mind the risk to public health if standards are allowed to fall too low. The implications of reducing standards on the other services do not include a health hazard, but they are almost as compelling. In these circumstances it would be totally unrealistic to make further reductions, even for illustrative purposes, to the Cmnd. 6393 current expenditure figures, and no such reductions have been made. The cuts would therefore have to be made in capital expenditure on the local environmental services.

Local environment services: capital

25. Considerable cuts have already been made in planned expenditure for these services in order to arrive at the Cmnd. 6393 figures. It would be difficult to go back on the earlier decision to increase the provision for derelict land reclamation and there is little scope for reducing the level of expenditure on coast protection after the winter flooding. If therefore cuts had to be made here to offset the unavoidable addition of £30 million a year from 1978–79 on current expenditure, referred to in paragraph 18 above, the burden would fall heavily on the locally determined sector. The local authorities would find it difficult to provide the necessary essential support facilities for the housing programme and there would need to be an even tighter reassessment of priorities for administrative and recreation services. It must be doubted whether any further cuts are a realistic option. However, the illustrative option figures for England are:

£ million

	1977–78	1978–79	1979–80	1980–81
Local environmental services capital: England . . .	28·0	55·0	54·0	54·0

26. In addition the following cuts would need to be made to the provision for capital expenditure on industrial and commercial development in the new towns in England:

£ million

	1977–78	1978–79	1979–80	1980–81
New towns England—commercial and industrial development .	1·0	1·9	1·9	1·9

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In the opinion of DOE these cuts should only be made if the option cuts on the new towns housing programme are implemented.

27. In Wales the burden of the cuts would fall heavily on the locally determined sector, as in England.

£ million

	1977 –78	*1978 –79*	*1979 –80*	*1980 –81*
Local environmental services capital: Wales . . .	1·8	3·2	3·2	3·2

28. In Scotland too it is not considered realistic to suggest options on local authority current expenditure nor on other current and capital expenditure within Programme 8 except in the case of capital expenditure on local environmental services and industrial and commercial development in the new towns. Consequently Scottish Office options, if not already pre-empted as savings to offset additional bids, would fall upon the capital expenditure for this group of services. The amounts involved would be:

£ million

	1977 –78	*1978 –79*	*1979 –80*	*1980 –81*
Local environmental services and New Towns, Scotland capital	6·6	13·0	12·6	12·6

The consequences of cuts of this order have been described in paragraph 21.

Community ownership of development land

29. This expenditure provides for the capitalised purchase, administrative and interest costs of local authorities and the Land Authority for Wales of buying and making available land for private development in their areas. This new scheme is being controlled initially by separate borrowing approvals and will subsequently be controlled on the basis of annual allocations of borrowing approval.

Implications of Survey figures

30. It is estimated that the figures in Table 8, which are shown on a net basis, will permit the following acquisitions and disposals of land in Great Britain:

Acres

	1976 –77	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
Acquisitions .	1,400	3,700	7,000	11,400	15,200
Disposals . . .		400	2,300	5,300	8,500

These acreages are less than the amounts shown in Cmnd. 6393, which reflected the rate of development land tax then expected. The decision to reduce the rate of this tax to stimulate the private land market will increase the cost of local authority land purchases and therefore reduce the level of transactions under the scheme.

Additional bids

31. In order to maintain the acreage figures quoted in Cmnd. 6393, despite the change in development land tax, the following additional sums are required:

£ million

	1976 –77	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
England . .	1·5	3·5	7·0	5·5	5·5
Scotland . .	0·2	0·4	0·9	0·7	0·7

If offsetting savings had to be found to accommodate this additional expenditure in England, the Department of Environment would look to capital expenditure by the local authorities. The consequence of such reductions in combination with the policy options, would be to increase the severity of the effects described in paragraph 25. The question of offsetting savings in Scotland is discussed in paragraph 21.

Policy options

32. The illustrative options are:

£ million

	1977 –78	*1978 –79*	*1979 –80*	*1980 –81*
England	1·2	4·0	4·0	4·0
Wales	0·1	0·4	0·4	0·4

In this area the cuts would affect the rate of build up of the land scheme and slow down the bringing forward of land for development.

The Scottish Office consider that any reduction risks destroying the credibility of the scheme, and have shown alternative options on local environmental services capital expenditure.

Royal Palaces and Royal Parks

Implications of Survey figures

33. The provision reflects the same level of work as in 1976–77.

Policy options

34. The illustrative reductions would be as follows:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Reductions in the maintenance, etc., of Royal Palaces and Royal Parks	0·3	0·5	0·5	0·5

The present programme scarcely covers essential maintenance on Royal Palaces and Royal Parks; as the palaces cannot be allowed to fall into disrepair and cuts in maintenance would affect the quality of the parks, reductions must fall on capital expenditure on new works. This would mean a reduction of one third on major new works for Royal Palaces and two thirds for Royal Parks; the limited amount of new starts planned in the period means that, to achieve the full cuts, reductions would have to be made in the provision for urgent minor works, leaving insufficient funds for this purpose. Deferment, instead, of all new starts on major works from 1977–78 to 1980–81 would produce savings of:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Deferment of all new starts.	0·1	0·2	0·3	0·3

This lower cut, although difficult for the Department, would be more practical and realistic.

Historic buildings and ancient monuments

Implications of Survey figures

35. Expenditure on this item maintains broadly the same level of work as in 1976–77 in grants for the repair of historic buildings, other related services and the purchase, maintenance, repair and display of ancient monuments before sites are developed. No specific provision has been made for the introduction in England and Wales of repair grants for historic churches in use.

Policy options

36. Reductions in England of 2½ per cent in 1977–78 and 5 per cent in the later years would produce the following savings:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Historic buildings and ancient monuments: England	0·5	1·0	1·0	1·0

The expenditure currently available for the protection and preservation of the archaeological and architectural heritage is already insufficient to meet growing demands and any reduction in the level of funds would result in the loss of some important part of this heritage which could otherwise have been saved. For this reason any reduction of expenditure would have to be concentrated on the plans for the provision of car parks, toilets and other facilities for visitors and administration costs. It is not possible to regulate the number of visitors to ancient monuments; and if reasonable facilities are not provided for visitors, public safety and hygiene are likely to be at risk, and there would be resistance to increased charges.

37. The bulk of expenditure on historic buildings is in the form of grants to owners of historic buildings. The demand for grant continues to increase and any reduction would seriously impair the work of preservation of historic buildings. Control on expenditure is exercised by way of a commitment ration which allows neither an increase in volume nor revaluation of cash grants committed, although this ration will be revalued annually from 1976.

Environmental research

Implications of Survey figures

38. The provision for this item which covers the Department of the Environment's three research stations (Transport and Road Research Laboratory, Building Research Establishment and the Hydraulics Research Station), the extra-mural research programme and grants to research associations and other bodies, reflects a substantial reduction in the Department's research programme in the years 1976–77 to 1980–81.

Policy options

39. The illustrative reductions would be as follows:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Reduction in research effort.	0·9	1·6	1·8	1·8

This programme suffered a cut of about one third of the original provision in the 1975 Survey and in addition is likely to be further reduced by the reduction in Civil Service staff costs. The

illustrative reduction in 1978–79 would mean a further 10 per cent cut in the extra mural programmes which comprise mainly long term commitments with public sector agencies such as British Rail, Warren Spring Laboratory, Natural Environment Research Council and the United Kingdom Atomic Energy Research Establishment which have already met reductions and would cause severe disruption. There would be little or no capacity to respond to the growing demand for research on transport policy, local government finance and housing finance. Research programmes which have been formulated from policy reviews in these areas could not be supported. Nevertheless despite these qualifications, the cuts are regarded as realistic and feasible.

Central and miscellaneous environmental services

40. This covers the costs of the Countryside Commissions, the Nature Conservancy Council and the Sports Councils, together with a number of other small items.

Implications of Survey figures

41. These bodies already operate on tightly drawn budgets and the figures permit no growth overall and only small increases in real terms in Sports Council expenditure up to 1978–79.

Policy options

42. The following reductions would arise:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
England . .	0·5	1·0	1·0	1·0
Wales . .	- -	0·1	0·1	0·1

The illustrative option for Scotland has been included in the option on local environmental services capital expenditure.

43. The burden of the illustrative cuts in England and Wales would fall on the Sports Councils, which absorb over half this expenditure, particularly on their capital expenditure (grants to local authorities, National Centres and other major national projects) although the cuts would also result in a lower standard of maintenance of existing National Centres. In the longer term, the Sports Councils may have to reduce staff and administrative costs. The Nature Conservancy Council, which is a very labour-intensive organisation, would also be affected. The illustrative reductions would have to fall mainly on the care of existing nature reserves including maintenance work on which there is already a heavy backlog due to earlier financial stringencies. The effects would be serious and cumulative over the years. The impact of cuts on the small budgets of the Countryside Commission and the grant-aided bodies would be very hard to absorb.

9. Law, Order and Protective Services

TABLE 9

£ million at 1976 Survey prices

		1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
ENGLAND AND WALES											
Administration of justice:											
Court services, etc.	capital	20·2	22·6	22·8	15·6	15·1	23·6	26·8	25·1	20·2	20·2
	current	74·9	81·0	92·0	94·9	102·5	102·4	101·0	102·6	105·3	105·3
Legal aid	current	39·4	44·7	46·9	54·3	60·5	71·1	76·3	77·9	82·5	82·5
Total		134·5	148·3	161·7	164·8	178·1	197·1	204·1	205·6	208·0	208·0
Treatment of offenders:											
Prisons	capital	19·0	23·7	25·9	25·8	30·1	35·9	36·5	24·7	19·2	19·2
	current	123·8	123·9	134·6	153·3	146·2	149·1	147·6	146·8	146·0	146·0
Probation and aftercare	capital	1·3	2·3	2·7	3·5	3·9	5·1	4·1	2·2	1·1	1·1
	current	30·1	33·3	36·4	40·4	49·3	50·5	52·7	55·4	58·4	58·4
Total		174·2	183·2	199·6	223·0	229·5	240·6	240·9	229·1	224·7	224·7
General protective services:											
Police	capital	50·3	19·1	37·8	44·7	54·3	52·5	51·7	38·4	31·2	31·2
	current	712·9	721·1	745·0	784·4	820·9	843·2	868·9	879·4	892·8	892·8
Fire	capital	25·9	21·3	16·2	14·3	16·8	16·2	12·7	8·3	5·3	5·2
	current	168·8	170·5	173·2	191·2	209·4	206·7	208·6	209·5	210·6	210·6
Other	current	10·6	10·7	12·5	13·8	15·3	15·2	16·1	16·5	17·3	16·8
Total		968·5	942·7	984·7	1,048·4	1,116·7	1,133·8	1,158·0	1,152·1	1,157·2	1,156·6
Civil defence	capital	0·4	0·7	6·6	—	1·8	2·3	2·7	2·5	2·5	2·5
	current	11·9	13·3	13·6	13·8	12·0	13·8	10·6	10·2	9·8	9·8
Total		12·3	14·0	20·2	13·8	13·8	16·1	13·3	12·7	12·3	12·3
Community services	capital	6·5	8·7	6·8	6·9	7·0	4·1	3·4	1·9	1·0	1·0
	current	9·9	17·0	18·5	21·8	26·4	33·0	35·3	34·7	36·0	36·0
Total		16·4	25·7	25·3	28·7	33·4	37·1	38·7	36·6	37·0	37·0
Central and miscellaneous services:											
Central and miscellaneous services	current	9·5	9·9	10·4	15·9	15·4	15·0	12·7	12·6	12·3	12·3
Civil emergencies	capital	—	—	—	9·7	8·8	4·3	—	—	—	—
	current	—	—		0·8	·	0·4	1·2	1·2	0·8	0·8
Total		9·5	9·9	10·4	26·4	24·2	19·7	13·9	13·8	13·1	13·1
England and Wales	capital	123·6	98·4	118·8	120·5	137·8	144·0	137·9	103·1	80·5	80·4
	current	1,191·8	1,225·4	1,283·1	1,384·6	1,457·9	1,500·4	1,531·0	1,546·8	1,571·8	1,571·3
Total		1,315·4	1,323·8	1,401·9	1,505·1	1,595·7	1,644·4	1,668·9	1,649·9	1,652·3	1,651·7
SCOTLAND											
Administration of justice:											
Court services, etc.	capital	0·7	0·9	0·7	0·9	0·8	1·3	3·4	3·4	3·4	3·4
	current	4·8	5·2	5·7	7·0	8·2	9·3	10·0	10·7	10·8	10·8
Legal aid	current	3·1	3·3	3·5	4·2	5·3	5·1	4·8	5·0	5·1	5·1
Total		8·6	9·4	9·9	12·1	14·3	15·7	18·2	19·1	19·3	19·3

TABLE 9 (continued) £ million at 1976 Survey prices

		1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
SCOTLAND (continued)											
Treatment of offenders:											
Prisons	capital	3·8	3·0	5·9	5·1	3·4	5·7	3·3	1·3	1·3	1·3
	current	11·6	12·2	12·2	12·7	14·0	14·4	14·7	14·5	14·5	14·5
Probation and aftercare	current	0·1	0·1	0·1	0·1	0·2	0·1	0·1	0·1	0·1	0·1
Total		15·5	15·3	18·2	17·9	17·6	20·2	18·1	15·9	15·9	15·9
General protective services:											
Police	capital	7·5	7·4	8·2	7·7	8·5	6·9	5·5	4·7	4·3	4·3
	current	72·4	74·7	79·2	81·4	86·9	90·5	89·0	90·2	91·6	91·6
Fire	capital	2·4	3·7	2·5	1·5	4·0	2·7	2·9	2·2	1·9	1·8
	current	17·7	18·1	19·3	19·7	20·4	20·7	20·5	20·5	20·5	20·5
Total		100·0	103·9	109·2	110·3	119·8	120·8	117·9	117·6	118·3	118·2
Civil defence	current	1·3	1·2	0·9	0·8	0·8	0·8	1·0	1·0	1·0	1·0
Total		1·3	1·2	0·9	0·8	0·8	0·8	1·0	1·0	1·0	1·0
Community services	capital	1·6	2·1	2·4	1·1	0·8	1·1	1·2	1·2	1·2	1·2
	current	0·3	0·8	1·5	2·0	2·3	2·5	2·8	2·9	2·9	2·9
Total		1·9	2·9	3·9	3·1	3·1	3·6	4·0	4·1	4·1	4·1
Central and miscellaneous services:											
Central and miscellaneous services	current	0·9	0·9	0·9	1·0	1·0	1·0	1·0	1·1	1·1	1·1
Civil emergencies	current	—	—	—	—	0·1	0·1	—	—	—	
Total		0·9	0·9	0·9	1·0	1·1	1·1	1·0	1·1	1·1	1·1
Scotland	capital	16·0	17·1	19·7	16·3	17·5	17·7	16·3	12·8	12·1	12·0
	current	112·2	116·5	123·3	128·9	139·2	144·5	143·9	146·0	147·6	147·6
Total		128·2	133·6	143·0	145·2	156·7	162·2	160·2	158·8	159·7	159·6
VAT paid by local authorities:	capital	0·2	0·3	0·2	0·2	0·2	0·2	0·2	0·2	0·2	0·2
	current	4·3	4·3	4·5	4·5	4·2	4·0	4·1	4·2	4·2	4·2
Total		4·5	4·6	4·7	4·7	4·4	4·2	4·3	4·4	4·4	4·4
Total law, order and protective services, Great Britain:	capital	139·8	115·8	138·7	137·0	155·5	161·9	154·4	116·1	92·8	92·6
	current	1,308·3	1,346·2	1,410·9	1,518·0	1,601·3	1,648·9	1,679·0	1,697·0	1,723·6	1,723·1
Grand Total		1,448·1	1,462·0	1,549·6	1,655·0	1,756·8	1,810·8	1,833·4	1,813·1	1,816·4	1,815·7
Changes from Cmnd. 6393 revalued:						−18·1	−2·2	+12·0	+12·3	+11·9	
Cmnd. 6393 revalued						1,774·9	1,813·0	1,821·4	1,800·8	1,804·5	

ENGLAND AND WALES

General

1. This programme is dominated by local authority current expenditure which, under present arrangements, is not under direct Government control. The biggest single element is police manpower, to which Ministers attach particular priority. The central Government elements in the programme are largely demand-determined, and the demand is increasing. In order to protect priority services, viz. police,

prison staff, and the probation and fire services, capital expenditure was subject to a disproportionately heavy cut in last year's Survey.

2. Against this background the Home Office have not been able to identify sufficient realistic savings to offset the additional bids. Nor is there any way in which illustrative reductions under the Survey ground rules could be achieved except by reducing essential protective services and/or by cutting out socially desirable expenditure, *e.g.* community services. In particular, the Home Office see little scope for further cuts in capital expenditure, and offer no significant policy options in this area. The Treasury consider that the capital programmes should not be regarded as necessarily exempt from further cuts. Effective measures to control the local authority elements of expenditure would involve politically contentious legislation, to which the Home Office are firmly opposed.

Administration of justice

Magistrates' Courts

3. Current expenditure was cut during the 1975 Survey because it was assumed that changes could be made in the law which would reduce the workload. There is now no prospect of this and the Survey base figures are inadequate to cope with the expected demand.

4. On the capital side, the Survey base figures will cover the completion of court houses already under construction and a small programme of new works in 1976-77. There will be no new work in later years.

Higher Courts

5. Current expenditure depends on the number of cases coming forward. For civil business costs are largely offset by fees. For criminal business the Survey base figures are inadequate to cope with present estimates of demand. Capital expenditure is being rephased and will be concentrated in the later years of the Survey period. Two major projects will have to be deferred and one project omitted.

Additional bids

6. To deal with expected increase in civil and criminal business respectively:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Magistrates' Courts .	1·8	1·5	0·5	0·5
Higher Courts .	1·3	2·3	3·1	3·4

7. Additional provision is also required by the Department of the Director of Public Prosecutions (DPP) to meet the forecast increase in criminal proceedings, including staff costs and payments to Counsel:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·4	0·4	0·3	0·3

Policy Options

8. The following savings could be achieved on *capital expenditure on Higher Courts* by postponing two projects due to start in 1979-80. The programme has already been reduced from the 1973 level of 17 projects (140 court rooms) to 9 projects (79 court rooms). Further cuts on top of those would unacceptably delay the administration of justice.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·4	1·0	0·9	0·9

9. The following savings on *current expenditure on Higher Courts* would entail, for criminal business, a transfer of work by very contentious legislation from higher courts to magistrates' courts and for civil business a large increase in fees.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·5	1·0	1·0	1·0

10. Savings of the following order could be made by cutting the staff of the DPP. But legislation would be required to relieve him of the need to intervene in certain cases:

£ million

1978–79	*1979–80*	*1980–81*
0·2	0·2	0·2

Legal aid

11. Expenditure on civil and criminal legal aid depends upon the number of applicants. The survey base figures are inadequate to cope with present estimates of demand. The Lord Chancellor proposes to contain expenditure on civil legal aid by withdrawing it from undefended divorce cases. This will be controversial and will necessitate using part of the resources thereby released for the extension of legal services in other directions. The net savings will not meet the increase in demand.

Additional bids

12. To cope with present estimates of demand:

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Home Office	0·8	0·8	0·9	0·9	2·6
Lord Chancellor's Department	—	0·7	1·5	0·9	4·1

Policy options

13. The following savings would require legislation, either to make financial qualifications more stringent (difficult to achieve in practice) or to remove entitlement to criminal legal aid in certain classes of case, in addition to undefended divorce cases (which would be very controversial).

£ million

	1977–78	1978–79	1979–80	1980–81
Home Office	5·3	5·3	5·3	5·3
Lord Chancellor's Department	1·4	2·9	3·0	3·0

Criminal injuries compensation board

14. The number of applicants, and hence the number of payments by the Board, is expected to rise. Unless the scheme is altered there will be insufficient provision for the last two years of the Survey period.

Additional bids

15. To deal with increase in number of applicants now forecast:

£ million

1979–80	1980–81
0·2	1·3

Policy option

16. The following savings, from halving the cost of the scheme, would cause hardship. They might be achieved *e.g.* by cutting out awards below £500, or reducing the scale of all awards.

£ million

1977–78	1978–79	1979–80	1980–81
4·0	4·5	5·0	5·0

Treatment of offenders

PRISONS:

Current Expenditure

17. At present there are 41,600 people in prison, about 1,400 more than assumed in Cmnd. 6393. Most current expenditure is on wages of prison staff. Revised forecasts since Cmnd. 6393 show a shortfall in expected receipts from prison industries. The Survey base figures do not provide for the cost of about 150 prison officers formerly on detached duty in Northern Ireland, who are no longer required there, but are needed in their establishments in England and Wales to deal with the increase in the prison population and reduce overtime. Unless extra provision is made to deal with these developments, manpower will have to be reduced. Prisoners would then have to spend most of their time in their cells; both control and security would be put at risk; and there would be further losses of earnings from prison industries. If maintenance of buildings had to be reduced, the fabric in some establishments might become unusable.

Capital expenditure

18. Building schemes already started will be completed, providing about 5,000 new prison places over the Survey period. A start will be made on a new prison at Low Newton which in the view of the Home Office is essential to deal with difficult and dangerous prisoners. Other building schemes will be essential to maintain security and the operation of essential services, and to keep prisoners housed and occupied.

Additional bids

19. Additional provision is required as follows:

£ million

	1977–78	1978–79	1979–80	1980–81
1. Cost of prison officers formerly detached to Northern Ireland	0·8	0·8	0·8	0·8
2. Shortfall in receipts from prison industries	4·4	5·5	7·5	7·5

Policy options

20. In the view of the Home Office there is no scope for further reductions in capital expenditure, while cuts in current expenditure would exacerbate the position described above.

PROBATION AND AFTER-CARE

21. Cmnd. 6393 assumed that the number of probation officers would rise from 4,818 to 5,340 by the end of 1979–80; but the allowance made for training costs is now found to be inadequate and it will not be possible to provide fully for this planned increase. The Survey figures do not allow for the expected growth of work (and hence staff requirements) between 1979 80 and 1980 81. However, the Survey figures provide for the extension of community service schemes, the expansion of the day training centre scheme, and for 900 places in adult probation and bail hostels in addition to the present 540.

Additional bid

22. The following bid is to cover training costs and to provide for expected growth between 1979 80 and 1980 81.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
−0·2	0·5	0·3	0·5

Policy options

23. The following savings would entail an initial reduction in manpower and limitations on later expansion, which would involve lowering standards of supervision. Construction or acquisition of hostels and the development of other forms of non-custodial treatment would be stopped.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
1·1	2·2	2·3	2·3

General protective services

POLICE

24. It was assumed in Cmnd. 6393 that the number of police officers would rise from 107,000 on 31 March 1976 to 112,250 on 31 March 1980. Authorised establishment on 31 March 1976 was 117,000. Continued improvement in recruiting and some essential increases in establishments have led to a revision of the former figures to 107,900 and 115,000 respectively. These increases are taken into account in the Survey base figures, except for some related expenditure on training and equipment. The Home Office assume that Ministers will continue to take the same view of the priority attached to police recruitment as they have in the past and which was reflected in Cmnd. 6393 in the statement that, if numbers should exceed the estimated growth, provision will be made for additional expenditure within authorised establishments. The Treasury suggest that in the present economic situation these arrangements should be reviewed.

25. The Survey figures assume a sharp reduction in the number of civilians including traffic wardens and cadets, from 45,890 on 31 March 1976 to 44,200 on 31 March 1977. The figures then assume a gradual increase to 45,850 on 31 March 1980, and the same number in 1981.

26. On the capital side the Survey figures allow for a small programme of operational buildings in 1976-77 and a start on the new Merseyside Police Headquarters in 1977–78. Provision is also made for two enlarged forensic laboratories to replace four existing ones, for some redevelopment of the police training centres, and for completing the expansion of the Police College. By the end of the Survey period the scale and standard of many buildings will be far short of the requirements of the service. The Survey figures are inadequate to meet the expected requirement for police vehicles—this expenditure is not under Government control.

Additional bids

27. Additional provision is required as follows:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
(i) Revised forecast in respect of superannuation payments .	8·3	11·5	13·7	18·4
(ii) Training and equipment for extra manpower agreed since Cmnd. 6393 . . .	1·0	0·9	0·8	0·9
(iii) To provide for growth in manpower (1,000 officers) between 1979–80 and 1980–81 . .	—	-	—	5·0
(iv) Extra cost of Police Complaints Board due to changes in the Police Bill since Cmnd. 6393	0·1	0·2	0·2	0·2
(v) Extra civilian staff for Metropolitan Police branches dealing with fingerprints and criminal records . . .	0·1	0·1	0·1	0·1
(vi) Restoration of cut made in 1975 Survey in respect of superannuation contributions	—	0·6	2·1	1·8
(vii) Revised forecast of requirement for vehicles: *1976–77* 2·4	2·2	0·5	0·5	0·5
(viii) Rephased replacements for, and improvement in, Police National Computer Unit (PNCU)	2·1	2·0	−0·4	−0·2

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Policy options

28. Significant savings could be achieved only by reducing the number of police cadets and restricting recruitment to the regular force. Reducing the number of cadets will adversely affect recruitment to the regular force when the employment market becomes more competitive. Restricting recruitment to the regular force could be achieved by allowing wastage to reduce to (say) 95 per cent of establishment those forces whose strength is now above this. However, as the London and some metropolitan county forces are already so deficient in manpower, they would still have room to recruit within the reduced establishments. There would have to be detailed control from the centre. There would be severe objections on grounds of loss of police effectiveness, loss of local autonomy and from those forces who were up to establishment, who would be asked to make sacrifices for forces who were not.

29. Further savings of about £12½ million a year from 1978 79 could come from reducing the number of traffic wardens and support staff. This would mean less enforcement of parking regulations and control of traffic and pedestrians and more congestion and delay in city centres, especially London.

30. Further economies could be sought in the use of police vehicles.

31. If legislation were to be avoided, all these measures would require the co-operation of chief constables and police authorities, which could not be counted upon—unless the state of the economy were seen to require draconian measures in every area of public expenditure. If (as the Home Office think more likely) co-operation was not forthcoming, the savings could be secured only by legislation which would impose a greater degree of central direction on the police service and alter the balance of control between Government and police authorities. The political problems of measures, and still more of legislation, to reduce police strength and damage recruitment, at a time of rising crime and additions to the burdens of the police, are self-evident.

32. Smaller savings might be secured through internal reorganisation and amalgamations; and by deferring the formation of the Police Complaints Board: but this would mean amending the Police (Complaints) Bill now before Parliament. These and the other measures above would produce the following savings:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Manpower:				
Police	2·0	5·2	7·9	9·3
Cadets	1·0	3·0	5·0	6·0
Traffic wardens	—	12·5	12·5	12·5
Vehicles	—	1·0	1·0	1·0
Reorganisation	—	0·4	0·4	0·4
Police Complaints Board	0·2	0·2	0·2	0·2
Total	3·2	22·3	27·0	29·4

FIRE SERVICES

33. The Survey base figures reflect the assumption that the numbers of whole-time firemen, of part-time and junior firemen, and of civilian staff, will remain constant at about 32,400, 14,000 and 5,300, respectively. To limit numbers to these levels depends upon the co-operation of local authorities. On 31 December 1975 the actual number of whole-time firemen in post was 32,550, *i.e.* 150 above the limit provided for in the Survey figures. In 1977–78 and succeeding years there will be reductions in expenditure on fire research and on the fire service staff and technical colleges.

34. The figures for capital expenditure assume a very limited and sharply declining building programme. This will mean the continuance in service of out-of-date stations and will make it difficult to replace worn-out fire appliances, with consequent risk of serious loss of operational efficiency.

Additional bids

35. To maintain numbers of whole-time firemen at existing levels:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·7	0·7	0·7	0·7

Policy option

36. No option is offered in respect of manpower. To achieve the savings below, reductions would be needed in capital expenditure on new fire stations, fire service housing, appliances and vehicles. The co-operation of local authorities would be required. Coming on top of earlier reductions, cuts of this order would involve continuing to use out-of-date fire stations and appliances, which would seriously impair operational efficiency.

£ million

1977–78	1978–79	1979–80	1980–81
3·2	2·7	1·7	1·7

FIRE PRECAUTIONS LOANS ACT 1973

37. Because the take-up of loans in earlier years has been slower than expected, repayments in the future will now be less. To keep within the Survey figures there would have to be some reduction in the future level of loans.

Additional bid

38. To maintain the level of funds available to local authorities:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
0·1	0·1	0·1	0·2	0·2

OTHER PROTECTIVE SERVICES

39. Most of this expenditure is concerned with the administration of the naturalisation service and controls on immigration, but the programme also covers the immigration appeal system and a grant-in-aid to the United Kingdom Immigrants Advisory Service. The Survey figures are inadequate to maintain these latter services.

Additional bid

40. The immigration appeal system is statutory. Provision was cut in the 1975 Survey but there is no falling off in demand. To meet the demand the cut needs to be restored:

£ million

	1977–78	1978–79	1979–80	1980–81
(i) Fees to appellate authorities	0·1	0·1	0·1	0·1
(ii) Grant to United Kingdom Immigrants Advisory Service (UKIAS)	—	0·1	0·1	0·1

Policy option

41. The following saving could be secured by cutting support for UKIAS. This would attract strong opposition from the immigrant community.

£ million

1977–78	1978–79	1979–80	1980–81
0·2	0·2	0·2	0·2

Civil Defence

42. The Survey figures are insufficient to maintain in a useable condition the oil pipeline and storage system; under the control of the Department of Energy. Nor are the figures sufficient to maintain emergency and strategic reserves of food at levels previously approved by Ministers as the minimum necessary to mitigate the effects of a serious civil or defence emergency.

Additional bids

43. The following additional provision would be required to maintain the oil pipeline and storage system and the food reserves at the approved level:

£ million

	1977–78	1978–79	1979–80	1980–81
Oil pipeline and storage system	3·3	4·7	4·5	4·7
Strategic food stocks	0·8	8·2	8·9	2·6
Emergency food stocks	0·2	0·4	0·1	0·6

The main items on the food stockpile are: £8 million in both 1978–79 and 1979–80 for rebuilding the sugar stocks (which were reduced during the 1974 sugar shortage) to the previous approved level; £1 million per year for the turnover of fat; and £2 million in 1980–81 for the turnover of biscuits and yeast. Offsetting savings could only be provided by a policy decision to reduce stocks below the approved levels, which would itself imply abandoning or restricting the rebuilding of the sugar stocks.

Policy options

44. A review by officials has recommended that some oil storage sites and stocks be disposed of. The major part of the pipeline network is no longer needed for civil emergency purposes and a possible reduction is under consideration. BNOC might ultimately take over the system. The illustrative savings on food stocks required by the Ground Rules are:

£ million

	1977–78	1978–79	1979–80	1980–81
Strategic and emergency stocks	0·1	0·2	0·2	0·2

These would similarly require a policy decision to run the food stockpiles at lower levels.

Community Services

45. Cmnd. 6393 made provision for the continuation of existing urban programme projects, grants to voluntary bodies and the new Equal Opportunities Commission (EOC), and for replacing the separate Race Relations Board and Community Relations Commission by a new Race Relations Commission (RRC). The Survey figures will allow the RRC and the EOC to continue at the planned level of activity. As regards the urban programme there is very little scope for new capital projects after 1977–78 unless savings are created by not continuing existing projects beyond their initial period.

Additional bids

46. An interdepartmental group has reported separately on the problems of inner city areas. If in the light of their report Ministers decide to restore the capacity of the urban programme to fund new projects on the previous scale the amounts involved are set out below. The report says that any addition to this programme must be contained within the overall public expenditure limits, though it does not say how this should be done:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·7	5·8	8·1	8·4

47. To extend beyond 1976–77 the period of grant aid for special projects for ethnic minorities (which is part of the urban programme) would involve:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
1·5	1·5	1·5	1·5

Policy options

48. The following saving would be required:

(i) *Community relations*

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
5·6	6·4	6·8	6·8

This would require legislation to abolish the Equal Opportunities Commission, the Community Relations Commission, and the Race Relations Board and postpone establishment of Race Relations Commission. Politically it would involve a major reversal of policy; it would weaken greatly the position of women and ethnic minorities; it would be claimed that it marked an end of Government concern about race relations. About 350 staff would be redundant. If the Home Office were to take responsibility for making grants to local organisations the community relations field work could continue. The savings would be reduced by £1 million a year.

(ii) *CDP and other urban deprivation: research and development*

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·7	0·5	0·5	0·5

To secure these savings would entail the premature cessation of Community Development Projects (CDP), and the stopping of development of comprehensive community programmes.

(iii) *Urban programme projects*

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
5·1	2·9	2·8	2·8

These savings could be secured by not issuing new approvals for projects under the urban programme; existing grants would be renewed.

RHODESIA

49. No provision was made in Cmnd. 6393 for dealing with a possible influx of refugees from Rhodesia.

Additional bid

50. An influx of refugees would affect several Departments. About £40 million of additional expenditure would fall to the Home Office. The total might be £65–£140 million in 1977–78.

Central and miscellaneous services

Additional bid

51. Contingent provision of £1·5 million in 1980–81 is required for Home Office dispersal.

Policy option

52. The following saving might be secured by stopping all Home Office sociological and criminological research, and all research for police, prison and fire services except research concerned with forensic science and operational equipment:

			£ million
1977–78	*1978–79*	*1979–80*	*1980–81*
3·0	3·0	3·0	3·0

SCOTLAND

Administration of Justice

COURT SERVICES

Implications of Survey figures

53. The Survey base figures include no provision for the Divorce Reform (Scotland) Bill at present before Parliament. The figures are insufficient to enable construction both of Glasgow Sheriff Court and phase I of Shotts prison (see below) to proceed as planned, but otherwise the most essential buildings can be constructed, and extensions and renovations of some existing buildings undertaken.

Additional bids

54. If the Divorce Bill is passed this will result in additional expenditure which by 1980–81 will amount to £0·2 million.

55. In the years 1977–78 and 1978–79 the base figures for the courts building programme will be underspent by £1·6 million; this matches the extra money which will be needed under the revised estimate of costs to complete phase I of the new prison establishment at Shotts, a project already committed. The amounts involved should therefore be assigned to prisons from the court allocation for these two years. The saving on the court head is due to delay in starting the Glasgow Sheriff Court to which very high priority is attached as accommodation there is already inadequate. The project will require additional expenditure in the later years of the programme. This will be partially offset by small savings on prisons and the net adjustments required as follows:

				£ million
	1977–78	*1978–79*	*1979–80*	*1980–81*
Court Services (PSA) .	1·1	–0·5	0·5	1·6
Prisons (PSA) . .	1·3	0·3	–0·1	–0·1
	0·2	–0·2	0·4	1·5

The Treasury suggest that in this situation, and given that expenditure on the prison is virtually committed, the start of the Court house should be delayed, unless offsetting savings are found.

CROWN PROSECUTIONS AND OTHER LEGAL SERVICES

Additional bids

56. Additional provision is required to meet the increased volume of payments of expenses by Procurators Fiscal for criminal prosecutions in Sheriff Courts and in the new District Courts which became fully operational on 15 May 1976.

			£ million
1977–78	*1978–79*	*1979–80*	*1980–81*
0·1	0·1	0·1	0·2

Policy options

57. Reductions of the following order could only be made in manpower, and would have to fall for the most part on the Procurator Fiscal Service, the largest element in this programme.

			£ million
1977–78	*1978–79*	*1979–80*	*1980–81*
0·1	0·2	0·2	0·2

Legal aid

Implications of Survey figures

58. The Survey figures are inadequate to meet present forecasts of demand, partly because of the extension of legal aid to the new district courts as from May 1975.

Additional bid

59. To meet present forecasts of demand:

			£ million
1977–78	*1978–79*	*1979–80*	*1980–81*
0·6	0·5	0·6	0·7

Policy options

60. These following savings could be secured by legislation to make the financial qualifications more stringent. Certain options available in England and Wales—*e.g.* withdrawing legal aid from undefended divorce cases—are not available in Scotland without a fundamental change in evidential requirements.

			£ million
1977–78	*1978–79*	*1979–80*	*1980–81*
1·2	1·2	1·2	1·2

Criminal injuries compensation board

Additional bid

61. In consequence to the bid for England and Wales referred to in paragraph 14 there would be an additional bid of £0·3 million in 1980–81.

Policy options

62. The following savings would arise from modifying the scheme on the lines of the option for England and Wales referred to in paragraph 16:

£ million

1977–78	1978–79	1979–80	1980–81
1·0	1·1	1·3	1·3

Treatment of offenders

PRISONS

Implications of Survey figures

63. It is estimated that the total number of prisoners held in custody in Scotland will increase by about 14 per cent over the period, from an average of 5,200 in 1976–77 to about 5,950 in 1980–81. The Survey figures imply no new starts on major buildings and no increase in staff after the end of 1976–77. This would lead to a steady worsening of custodial standards and accommodation and a slowing down of development of prison industries and training. Capital programmes have been severely cut and if phase 1 of Shotts prison is to be constructed in time funds would have to be diverted from the Courts capital programme (see paragraph 55 above).

Additional bids

64. (i) To allow present inmate/staff ratios to be maintained:

£ million

1977–78	1978–79	1979–80	1980–81
—	0·3	0·7	1·1

(ii) To cover expected shortfall in respect of receipts from prison industries:

£ million

1977–78	1978–79	1979–80	1980–81
0·6	0·8	0·8	0·8

(iii) To allow for development of methods of training and rehabilitation including fuller utilisation of new establishments now open or about to be commissioned:

£ million

1977–78	1978–79	1979–80	1980–81
0·5	0·5	0·5	0·5

(iv) Capital expenditure has been cut to a level below that necessary in the longer term to maintain the present estate. To cover this and the growth of inmate population and other developments:

£ million

1977–78	1978–79	1979–80	1980–81
1·0	1·0	1·0	1·0

General protective services

POLICE

Implications of Survey figures

65. The Survey figures provide for about 12,600 regular police in 1976–77, for 12,330 in 1977–78, 12,430 in 1978–79 and about 12,650 in 1979–80 and 1980–81. The figures in 1977–78 and 1978–79 are low because the implications of the level of recruitment assumed in the rate support grant settlement for 1976–77 have not been carried forward into the following years. Recruitment had reached almost 12,500 by March 1976 and, to stay within the base figures, it would be necessary to run down projected police strengths by some 300 in 1977–78 and about 250 in 1978–79. As of now no steps have been taken to bring this about. The capital expenditure figures allow for no starts on new buildings (other than very minor projects) within the Survey period.

Additional bids

66. The following additional provision would be required for the manpower levels currently forecast and to prevent the necessity of running down strengths in 1977–78 and 1978–79, which would be inconsistent with present policies:

£ million

	1977–78	1978–79	1979–80	1980–81
	1·9	1·2	0·2	0·2
(Estimated mid-year strength regular police) . .	*(12,650)*	*(12,675)*	*(12,700)*	*(12,700)*

To allow for some additional expenditure on equipment following local government reorganisation and also for some building projects which have had to be deferred:

£ million

1977–78	1978–79	1979–80	1980–81
1·0	1·0	1·0	1·0

67. The following bid is consequential on the Home Office proposals for the police national computer (paragraph 27 above):

£ million

1977-78	1978-79	1979-80	1980-81
−0·2	0·2	—	—

Policy options

68. The following savings might be secured by reducing numbers of cadets and traffic wardens and running down all police forces which are at more than 95 per cent of establishment. (See under England and Wales (paragraph 31) above.)

£ million

1977-78	1978-79	1979-80	1980-81
—	0·4	1·4	1·4

FIRE SERVICES

Implications of Survey figures

69. The Survey figures provide for the total of full-time firemen to remain constant at about 3900 men. The number in post at 31 March 1976 was about 3950. Local authorities appear to be maintaining some restraint; but after allowing for a rise in the number of pension payments as a result of an increasing number of retirements, the figures imply a reduction of about 100 men over the period. The capital programme has already been reduced to what might be regarded as a dangerously low level. The figures contain no allowance for an increased need for fire protection as a consequence of North Sea Oil developments.

Additional bids

70. Local authority budget estimates for 1976–77 show that current expenditure is running considerably above the level allowed for in the rate support grant settlement for last year. To allow for this and for a gradual increase in the number of pension payments at existing values the following sums are required:

£ million

	1977-78	1978-79	1979-80	1980-81
To take account of local authority levels of spending in 1976-77	0·8	0·8	0·8	0·8
Pensions	—	—	0·1	0·1

71. It is difficult to quantify the requirement to deal with the consequences of North Sea Oil development, but the appearance of large new installations and their communities in very remote parts of Scotland where there is no regular fire service will involve introducing elements of a whole time fire service:

£ million

1977-78	1978-79	1979-80	1980-81
0·5	0·5	0·5	0·5

Policy options

72. The following savings might be achieved by cuts in local authority capital expenditure, which would virtually stop all new developments.

£ million

1977-78	1978-79	1979-80	1980-81
0·5	0·5	0·5	0·5

Community services

URBAN PROGRAMME

Implications of Survey figures

73. The Survey figures assume that the Urban Programme will continue at its existing level of about £4 million a year.

Additional bid

74. It has been the policy of the Secretary of State for Scotland to guide resources from appropriate programmes towards comprehensive schemes to remedy urban deprivation. In view of progress in this field, and in particular with the Glasgow urban renewal project, the Scottish Office wish the following extra provision to be made:

£ million

	1977-78	1978-79	1979-80	1980-81
Current	0·2	0·5	1·0	1·0
Capital	0·8	2·4	3·9	3·9
	1·0	2·9	4·9	4·9

Policy options

75. In view of the importance attached to this service in relation to the Glasgow urban renewal project no option is offered.

10. Education and Libraries, Science and Arts

TABLE 10 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
EDUCATION AND LIBRARIES										
England and Wales (excluding Universities)										
SCHOOLS ENGLAND:										
Capital expenditure:										
Under fives(1)	-	—	—	16·3	25·8	17·0	9·2	6·1	5·4	5·4
Primary, second and other	509·9	608·7	581·0	425·1	328·7	320·7	248·8	204·5	190·1	185·1
Total	509·9	608·7	581·0	441·4	354·5	337·7	258·0	210·6	195·5	190·5
Current expenditure:										
Under fives(1)	—	—	99·8	106·8	132·8	144·1	150·0	151·8	154·2	156·0
Primary	1,041·1	1,094·0	1,057·3	1,116·9	1,222·6	1,216·0	1,203·1	1,178·4	1,149·9	1,115·4
Secondary	1,157·4	1,222·7	1,318·4	1,415·3	1,354·4	1,397·1	1,437·7	1,467·7	1,491·3	1,502·7
Other	254·4	273·3	286·4	294·0	305·7	316·3	320·0	323·0	327·0	327·2
Meals	210·1	231·1	269·2	317·1	332·3	347·9	295·0	263·3	219·8	216·6
Milk	14·6	11·4	11·4	11·4	11·4	17·3	16·8	17·2	16·3	15·7
Total	2,677·6	2,832·5	3,042·5	3,261·5	3,359·2	3,438·7	3,422·6	3,401·4	3,358·5	3,333·6
SCHOOLS WALES:										
Capital expenditure:										
Under fives(1)	-	—	—	0·4	1·9	1·3	0·9	0·7	0·6	0·6
Primary, secondary and other	38·3	43·4	37·1	22·6	18·6	17·6	12·7	10·0	9·2	9·1
Total	38·3	43·4	37·1	23·0	20·5	18·9	13·6	10·7	9·8	9·7
Current expenditure										
Under fives(1)	—	—	9·8	11·8	14·4	16·3	17·4	17·6	17·9	18·1
Primary	70·5	74·1	68·8	70·9	79·3	77·0	75·1	73·3	71·1	68·2
Secondary	71·8	76·4	83·9	88·8	86·1	89·8	93·0	95·0	96·1	96·1
Other	15·2	15·8	16·1	17·1	16·7	18·0	18·6	19·1	19·7	19·9
Meals	13·5	14·8	16·6	19·9	20·9	21·7	18·6	17·0	14·4	14·4
Milk	1·0	0·9	0·9	0·7	0·8	1·0	1·0	1·0	1·0	1·0
Total	172·0	182·0	196·1	209·2	218·2	223·8	223·7	223·0	220·2	217·7
FURTHER EDUCATION—capital	122·1	108·1	110·7	89·8	52·5	60·3	61·9	54·7	54·0	57·1
current	625·3	667·9	678·7	703·9	743·3	774·9	789·7	809·1	836·0	869·6
Total	747·4	776·0	789·4	793·7	795·8	835·2	851·6	863·8	890·0	926·7
TEACHER TRAINING—capital	21·0	17·0	15·1	9·9	3·0	2·5	2·0	1·7	1·7	1·5
current	221·8	231·1	237·0	225·4	237·0	217·3	201·8	192·5	191·8	194·6
Total	243·8	248·1	252·1	235·3	240·0	219·8	203·8	194·2	193·5	196·1
LIBRARIES:										
National libraries										
Staff administration, etc.	6·1	6·0	9·6	13·3	14·2	15·5	17·6	17·7	19·3	19·1
Purchase grants	1·9	1·9	3·2	3·3	3·2	3·8	4·4	4·7	4·8	5·0
Capital	2·6	2·5	3·9	0·4	0·9	8·1	3·1	2·6	4·8	4·8
Local libraries—capital	16·9	25·1	24·1	22·4	14·4	11·6	7·6	2·5	2·2	2·2
current	116·9	123·3	127·2	134·1	140·0	139·6	141·4	143·9	145·4	145·4
Total	144·4	158·8	168·0	173·5	172·7	178·6	174·1	171·4	176·5	176·5

TABLE 10 (continued)

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
England and Wales (continued)										
MISCELLANEOUS EDUCATIONAL SERVICES, RESEARCH AND ADMINISTRATION:										
Youth services, etc.—capital	14·8	17·1	18·2	11·6	15·0	15·1	15·4	14·7	14·7	14·7
current	48·5	54·7	58·3	54·6	56·0	57·5	57·9	58·1	58·3	58·5
Research and other services	6·7	8·1	8·0	8·6	10·9	12·2	14·6	14·7	15·3	15·3
Administration	228·4	249·0	258·5	253·9	252·9	258·3	260·7	261·3	262·3	266·1
Total	298·4	328·9	343·0	328·7	334·8	343·1	348·6	348·8	350·6	354·6
Total England and Wales—capital	725·6	821·9	790·1	598·5	460·8	454·2	361·6	297·5	282·7	280·5
current	4,106·2	4,356·5	4,619·1	4,867·8	5,034·9	5,141·6	5,134·4	5,126·4	5,111·9	5,124·9
Total	4,831·8	5,178·4	5,409·2	5,466·3	5,495·7	5,595·8	5,496·0	5,423·9	5,394·6	5,405·4
Scotland (excluding Universities)										
SCHOOLS:										
Capital expenditure:										
Under fives(¹)	—	—	—	2·6	6·7	2·8	1·0	0·7	0·6	0·6
Primary, secondary and other	58·7	82·0	90·0	49·6	55·3	61·6	47·0	36·9	33·2	33·0
Total	58·7	82·0	90·0	52·2	62·0	64·4	48·0	37·6	33·8	33·6
Current expenditure:										
Under fives(²)	—	—	5·3	5·7	9·2	10·3	10·3	10·7	11·0	11·3
Primary	152·2	157·5	156·3	163·4	165·1	161·3	155·6	150·7	145·0	139·2
Secondary	163·0	176·6	195·3	206·9	214·7	217·7	218·1	218·9	218·8	218·1
Other	24·8	25·3	26·6	27·3	28·9	29·8	30·4	30·6	30·6	30·5
Meals	23·1	26·3	28·4	30·4	31·5	30·6	26·8	23·2	19·8	19·3
Milk	2·2	1·9	2·0	2·0	1·9	2·4	2·5	2·5	2·4	2·3
Total	365·3	387·6	413·9	435·7	451·3	452·1	443·7	436·6	427·6	420·7
FURTHER EDUCATION capital	20·3	13·9	10·7	7·2	8·3	11·4	11·8	9·0	6·7	6·7
current	61·8	66·4	69·4	74·4	76·4	78·4	81·3	83·7	84·6	86·2
Total	82·1	80·3	80·1	81·6	84·7	89·8	93·1	92·7	91·3	92·9
TEACHER TRAINING—capital	5·3	4·1	3·7	2·8	2·1	1·7	1·1	0·8	1·1	1·1
current	25·8	26·1	26·9	27·1	25·9	24·7	21·6	19·4	18·1	18·5
Total	31·1	30·2	30·6	29·9	28·0	26·4	22·7	20·2	19·2	19·6
LIBRARIES:										
National libraries:										
Staff administration, etc.	0·5	0·6	0·6	0·7	0·7	0·8	0·8	0·7	0·7	0·7
Purchase grants	0·1	0·1	0·1	0·1	0·2	0·2	0·2	0·2	0·2	0·2
Capital					—	—	—	—	—	—
Local libraries—capital	1·2	1·8	3·4	1·4	1·9	2·4	1·2	1·1	1·0	1·0
current	10·2	11·1	11·9	11·9	13·9	13·9	12·4	12·4	12·4	12·4
Total	12·0	13·6	16·0	14·1	16·7	17·3	14·6	14·4	14·3	14·3

TABLE 10 (continued) £ million at 1976 Survey prices

	1971–72	1972–73	1973 74	1974 75	1975 76	1976 77	1977 78	1978–79	1979–80	1980–81
Scotland (excluding Universities) (continued)										
MISCELLANEOUS EDUCATIONAL SERVICES, RESEARCH AND ADMINISTRATION:										
Youth services, etc.—capital	2·6	4·0	4·3	4·9	5·1	5·2	5·3	5·1	4·4	4·4
current	6·1	7·7	8·9	9·3	11·4	11·6	9·6	9·6	9·6	9·6
Research and other services	0·8	0·9	1·0	1·0	1·1	1·1	1·1	1·0	1·0	1·0
Administration . . .	17·0	18·4	19·0	19·6	21·7	21·8	19·4	19·4	19·4	19·4
Total	26·5	31·0	33·2	34·8	39·3	39·7	35·4	35·1	34·4	34·4
Total Scotland—capital .	88·1	105·8	112·1	68·5	79·4	85·1	67·4	53·6	47·0	46·8
current .	487·6	518·9	551·7	579·8	602·6	604·6	590·1	583·0	573·6	568·7
Total	575·7	624·7	663·8	648·3	682·0	689·7	657·5	636·6	620·6	615·5
UNIVERSITIES (GREAT BRITAIN)										
Capital grants	124·9	124·3	138·4	93·5	110·6	91·6	93·1	72·2	74·1	78·4
Current grants:										
DES	465·2	492·5	553·3	576·4	583·7	587·1	575·5	578·1	590·7	604·1
SED	0·2	0·3	0·2	0·2	0·2	0·2	0·2	0·2	0·2	0·2
Student awards:										
DES	123·3	107·8	116·6	121·7	140·1	142·7	147·2	151·8	157·2	161·1
SED	17·0	17·4	16·6	17·2	17·9	20·8	21·3	23·0	24·7	26·0
Administration	0·7	0·7	0·7	0·7	0·7	0·8	0·8	0·8	0·7	0·7
Total . . .	731·3	743·0	825·8	809·7	853·2	843·2	838·1	826·1	847·6	870·5
VAT paid by local authorities .	49·1	51·5	50·0	48·9	47·0	50·5	49·3	48·8	48·9	48·9
Total education and libraries:										
Great Britain—capital . .	947·6	1,062·7	1,049·8	768·8	657·1	639·1	529·6	430·7	411·1	413·0
current . .	5,240·3	5,534·9	5,899·0	6,204·4	6,420·8	6,540·1	6,511·3	6,504·7	6,500·6	6,527·3
Total	6,187·9	6,597·6	6,948·8	6,973·2	7,077·9	7,179·2	7,040·9	6,935·4	6,911·7	6,940·3
SCIENCE										
Research councils, etc. . .	236·3	244·1	227·9	230·8	233·9	215·9	216·1	211·1	210·7	210·7
Operating costs of the Natural History Museum . .	2·3	2·2	1·2	1·2	1·4	1·4	1·1	1·1	1·0	1·0
Total	238·6	246·3	229·1	232·0	235·3	217·3	217·2	212·2	211·7	211·7
ARTS										
National museums and galleries:										
Capital expenditure . .	4·7	1·6	1·9	4·7	4·5	5·8	4·2	3·2	2·0	2·0
Annual purchase grants .	2·1	3·0	2·4	2·0	4·0	3·5	3·7	3·8	3·8	3·8
Other current expenditure .	18·6	19·2	19·6	21·1	21·8	24·3	25·2	25·3	25·6	25·6
Local museums and galleries—capital	3·7	3·8	5·9	5·8	2·1	3·1	4·4	4·1	1·5	1·5
current	13·4	14·9	15·9	20·9	22·4	22·7	22·4	22·5	22·5	22·5
Arts Council and other arts—capital	3·9	5·8	5·1	8·7	4·8	2·8	1·6	0·8	0·6	0·6
current	26·0	30·3	34·2	34·9	36·0	41·5	42·3	39·3	40·6	40·6
Total arts—capital .	12·3	11·2	12·9	18·6	11·4	11·7	10·2	8·1	4·1	4·1
current .	60·1	67·4	72·1	78·9	84·2	92·0	93·6	90·9	92·5	92·5
Total	72·4	78·6	85·0	97·5	95·6	103·7	103·8	99·0	96·6	96·6

TABLE 10 (continued) £ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Total Education and Libraries, Science and Arts—capital	992·8	1,107·3	1,091·4	816·1	700·5	690·9	579·8	477·8	454·1	455·2
current	5,506·1	5,815·2	6,171·5	6,486·6	6,708·3	6,809·3	6,782·1	6,768·8	6,765·9	6,793·4
Grand Total	6,498·9	6,922·5	7,262·9	7,302·7	7,408·8	7,500·2	7,361·9	7,246·6	7,220·0	7,248·6
Changes from Cmnd. 6393 revalued:					+0·4	+17·3	−24·3	−15·1	−9·6	
Cmnd. 6393 revalued					7,408·4	7,482·9	7,386·2	7,261·7	7,229·6	

(¹) New nursery programme only.
(²) Separate expenditure figures not available before 1973–74.

EDUCATION AND LIBRARIES

ENGLAND AND WALES (including University Grants Committee Expenditure in Scotland)

IMPLICATIONS OF SURVEY FIGURES

1. In the main it has been possible to provide within the base figures for the continuation of the policies announced in Cmnd. 6393 for the period to 1979–80. But the provision for salary drift for teachers, school transport and compensation for redundant college of education staff is insufficient to maintain existing policy. The base figures for 1980–81 do not allow for the continuation of Cmnd. 6393 policies for developing post-school education in response to growing demands on the service, for continuing the expansion of in-service training for teachers, for increasing the numbers of pupils receiving special educational treatment and developing local libraries. The base figures would also require the postponed 5p increase in school meal charges to take effect in April 1977 and to be followed by a similar increase in September 1977.

2. Total expenditure, after reaching a peak in 1976-77, is expected to decline annually before rising again in 1980–81 when the costs of providing for increases in the size of the post-school age groups will begin to outweigh the savings arising from the reducing school population.

3. Projections of pupil, student and teacher numbers consistent with the base figures are given below. For the period to 1979–80 they are substantially similar to those underlying Cmnd. 6393.

Thousands

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Schools:					
Under-fives (including nursery)	422	422	422	422	422
Primary pupils	4,676	4,558	4,410	4,243	4,065
Secondary pupils to 16	3,476	3,509	3,509	3,480	3,417
Secondary pupils over 16	511	535	555	577	601
Special school pupils	128	131	134	136	136
Teachers	462	462	461	458	450
Non-advanced FE students* (excluding Evening Institutes)	503	520	537	554	562
Evening Institutes	181	185	188	192	194
Higher Education students*	484	490	500	516	536

* These figures are subject to possible revision in the light of decisions about higher fees for home and overseas students.

Primary and secondary schools

4. It is assumed that the schools will continue to educate all children of statutory school age and those remaining at school after the age of 16. The total school population will fall by over 500,000 during the Survey period, and only the numbers of pupils over the statutory school leaving age show any significant increase.

5. Cmnd. 6393 made provision for maintaining until 1979-80 the average pupil-teacher ratios achieved in the academic year 1975-76, namely:

Under-Fives	26·6 : 1
Primary	23·6 : 1
Secondary to 16	17·9 : 1
Secondary over 16	9·5 : 1

Those ratios implied, for the first time, a reduction in the size of the teaching force in 1979-80. As pupil numbers continue to fall a further reduction

of 4,000 would follow in 1980–81, and the teacher numbers consistent with the Cmnd. 6393 policy *would thus be*:

Thousands

1976 77	*1977 78*	*1978–79*	*1979–80*	*1980–81*
463	464	464	460	456

If, however, the revised estimate of the costs of teachers' salary increments (see paragraph 30 below) were not met, and the salary bill constrained to the base figures, the size of the teaching force for each year would need to be smaller than this, as shown in the table in paragraph 3. The effect would be to increase still further the already substantial surplus of trained teachers and preclude the introduction of induction training. Even if additional resources for incremental drift were found, the base figure for 1980 81 would require the development of in-service training to mark time rather than be continued as previously planned.

6. The 1979–80 starts figures for capital programmes which underlay Cmnd. 6393 are repeated for 1980-81.

7. The need to maintain the growth in non-teaching unit costs of 1½ per cent a year to allow for diseconomies of scale as the numbers of pupils fall and to provide for the effects of bringing into use new buildings, changes in teaching methods and the costs of new equipment was recognised in the expenditure forecasts of the 1975 Survey. A similar allowance for growth in these unit costs is allowed in the base figures for 1980-81 as the rate of decline in pupil numbers—secondary as well as primary—accelerates in that year.

Under-fives

8. The Cmnd. 6393 policy of holding constant the number of under-fives in nursery and primary schools at the 1976–77 level—now estimated at 422,000—would be continued into 1980-81. The modest building programme of £3·3 million starts per year from 1978–79 compares with starts to the value of £10 million expected in 1976–77, and would allow the continuance on a limited scale of a policy of providing purpose-equipped facilities in place of existing ill-suited accommodation in the areas of greatest need. Existing regulations as to the minimum standards of provision required for nursery places are being examined to see if some reductions in cost can be achieved.

Special schools

9. The policies underlying Cmnd. 6393 implied postponing the provision of places in special schools for the substantial number of children who are having to be accommodated in ordinary schools where their requirements cannot adequately be met. The expenditure limits allow for no increase in the number of special school places beyond 1979 80.

School meals

10. The DES consider that the decision, as part of the package of measures announced on 5 May 1976, to defer the increase (from 15p to 20p) in the school meal charge planned for September 1976 will make it impracticable to achieve the Cmnd. 6393 objective of halving by 1980 the rate of subsidy which obtained in 1975 76 (63 per cent). In their view the most rapid progress towards reducing the subsidy which would have credibility in relation to that decision would be to implement the previously planned increases 1 year in arrears. This would imply a bid for additional public expenditure, as follows:

£ million

1977–78	*1978–79*	*1979–80*	*1980 81*
40	49	42	7

The Treasury believes that there are other possibilities, including that of sticking to the base figures either literally or by amalgamating the two increases which they would require in 1977.

School milk

11. The limits of expenditure will allow for the implementation from 1976–77 of the legislation now before Parliament on the basis previously intended viz. that local education authorities individually will have discretion to set the charge for school milk (except where free provision is a statutory requirement) and to remit it in cases of hardship.

Higher and further education

12. The base figures allow for the age-participation rates prevailing in 1979–80 to be maintained in 1980-81. Provision has been made for the additional student numbers and for staff numbers to be increased in that year to preserve the staff-student ratios expected in 1979–80, namely:

Non-advanced Further Education	1 : 11·9
Universities	1 : 9·4
Advanced Further Education	1 : 9·2

As indicated in Cmnd. 6393 academic staff numbers are expected not to increase between 1976–77 and 1979–80. These policies, however, depend on additional resources being available to cover the cost of incremental salary drift (see paragraph 30).

13. The expenditure forecasts in Cmnd. 6393 for higher education provided for a rate of expansion consistent with attaining 600,000 full-time and sandwich course students in Great Britain in 1981–82 (96 per cent of estimated demand). The maintenance in 1980–81 of the age-participation rate for 1979–80 (*i.e.* allowing for the increased size of the age group but not for increased percentage participation) would be consistent with a corresponding figure of 592,000 students in 1981–82. The expansion of non-advanced further education would be similarly restricted. On the basis of these forecasts, the effect would be that a further 11,000 potential HFE students might not find places in the Autumn of 1980.

14. Cmnd. 6393 made provision for growth of 1½ per cent a year in unit non-teaching costs in the maintained sectors of higher and further education. It will not be possible, within the base figures, to maintain this growth in 1980–81. Local authorities have consistently maintained that an annual increase in non-teaching unit costs is inescapable on account of the introduction of new buildings, changing teaching methods, and increased sophistication of new equipment; and that to keep these costs at a constant level would reduce educational standards. On the other hand just as there are diseconomies of scale where numbers are falling (paragraph 7) so there are economies to be expected where numbers are rising.

Libraries

15. The British Library would be able to maintain sufficient growth in current expenditure to meet the inevitable increase in its collections. But accommodation problems would increase with a standstill on capital expenditure in 1980–81.

16. The public libraries would be able to meet their current expenditure requirements only at the expense of their capital programmes.

SCOTLAND

IMPLICATIONS OF SURVEY FIGURES

17. The then Secretary of State for Scotland made it clear before the publication of Cmnd. 6393 that in his view the figures for this programme were not sufficient to carry out the policies described there. The level of local authority spending underlying the rate support grant settlement for 1976–77 had not been fully carried through to the later years. The RSG settlement had, however, exceeded the public expenditure limits and the Treasury was not prepared to agree that this should be carried through to the later years in the form of additions to total Scottish programmes. The base figures reflect this decision. The Department consider that the base figures make it impracticable to provide a reasonable enhancement factor for unit non-teaching costs in schools and further education: they would require a lowering of unit costs by 2 per cent between 1976–77 and 1977–78 and a restoration to the 1976–77 level would not be possible until 1979–80. For the same reason they consider that the limits would also involve significant cut-backs in expenditure below 1976–77 levels in relation to social and recreational education, libraries and administration. In addition, the limits would be insufficient to meet the latest forecasts of expenditure on school meals, teacher salaries and the level of demand for higher and further education.

18. The following are forecasts of the pupil, student and teacher numbers for which the expenditure limits would provide. For the years to 1979–80 these numbers are lower than those provided for in Cmnd. 6393, with the exception of student numbers.

Thousands

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Schools:					
Under-fives (including nursery)	31	31	32	33	33
Primary pupils	599	578	558	535	512
Secondary pupils to 16	343	345	341	339	332
Secondary pupils over 16	61	64	69	71	75
Special school pupils	14	14	15	15	15
Teachers	54	53	52	51	49
Non-advanced FE students	59	60	62	63	64
Higher education students	32	32	32	33	34

19. The overall school population will fall by over 80,000 during the Survey period with only the number of pupils over school age showing any significant increase. Although this produces savings in expenditure on schools it is partly offset by additional expenditure arising from the increase in the number of students in further and higher education over the period.

20. The staffing standards consistent with Cmnd. 6393 are:

Under fives	20·0 : 1
Primary	23·3 : 1
Secondary	15·4 : 1 (reducing to 15·6 : 1 as average rolls increased)

Teacher numbers consistent with this policy would be:

Thousands

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
54	54	53	52	51

Thus the teaching force would reduce further in 1980–81 to 50,500. If further provision is not made for the increased cost of teachers' salary increments (see paragraph 40 below) there would be a further reduction to 49,500 as shown in the table in paragraph 18.

21. The policies announced in Cmnd. 6393 for capital programmes would be extended to 1980–81. The expenditure limits provide for building starts programmes as follows:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Under fives	2·3	0·8	0·6	0·6	0·6
Primary and secondary basic needs	34·0	28·9	27·9	27·9	27·9
Improvements	6·5	2·2	2·2	2·2	2·2
Special schools	2·2	2·2	2·2	2·2	2·2
Higher and Further Education	10·9	7·7	5·6	7·5	6·5

Under fives

22. The number of under-fives in nursery and primary schools, although rising slightly in the light of the projected limited capital programme, would be significantly below the level forecast in Cmnd. 6393 as a consequence of expected shortfall in the take-up of nursery school investment by authorities in 1975–76 and 1976–77.

Special schools

23. There would be sufficient provision for the continuation of the policies underlying Cmnd. 6393. But this would mean a further postponement of desirable projects designed to meet the particular needs of these children.

School meals

24. The Department shares the views of the DES on the implications of the decision of May 5 to postpone the previously intended increase in the price of the school meal (see paragraph 10). The proposal to delay each prospective increase to the following September gives rise to the following additional bid:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
2·6	2·9	2·3	0·4

School milk

25. The limits of expenditure provide for the implementation of the legislation now before Parliament on the same basis as for England and Wales (see paragraph 11).

Higher and further education

26. The provision in Cmnd. 6393 would have enabled 96 per cent of the then current estimate of demand to be met up to 1979–80, but the expenditure limits would permit only 92 per cent to be met in 1980–81 because later projections suggest that unrestrained demand will be higher than was assumed earlier. In order to accommodate 96 per cent of the present estimate of demand provision would have to be made for 4,700 additional places over the baseline figure by 1980–81. This is the subject of an additional bid.

Libraries

27. For the reasons given in paragraph 17, the expenditure limits assume that local authorities will severely restrict their current expenditure on libraries from 1977–78 onwards.

ENGLAND AND WALES

ADDITIONAL BIDS

School transport

28. An improved method of calculating school transport costs produces the following estimates of additional expenditure:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
2·4	4·3	5·6	6·5

Account has been taken of the transport costs applicable in the different sectors of education; the need for additional expenditure reflects growth in the relatively costly transport of secondary pupils and pupils requiring special educational treatment. Moreover, the continuing decline in the availability of public transport, especially in rural areas, means additional expenditure by local authorities on alternative forms of transport in meeting their statutory obligations.

College of education staff—compensation

29. The following additions result from a re-assessment of expenditure on payments to redundant College of Education staff:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
—	—	0·6	1·0

Teachers' salaries

30. The latest information about the effect of salary drift leads to the following estimates of additional expenditure to maintain the presently intended numbers of teachers (see paragraphs 5 and 12):

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
12·2	18·2	24·5	25·6

Higher and further education

31. To continue in 1980–81 the policies in Cmnd. 6393 for a 1½ per cent annual increase in non-teaching unit costs in the public sector of higher and further education and for provision to meet 96 per cent of the forecast unrestricted demand, would require additional expenditure of £7·0 million and £9·0 million respectively in that year.

Special schools

32. To continue in 1980–81 the Cmnd. 6393 policy of making some progress (2,000 extra places a year) towards providing special school places for all children needing such facilities would cost an extra £1·4 million in that year.

In-service teacher training

33. To complete the expansion of in-service training, to cover 3 per cent of the teaching force in 1980–81, would require an additional £15·4 million in that year.

National Library of Wales

34. To meet an acute accommodation need, the extension of the second bookstack of the National Library of Wales at Aberystwyth, would cost an extra £0·5 million in each of the three years up to 1979–80.

Total additional bids (England and Wales)

35. (*a*) The totals of the additional expenditures described in paragraphs 28–34 above are:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
15·1	23·0	31·2	65·9

(*b*) In addition, the proposal on school meal charges in paragraph 10 would cost:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
40·0	49·0	42·0	7·0

Tuition fees

36. In addition to the above bids for extra resources, the policy proposed by the Secretary of State in May 1976 would result in smaller economies than were allowed for in the costings in Cmnd. 6393. The Secretary of State has undertaken to offset the shortfall on tuition fees by savings elsewhere in his programmes, provided that his fee proposals are accepted by Ministers. The amount is estimated at £7 million in 1977–78. For later years, it is up to £19 million, towards which any real increases in the fees fixed for those years will be available.

Offsetting savings

37. The list of policy options would be sufficient to cover the savings referred to in paragraph 35 and most of the additional bids, to the extent that the expenditure limits are not increased to encompass them, in addition to the reduction of 3½ per cent in 1977–78 and 5 per cent thereafter, if required. They would not however cover the cost of the additional bid in relation to school meal charges (paragraph 35(*b*)) which the Department regards as deriving from the pay settlement and therefore as a charge against public expenditure generally.

SCOTLAND

ADDITIONAL BIDS

Schools: teaching costs

38. The following additional expenditure would provide some 1,100 extra teachers (700 primary and 400 secondary) for service in areas of urban deprivation where there is a claimant need for additional teaching resources to overcome social and environmental handicap.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
5·0	5·0	5·0	5·0

School building: capital

39. The major reorganisation of local government in Scotland in May 1975 disrupted building programmes, and the back-log of starts at 31 March 1975 and 1976 was greater than expected by £24·3 million and £8·5 million respectively. This alters the incidence of expenditure to be expected from these starts. The following additional bid is to cover the estimated shift into the Survey period: it may be regarded as partly offset by savings in capital expenditure on nursery school building already surrendered to the Contingency Reserve.

£ million

1976–77	*1977–78*	*1978–79*
4·9	5·3	1·1

Teachers' salary drift

40. As for England and Wales, revised assessment *of the effect of salary drift* has revealed the following additional expenditure requirements to maintain existing policy on primary and secondary school staffing:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
1·0	2·0	3·1	4·0	4·9

Salary drift depends on the existence of incremental pay scales and is a corollary of the changing age structure of the teaching profession which in turn reflects the staffing policies of successive governments over a considerable period. In recent years the effects have been exacerbated by declining wastage rates as alternative employment opportunities have declined.

Teaching and non-teaching costs: schools

41. (i) *Revised estimate of primary school numbers*

Primary school numbers are now estimated to be 1,000 higher than in Cmnd. 6393, and additional provision is required.

£ million

1976–77
1·2

(ii) *Non-teaching costs: schools*

The existing limits do not provide for a 1½ per cent enhancement factor in non-teaching unit costs from 1977–78, for which the following additional sums would be required:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
5·7	6·4	7·2	7·2

A large element of this (between £4 million and £5 million a year) formed part of the claim for consequentials of the Rate Support Grant Settlement (see paragraph 17) which was based on a 1 per cent annual enhancement factor from *1978–79*. The Treasury considers that the increased claim for 1½ per cent from 1977–78 should be provided by reallocations within Scottish programmes as a whole.

School meals

42. *The following bid arises from the latest school* meals census which indicates a higher level of uptake than has been provided for in Cmnd. 6393.

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
1·9	0·7	1·3	1·2	1·1

Higher and further education

43. As more students are coming forward than were anticipated in Cmnd. 6393, additional expenditure will be needed if the same proportion of total demand is to be provided for. Additional provision

is also needed to allow a 1½ per cent enhancement factor in non-teaching unit costs which was not included in Cmnd. 6393 for the reason given in paragraph 17. The combined effect is:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
1·0	1·7	2·3	4·1	5·5

Within these totals the amounts required to carry through the Rate Support Grant adjustment for 1976–77 into later years (see paragraph 17) are £0·2 million in 1977–78 and in 1978–79, £0·3 million in 1979–80 and £0·2 million in 1980–81. The Treasury's view is that there is no commitment to train unlimited numbers of students, and that increasing non-teaching unit costs should not be necessary as the rise in student numbers produces economies of scale. Insofar as the latter are desirable, the Treasury thinks that the cost should be offset elsewhere in Scottish programmes, as stated in paragraph 17.

Social and recreational education, libraries and administration

44. For the reasons given in paragraph 17 the base figures are not all for the following amounts required to maintain 1976–77 levels of current expenditure:

£ million

	1977–78	1978–79	1979–80	1980–81
Social and recreational education	2·0	2·0	2·0	2·0
Libraries	1·5	1·5	1·5	1·5
Administration	2·5	2·5	2·5	2·5

Total additional bids (Scotland)

45. (*a*) The total additional expenditure described in paragraphs 38–44 above is:

£ million

1976–77	1977–78	1978–79	1979–80	1980–81
10·0	26·4	25·2	27·5	29·7

(*b*) In addition the proposal on school meal charges in paragraph 10 would cost:

£ million

1977–78	1978–79	1979–80	1980–81
2·6	2·9	2·3	0·4

Offsetting savings

46. A number of savings in all years have already been surrendered to the contingency reserve (£9·6 million in 1979–80) mainly from demographic changes. The Scottish Office say it is not possible to propose other offsetting savings.

ENGLAND AND WALES

POLICY OPTIONS

47. Reductions in public expenditure by 2½ per cent in 1977–78 and by 5 per cent annually thereafter would, if implemented, require the following total savings on DES and, where relevant, Welsh Office programmes:

£ million

1977–78	1978–79	1979–80	1980–81
165	326	326	327

48. Under the auspices of the Consultative Council for Local Government Finance, the Department are discussing with the local authority associations what possible changes in existing and forthcoming policy should be adopted if expenditure reductions of this magnitude were required. The list of suggestions made at this stage is subject to reconsideration in the light of the outcome of these discussions.

49. The measures that would be required to achieve savings of this magnitude, and also, if need be, to offset the additional expenditure discussed in paragraphs 28–34 and 36 above are listed below in decreasing order of acceptability in each of the constituent sub-programmes. The Secretary of State would not however be prepared to offset the cost of the additional bids in respect of school meal charges (paragraph 10) or the Arts (paragraphs 61–64) by these measures.

50. COMMENTARY ON POLICY OPTIONS ENGLAND AND WALES

(*a*) *Reductions in computer board expenditure*

These savings represent a halving of the Computer Board's recurrent expenditure from 1977–78, and of its capital expenditure from 1978–79. Reductions on this scale would not only restrict the research activities—and to a lesser extent the teaching—at universities, but also produce fewer orders for the British computer industry.

£ million

	1977–78	1978–79	1979–80	1980–81
(*a*) Reduction in Computer Board expenditure	4	9	10	10
(*b*) Reduction in University Furniture and Equipment grant	21	23	11	12
(*c*) Revised catering and residence arrangements in Higher and Further Education	4	10	14	15
(*d*) Libraries: reduced capital and current expenditure	4	8	8	8
(*e*) Postponement of induction training and expansion of in-service training of teachers	7	21	29	35
(*f*) Reduction of provision for non-teaching costs in Higher and Further Education	10	21	33	45*
(*g*) Reduction of planned expenditure on Higher Education to 95 per cent of Cmnd. 6393 level—570,000 places in 1981–82†	8	24	35	41
(*h*) Reductions in all educational building starts programmes except Primary and Secondary basic needs	17	33	41	25
(*i*) Reduction of planned expenditure on under-fives to 80 per cent of Cmnd. 6393 level	22	33	34	35
(*j*) Reduction of planned expenditure on non-advanced Further Education to 95 per cent of Cmnd. 6393 level†	8	20	24	24
(*k*) School meals: further reduction of subsidy	26*	34*	27*	21*
(*l*) Reduction in teaching force by 1 per cent from 1977–78 (in addition to any reduction required by (*i*) above)	10	15	15	15
(*m*) Reduction of planned levels of non-teaching costs in primary, secondary, nursery and special schools	14	28	41	56
(*n*) Introduction of library charges	12	12	12	12
(*o*) Capitation fee of £10 for school pupils and students in non-advanced further education	46	68	66	65
Total	213	359	400	419

* These figures assumed acceptance of additional bids.

† These options are subject to revision in the light of Ministers' decisions on tuition fees.

(b) Reductions in university furniture and equipment grant

These savings would reduce the furniture and equipment grant to about £15 million in 1977 78 and 1978–79, and to £25 million in 1979–80 and 1980-81 —a level inadequate to maintain existing standards and to replace obsolescent and outworn equipment.

(c) Revised catering and residence arrangements in higher education

The introduction by local education authorities of revised catering and residence arrangements in institutions of higher and further education in the public sector would not only require greater efficiency but also higher charges for a great many students. As such, it would be an unpopular measure though not inconsistent with the student grant level. It would be difficult to implement precipitately in full. The costings are accordingly based on a phased introduction over three years from 1977–78.

(d) Library services

The reductions would imply for the British Library savings of £0·5 million in 1977–78, £1·1 million in 1978–79 and £1·2 million in 1979–80. This would necessitate the postponement of the Library's plan for developing its technical services, and in particular for installing its own computer. The remainder of the reduction would have to be at the expense of the book conservation programme. Insofar as the Library could increase its earnings capacity as the Treasury believes it could -these effects could be abated, or the saving increased. In the public libraries the cuts could only be achieved by reducing services, and might in some cases involve reduction of the book-fund at the risk of creating permanent gaps in acquisition.

(e) Postponement of induction training and expansion of in-service training

The postponement of the introduction of induction training and the expansion of in-service training for teachers for a further two years, *i.e.* until September 1979, would correspondingly restrict the demand for qualified teachers and thus make it more difficult for those newly trained to find posts. It is expected

that the additional excess* in each year of teacher supply over demand implied by this proposal would be:

1977–78	1978–79	1979–80	1980–91
2,000	6,000	6,000	8,000

This further restriction would also increase the redundancy problems of the training institutions themselves. Desirable improvement in the quality of the teaching force would be further delayed.

(f) Reduction of non-teaching costs in higher and further education

Local authorities would have to be asked to limit non-teaching unit costs to the 1976–77 level. A corresponding reduction would have to be made in university recurrent grant. This compares with the Cmnd. 6393 provision of 1½ per cent cumulative annual growth from 1976–77 to 1979–80 in the public sector (and an additional bid to continue this in 1980–81). Local authorities have consistently maintained that to hold non-teaching unit costs constant would result in a reduction of standards and that falling student numbers in teacher training would require higher unit costs to offset diseconomies of scale. The Treasury believes that it should be possible to achieve economies of scale in the higher and further education sector as a whole since numbers will be rising significantly through the period.

(g) Restriction of higher education provision to 95 per cent of Cmnd. 6393 level

The effect of this option would be that significant numbers of qualified students (about 19,000) seeking to pursue courses of higher education would either not be able to find places or would have to be accommodated at the expense of educational standards. The savings relate to staffing and non-teaching costs, as well as to student support, and it would therefore be necessary to reduce staffing complements. This could be achieved by wastage but only with difficulty. This option would mean that the staffing standards of departments and faculties could be subject to the randomness of wastage. The Secretary of State's proposals for tuition fees would have the effect of reducing from 1977–78 onwards the numbers of students forecast in Cmnd. 6393. The implementation of those proposals would reduce the numbers of students still further.

(h) Reduction of building programmes

The following table provides a comparison between the building starts programmes underlying Cmnd. 6393 and those which would be required (the Cmnd. 6393 figures, revalued to 1976 Survey prices, are shown in brackets, where they differ):

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Under-fives	10	– (5)	— (3)	3	3
Primary and secondary basic needs	133	119	114	109	109
Improvements	22	— (16)	— (16)	11 (16)	11 (16)
Special schools	11	— (8)	— (8)	8	8
Higher and Further Education	33	18 (33)	26 (43)	43	43

The basic needs programme for additional school places would be preserved at the level required mainly for the shift in population from area to area throughout the period. But the existing provision for the improvement and replacement of schools would be abandoned for 1977–78 and 1978–79. This would leave many urban areas with no building programmes for two years; it would impede comprehensive reorganisation; and, because of the practical difficulties of programme management, could lead to under-provision for basic needs in some areas of population growth.

These reductions in the provision for school improvements would be accompanied by a two-year moratorium on nursery provision and on the provision of new special schools. This would imply unsatisfactory nursery accommodation remaining in use and children who ought to be in special schools would remain in ordinary schools where their special needs could not be fully met.

In Further Education, reductions in the building programme would mean even more intensive use of

* Uncertainties about future wastage rates and to an increasing extent the result of integrating teacher training with other higher education courses make forecasting particularly difficult. But best estimates suggest that if the staffing policies announced in Cmnd. 6393 were implemented, the potential excess supply of people qualified as teachers in September would be as follows:

1977–78	1978–79	1979–80	1980–81
16,000	24,000	30,000	32,000

existing premises than required by the Cmnd. 6393 policies. Resources for fire precautions and other requirements of the Health and Safety at Work Act would not be available and adaptations needed to ensure the full use of vacant science places and the maximum use of the former colleges of education might have to be postponed. As the building programmes for universities are already very small, significant savings could not be made without prejudicing the expansion of medical provision required to meet the needs of the National Health Service.

(i) Restriction of provision for under-fives

This option implies that provision for under-fives would be reduced by 20 per cent from September 1977. In order to achieve the savings, local authorities would have to be persuaded to reduce their staff by about 3,000 teachers in each year and to make the corresponding savings on non-teaching costs. This would produce a concomitant increase in the numbers of unemployed teaching and non-teaching staff. In a time of falling primary school numbers, the savings would also depend on local authorities taking existing accommodation out of use.

(j) Restriction of non-advanced further Education provision to 95 per cent of Cmnd. 6393 level

This option is similar in concept to Option *(g)* above, and like considerations apply.

As in the case of that option the implementation of the Secretary of State's proposals for tuition fees would reduce student numbers still further. Priority would be given to protecting as far as possible provision for the 16–19 age group, but this would imply proportionately more severe restrictions on other non-advanced further education.

(k) School meals—reductions of subsidy

This proposal assumes first that the additional bid in paragraph 10 is accepted. It is therefore tantamount to a partial reduction of that bid (albeit against different circumstances). It is not an option for reducing the base figures. It would require the charge to be raised by 10p to 25p in September 1977. This was the level contemplated in Cmnd. 6393. Further substantial increases would be required in successive Septembers; the ultimate effect would be to reduce the average subsidy on the meal to about 23 per cent by 1980–81. It is at present about 67 per cent.

Local education authorities have already expressed concern that resources from the education programme are now being used to subsidise school meals by over £350 million a year. The authorities may, therefore, be expected to judge reductions in public expenditure on school meals preferable to alternative policies which would impact directly on educational objectives.

(l) Reduction of teaching force by 1 per cent from 1977–78

The Cmnd. 6393 policy allowed for the maintenance in later years of the 1975–76 separate staffing ratios in primary and secondary schools, which implied an improvement from 19·6:1 in 1975–76 to 18·6:1 in 1980–81 in the overall ratio, as a greater proportion of pupils entered secondary education. As a result of this option the overall staffing ratio would improve only to about 18·8:1 in 1980–81. Although uncertainties about future wastage rates, and, to an increasing extent, the results of integrating teacher training with other higher education courses, make the forecasting of teacher supply over potential demand particularly difficult, it is to be expected that option *(i)* would add some 3,000 teachers per year to the excess expected from Cmnd. 6393 policies, and this option some 4,500 in each year to those figures. It has been assumed that all these reductions could be met within the natural wastage of the teaching profession, without any call for compensation for early retirement or redundancy—*i.e.* through reducing the recruitment of newly trained teachers.

(m) Reduction of non-teaching costs in schools

Generally similar considerations to those outlined under option *(f)* apply also to schools. In view however of the increased units costs resulting from the increasingly rapid decline in primary school population and, after 1978, from the fall in the number of pupils in secondary schools where already the proportion of older pupils—for whom provision is relatively expensive—is increasing, this option implies a progressive and cumulative erosion of standards.

The following two options would require controversial, emergency legislation which would have to be enacted before the beginning of 1977–78. If this could not be contemplated it would be necessary to increase the scale of some of the earlier options.

(n) Introduction of library charges

This option is based on the assumption that some 10 million library users could initially be charged £2 per year for the service. Allowance is made for exemptions, for fall-off in demand, and for the costs of administration.

(o) Capitation fee for school pupils

In order to provide the savings claimed this option would have to apply to pupils of compulsory school age, thus introducing a charge for an educational service provided free hitherto this century. The option would also have to apply to school pupils outside the compulsory age range and to those students aged 16 to 18 in non-advanced further education who pay no fees at present. Legislation would be required to amend the 1944 Education Act: it would be highly controversial to pass and difficult to implement. The figure of £10 would need to be revalued each year

SCOTLAND

POLICY OPTIONS

51. The requirement to reduce public expenditure by 2½ per cent in 1977–78 and 5 per cent annually thereafter would, if implemented, require the following savings:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
17·0	33·0	32·0	32·0

52. The measures that would be required to achieve these savings are listed below, in descending order of acceptability to the Department:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
(*a*) Libraries: user charge	2·0	2·0	2·0	2·0
(*b*) Abandonment of school building starts programme from 1977–78	1·9	4·1	4·8	5·0
(*c*) Restriction of higher and further education provision to 95 per cent of Cmnd. 6393	1·2	2·6	4·0	5·5
(*d*) School meals: reduction of subsidy	1·8	2·2	1·7	1·9
(*e*) Reduction of teaching force by 1 per cent in 1977–78 and 5 per cent in subsequent years	2·5	12·5	12·0	12·0
(*f*) Capitation fee of £10 for school pupils and students in non-advanced further education	7·9	7·8	7·6	7·4
Total	17·3	31·2	32·1	33·8

53. The implications of these policy changes are outlined below.

(*a*) *Libraries*. This would require legislation of a contentious nature to be enacted before 1977–78. The fee would be of the order of £2 initially and would be revalued in line with prices in order to produce a constant yield. Treasury officials do not believe this option to be feasible except in an emergency situation.

(*b*) *School building*. This would involve a complete stoppage of all the school building starts programmes from 1977–78 for under-fives, special schools and school improvement. The basic needs programme would be preserved.

(*c*) *Higher and further education*. On the basis of the Cmnd. 6393 planning figure, this option would make it necessary to restrict the number of admissions to higher and further education by up to 1,250 in Autumn 1980.

(*d*) *School meals*. This proposal follows the option put forward by the DES

(*e*) *Reduction of teaching force*. This proposal would lead to a reduction in the teaching force of 2,500 by 1980–81. Achievement of this reduction could depend on the outcome of litigation over the contract of service which the teachers have negotiated with local authorities.

(*f*) *A £10 capitation fee*. This option would introduce a charge, initially £10, for those in compulsory education. It would also apply to pupils over school age and students under 18 in non-advanced further education. Introduction would be dependent on the introduction of highly contentious legislation.

SCIENCE

IMPLICATIONS OF SURVEY FIGURES

54. The policies announced in Cmnd. 6393 which, after allowance has been made for the transfer of funds from the DES Science Budget to customer departments under the arrangements set out in Cmnd. 5046, "Framework for Government Research and Development", would broadly restrict the resources of the Research Councils to the level attained in 1972–73, would be carried forward a further year to the end of the new Survey Period.

POLICY OPTIONS

55. Reductions of 2½ per cent in 1977–78 and 5 per cent thereafter would require the following savings:

£ million

	1977–78	1978–79	1979–80	1980–81
(a) Further curtailment of SRC big science	1	3	3	3
(b) Reductions in resources for other Research Council's programmes in agricultural, health and environmental research .	2	4	4	4
(c) Reduction of SRC support for science and egineering . .	2	4	4	4

56. The effect of these reductions would be as follows:

(a) The zero-growth strategy adopted for Cmnd. 6393 would already entail sharply reducing expenditure in the big science fields supported by the Science Research Council (high energy physics, space science and astronomy), in order to sustain growth in other fields supported by that Council, especially in applied science and engineering; and in basic sciences supported by other Research Councils which underpin Government policies in agriculture, health and the environment. This means that total expenditure on big science including international commitments would decline by 25 per cent, and domestic expenditure by 35 per cent, by 1980 81. Only small savings (up to £3 million a year) could be found by further running down high energy physics at the price of heavy redundancies and under-use of our share of international facilities, and by deferring the full implementation of the Northern Hemisphere Observatory project.

(b) Elimination of the modest growth proposed in the resources allocated by other Research Councils (ARC, MRC, NERC, SSRC) would produce about £4 million a year, with no allowance for incremental creep or sophistication. This would significantly reduce the level of scientific activity in agricultural, medical and environmental research, not only in Research Councils' own institutions but also in the universities.

(c) The reversal of present policies proposed by the Science Research Council with support from industry, Government departments, and universities, to expand and improve the training of engineering manpower and to develop new forms of academic/industrial research would produce £4 million a year.

ARTS

IMPLICATIONS OF SURVEY FIGURES

57. The planned expenditure for 1977–78 will enable existing policies to be carried out at minimum levels: providing additional resources, for example, only to man new national museum and gallery buildings already under construction and to bring into full use the new National Theatre. The museum and gallery figures in England already allow for staffing reductions at two Departmental museums as part of the reductions in Civil Service staff costs.

58. On the basis of the planned expenditure for 1978–79 on the two following years it will not be possible to sustain existing policies. The national collections will have to reduce opening hours to obtain the margin required for manning new extensions. The Arts Council will have to reduce its current subsidies to an extent which will require at least one national company to close down and will curtail support for the Regional Arts Associations. Capital provision for housing the arts will have to be reduced by more than half.

59. In 1979–80 and 1980–81, provision for the Arts Council will improve slightly compared with 1978–79, but this will still not enable it to maintain existing obligations. Provision for the national collections and housing the arts will be the same as in 1978–79, except that the building programme for the national collections will be reduced to a negligible level.

60. No provision is made in the period for implementing Public Lending Right; for introducing Government help for museum schemes of more than local significance; or for tackling the long-term storage and film preservation problems of the National Film Archive.

ADDITIONAL BIDS: ENGLAND AND WALES

South Bank Theatre Board

61. £0·5 million in 1978–79 would be required to allow for additional expenditure on claims arising from the contract. With existing planned provision, this would provide £0·7 million which is the minimum that can realistically be allowed.

Arts Council

62. £3·5 million in 1978 79 and £2·5 million in 1979–80 and in 1980–81 to enable the Council to maintain existing levels of support and to provide the additional resources required by the Royal Shakespeare Company because of its move to the new theatre in the Barbican, now under construction.

Museums and galleries capital expenditure

63. £0·5 million in 1978–79 and £1·0 million in each of the years 1979–80 and 1980–81 is the minimum addition which the Department of Education and Science require to enable existing planned projects to be carried through.

Public Lending Right

64. £0·5 million in 1978–79 would provide for the costs of appointing a registrar and of setting up the machinery prior to the start of payments to authors. £1·5 million in 1979–80 and 1980–81 would allow for payment of £1 million to authors—in addition to the running costs of £0·5 million—which is the minimum regarded by the Minister for the Arts as reasonable in the context of the Bill now passing through Parliament.

ADDITIONAL BIDS: SCOTLAND

Museums and galleries

65. Additional provision as follows will be required to maintain 1976–77 levels of current expenditure by local authorities:

£ million

1977–78	1978–79	1979 80	1980–81
0·6	0·8	0·8	0·8

Total additional bids

66. The total of the additional expenditure for the arts described above is:

£ million

1977–78	1978–79	1979–80	1980–81
0·6	5·8	5·8	5·8

No offsetting savings are possible. The Treasury considers the Scottish Office bid should be disallowed, as the Chief Secretary rejected consequential expenditure flowing from the RSG settlement for 1976–77.

POLICY OPTIONS

67. The DES, SED and Welsh Office believe that the reductions sought, particularly from 1978-79 on, would entail fundamental changes in the scale and character of national support for the arts, bearing in mind that, as explained in paragraph 58 above, the present provision after 1977–78 is already inadequate to sustain existing policies. The Treasury considers that the options, which for a 5 per cent reduction would still represent a level of support for the arts above that which prevailed up to 1974–75, could if necessary be achieved by requiring equivalent marginal reductions in the three main areas of expenditure—the Arts Council and other arts; the national collections; and local museums and galleries.

ENGLAND

68.

£ million

	1977–78	1978–79	1979–80	1980–81
(a) Reductions in support for Royal Shakespeare Company and other National Companies or curtailment of support for Arts in the regions and a moratorium on most capital projects . . . . . (b) Shorter opening hours/weekend closures at National Collections	2	3	3	3
(c) Reductions in current expenditure on local museums and galleries	1	1	1	1

The DES considers that a 2½ per cent cut in 1977–78 would entail shorter opening hours and weekend closures at the national collections, as well as a reduction in the Arts Council grant. The Council considers that, in addition to reducing support for the arts in the region by one third, the only effective way of achieving savings would be to withdraw support from one major company *e.g.* the Royal Shakespeare Company. This would mean that the new theatre in the Barbican, being built for it by the City of London would not be tenanted by the Company. It would be possible to save £0·8 million on capital provision for the national collections by deferring the air conditioning planned for the National Gallery, and by halving the programme for minor projects. The Treasury believe it should be possible to find the savings required by a combination of measures, including shading of individual

grants for current expenditure on the arts, although the Council consider that the latter would be the least cost effective solution and cause maximum damage to artistic standards.

69. Taking into account the additional resources required for the full operation of the National Theatre and for the move of the Royal Shakespeare *Company to the Barbican in 1978 79, the* DES estimates that the Arts Council subsidies for the national companies would need to be at least £10 million in each of the years 1978 81. Planned expenditure under the Survey ground rules involves a reduction in the Council's current grant by £2·5 million. A cut of 5 per cent on this reduced provision would mean a further reduction of £3 million, *i.e.* £5·5 million, in all. The Council would be likely to decide to halve the support for the four national companies. The alternative, against many policy objections, would be to find part or all of the savings from the Council's support for art outside London, currently £6 million in England of which £2·5 million is for regional arts associations. It would be possible to impose a total moratorium on all capital projects of any size, including Housing the Arts. This would save £1·5 million in each year, but would prevent the adaptation of the Millbank Military Hospital for the Tate Gallery and any further facilities to help the national companies tour more. A further reduction in opening hours and weekend closures at the national collections would also need to be made to save £0·3 million.

SCOTLAND

70. The illustrative reductions required for Scotland on Programme 10 as a whole have been described in paragraphs 51–53 above, and do not affect the arts element of it.

WALES

71. The options as applied to the National Museum and National Library would call for the following cuts for the two institutions together:

£ million

1977 78	1978–79	1979–80
0·1	0·2	0·2

Such reductions would mean cuts in staff or in administrative costs leading to closure of the institutions on at least one day in each week. The minimum provision for capital expenditure which would remain after any cut would have to be transferred to the current provision to meet high maintenance costs on an older building. Pressure on accommodation, exhibition and storage space is such that reducing capital would be a matter of last resort.

11. Health and Personal Social Services

TABLE 11

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
ENGLAND										
Health										
Capital expenditure:										
Hospitals and community health services	376·7	443·4	440·6	358·8	354·0	301·9	281·8	281·8	281·8	281·8
Family practitioners	0·2	0·2	0·3	0·4	0·4	0·4	0·4	0·4	0·4	0·4
Other health services	4·9	4·4	10·3	2·6	2·7	4·0	5·7	9·2	7·9	7·0
Current expenditure:										
Hospitals and community health services	2,692·3	2,811·8	2,917·7	3,052·7	3,153·4	3,194·7	3,243·2	3,283·6	3,325·6	3,325·6
Family practitioners	775·6	784·3	806·5	823·7	862·7	916·0	951·3	979·9	1,009·2	1,013·2
Other health services	48·2	50·0	61·3	58·7	65·4	68·8	71·0	71·6	72·9	73·7
Health capital	381·8	448·0	451·2	361·8	357·1	306·3	287·9	291·4	290·1	289·2
Health current	3,516·1	3,646·1	3,785·5	3,934·5	4,081·5	4,179·5	4,265·5	4,335·1	4,407·7	4,412·5
Total	3,897·9	4,094·1	4,236·7	4,296·3	4,438·6	4,485·8	4,553·4	4,626·5	4,697·8	4,701·7
Personal social services										
Capital expenditure:										
Central Government	0·5	0·6	0·6	0·2	0·7	1·9	2·6	2·1	1·1	0·9
Local authorities	78·3	101·4	129·6	104·4	102·5	54·4	47·3	47·3	47·3	47·3
Current expenditure:										
Central Government	12·9	11·5	6·4	3·3	3·4	3·7	4·4	4·8	5·0	5·3
Local authorities	454·3	521·7	591·6	682·5	736·0	764·6	779·9	795·9	811·8	811·8
Personal social services capital	78·8	102·0	130·2	104·6	103·2	56·3	49·9	49·4	48·4	48·2
Personal social services current	467·2	533·2	598·0	685·8	739·4	768·3	784·3	800·7	816·8	817·1
Total	546·0	635·2	728·2	790·4	842·6	824·6	834·2	850·1	865·2	865·3
Central and miscellaneous services										
capital	0·8	0·5	0·3	0·1	0·6	1·5	1·7	1·2	1·3	1·1
current	89·8	95·1	103·3	112·7	116·4	128·6	129·8	125·8	125·8	126·0
Total	90·6	95·6	103·6	112·8	117·0	130·1	131·5	127·0	127·1	127·1
Total England	4,534·5	4,824·9	5,068·5	5,199·5	5,398·2	5,440·5	5,519·1	5,603·6	5,690·1	5,694·1
WALES										
Health										
Capital expenditure:										
Hospitals and community health services	20·0	20·3	20·2	20·7	20·8	17·3	17·1	17·6	17·4	17·4
Current expenditure:										
Hospitals and community health services	174·5	179·5	183·8	187·5	194·9	198·1	201·1	204·1	207·0	207·0
Family practitioners	50·1	51·7	53·6	56·3	59·0	60·9	62·7	64·7	66·7	67·3
Other health services	1·7	1·9	2·7	2·4	2·9	2·9	2·9	2·9	2·9	2·9
Health capital	20·0	20·3	20·2	20·7	20·8	17·3	17·1	17·6	17·4	17·4
Health current	226·3	233·1	240·1	246·2	256·8	261·9	266·7	271·7	276·6	277·2
Total	246·3	253·4	260·3	266·9	277·6	279·2	283·8	289·3	294·0	294·6

TABLE 11 (continued) £ million at 1976 Survey prices

		1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
WALES (continued)											
Personal social services											
Capital expenditure:											
Local authorities . . .		3·9	5·1	7·8	7·2	5·7	3·9	3·5	2·9	2·7	2·7
Current expenditure:											
Central Government . .		—	0·2	0·3	0·1	0·3	0·3	0·3	0·3	0·3	0·3
Local authorities . . .		*24·6*	*28·6*	*32·0*	*36·7*	*39·5*	*40·9*	*41·8*	*42·5*	*43·4*	*43·4*
Personal social services	capital	3·9	5·1	7·8	7·2	5·7	3·9	3·5	2·9	2·7	2·7
	current	24·6	28·8	32·3	36·8	39·8	41·2	42·1	42·8	43·7	43·7
Total		28·5	33·9	40·1	44·0	45·5	45·1	45·6	45·7	46·4	46·4
Central and miscellaneous services:											
	capital	..	—	—	—	—	—	0·3	0·1	0·1	0·1
	current	5·1	4·9	5·0	5·2	5·8	5·8	6·0	5·8	5·8	5·8
Total		5·1	4·9	5·0	5·2	5·8	5·8	6·3	5·9	5·9	5·9
Total Wales . . .		279·9	292·2	305·4	316·1	328·9	330·1	335·7	340·9	346·3	346·9
SCOTLAND											
Health											
Capital expenditure:											
Hospitals and community health services		39·4	50·0	46·0	40·7	40·2	37·2	36·6	35·4	34·3	34·3
Other health services . .		2·9	4·4	3·2	3·5	4·3	4·2	4·0	3·1	2·9	2·9
Current expenditure:											
Hospitals and community health services		349·1	360·2	370·6	419·4	430·7	440·3	446·8	453·6	460·4	460·4
Family practitioners . .		88·6	95·0	95·5	98·2	105·0	107·5	109·8	112·8	115·8	116·6
Other health services . .		16·6	17·9	20·9	21·4	24·5	25·3	26·2	26·6	27·0	27·0
Health	capital	42·3	54·4	49·2	44·2	44·5	41·4	40·6	38·5	37·2	37·2
	current	454·3	473·1	487·0	539·0	560·2	573·1	582·8	593·0	603·2	604·0
Total		496·6	527·5	536·2	583·2	604·7	614·5	623·4	631·5	640·4	641·2
Personal social services											
Capital expenditure:											
Central Government . .		0·8	1·2	0·6	0·8	1·0	1·0	0·9	0·8	0·8	0·8
Local authorities . . .		5·4	8·4	12·1	7·4	7·1	7·9	6·9	6·4	6·1	6·1
Current expenditure:											
Central Government . .		2·1	2·1	3·3	3·5	3·8	3·5	3·7	4·4	4·4	4·4
Local authorities . . .		61·0	66·7	75·9	87·4	98·7	101·5	103·6	105·7	107·8	107·8
Personal social services	capital	6·2	9·6	12·7	8·2	8·1	8·9	7·8	7·2	6·9	6·9
	current	63·1	68·8	79·2	90·9	102·5	105·0	107·3	110·1	112·2	112·2
Total		69·3	78·4	91·9	99·1	110·6	113·9	115·1	117·3	119·1	119·1
Central and miscellaneous services											
	current	10·7	10·2	10·5	10·7	11·8	11·9	12·4	12·7	12·8	12·8
Total		10·7	10·2	10·5	10·7	11·8	11·9	12·4	12·7	12·8	12·8
Total Scotland . .		576·6	616·1	638·6	693·0	727·1	740·3	750·9	761·5	772·3	773·1

TABLE 11 (continued)

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
SCOTLAND (continued)										
VAT paid by local authorities:										
capital	0·8	0·8	0·8	0·8	1·0	1·0	0·8	0·7	0·6	0·6
current	2·8	2·7	3·2	3·6	3·9	2·9	3·0	3·0	3·2	3·2
Total health and personal social services Great Britain										
capital	534·6	640·7	672·4	547·6	541·0	436·6	409·6	409·0	404·7	403·4
current	4,860·0	5,096·0	5,344·1	5,665·4	5,918·1	6,078·2	6,199·9	6,300·7	6,407·8	6,414·5
Grand Total	5,394·6	5,736·7	6,016·5	6,213·0	6,459·1	6,514·8	6,609·5	6,709·7	6,812·5	6,817·9
Changes from Cmnd. 6393 revalued:					−14·3	+0·1	1·7	1·1	−1·4	
Cmnd. 6393 revalued					6,473·4	6,514·7	6,611·2	6,710·8	6,813·9	

Implications of Survey figures

1. In the years 1976–77 to 1979–80, the provision is the same as in Cmnd. 6393. The programme as a whole would grow by 1½ per cent a year. This would be just adequate to maintain standards for the increasing numbers of old people and children in care and to permit the continuing spread of new methods of treatment. Within the total, hospital and community health current expenditure would grow by 1·4 per cent a year, and personal social services current expenditure by 2 per cent; from 1977–78 onwards the level of capital expenditure would remain unchanged. Family practitioner services would continue to grow at an average of 3·3 per cent a year, in line with demand and with the numbers of doctors and dentists entering these services.

2. In 1980–81 an increase of 0·4 per cent has been made in family practitioner services to allow for demographic changes, mainly the increasing numbers of old people, but this would not cover the full increase in demand forecast for these services in that year. No allowance has been made for demographic pressures on the hospital and community health and personal social services. The provision for 1980–81 would thus imply a significant fall in standards, contrary to the policy adopted in Cmnd. 6393.

Additional bids

(*a*) *Demand determined services and other requirements for the maintenance of existing policies*

3. The following provision is needed in 1980–81 to meet the balance of the increased demand forecast for the family practitioner services, and the additional demand for health and personal social services arising from demographic factors and from the growing number of children in care.

£ million

	1980–81
Family practitioner services	29·7
Health current expenditure (1 per cent minimum growth)	43·7
Personal social services current expenditure (2 per cent minimum growth)	19·3

Following the last Survey, Ministers agreed that these needs should be met in the period up to 1979–80, and it would therefore seem right to accept these additional bids for 1980–81.

4. Provision of £12 million is needed in each case to meet the cost to the NHS of the Jubilee holiday in 1977 and the May Day holiday in subsequent years. The NHS has to continue operating on public holidays and must meet the marginal addition to staff costs; similarly £6 million is needed for extra non-staff costs in Leap Year (1980).

5. A further ½ per cent growth in health current expenditure is needed in 1980–81 to permit a minimum spread of improved methods of treatment; without this provision the NHS would fall behind as medical science advances internationally. This would cost £21·2 million.

6. There are already indications that the local authorities will find it very difficult to contain the pressures on the personal social services within the 2 per cent annual growth provided from 1977–78

onwards. These pressures include the rising number of old people (especially those over 75) and of children in care, and other growing problems such as injuries inflicted on children and family violence. Unless further provision is made to meet these pressures, existing standards of services will have to be cut. The Health Departments therefore recommend provision of a 3 per cent growth rate in current expenditure as being more realistic than the 2 per cent in the present programme; the additional cost would be:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
8·8	18·1	28·0	38·4

(*b*) *Proposals for new developments*

7. The Government has accepted the recommendation in the Briggs Report for a new pattern of education and training for nurses and midwives, and this is one of the first priorities for additional expenditure in the NHS. The incidence of this expenditure would depend on the timing of legislation and on progress in introducing the new arrangements. The cost would build up eventually to about £40 million a year but the phasing within the Survey period is not fixed. The pattern is estimated provisionally as follows:

£ million

1979–80	*1980–81*
6·1	11·1

8. The following table summarises the cost of the additional bids:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Category (*a*) bids .	20·8	30·1	46·0	164·3
Category (*b*) bids .	—	—	6·1	11·1
Total . .	20·8	30·1	52·1	175·4

The programme with the category (*a*) bids would be just adequate to maintain standards in the NHS and to permit the family practitioner services to meet forecast demand. The Health Departments have severe doubts as to whether anything less than 3 per cent a year growth would be realistic for the personal social services. Over the period 1976–77 to 1980–81 the average annual growth of the programme as a whole with the additional bids is 1·8 per cent. This represents a substantial cut back compared with recent years. The position would remain very difficult, and might have to be reviewed as the Survey proceeds in the months ahead.

Policy options

9. The following cuts would be required to reduce expenditure on the health and personal social services by 2½ per cent in 1977-78 and 5 per cent thereafter:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
165	335	341	341

If such cuts for 1980–81 were made from a starting point which excluded bids arising from demographic and demand factors they would imply a reduction of 7 per cent from the level of resources needed to maintain standards. The severity of the cuts in 1980–81 would be much greater than the rules intend for programmes generally in that year, and greater for the health and personal social services than in earlier years. The Health Departments therefore believe that the bids for 1980–81 which reflect demographic and demand factors should be incorporated in the Survey figures before cuts are considered.

10. Even so, coming on top of the cuts made in Cmnd. 6393, the reductions could be achieved only by radical measures, including some that might be seen as repugnant to the basic principles of the NHS. In particular, if the full weight of these cuts were not to fall on services, ways would have to be found of raising more income from charges levied on those who can afford to pay. But even with more income from charges, important priorities for relatively deprived services—for the mentally ill, the mentally handicapped and the elderly—could only be sustained (or partially sustained) if some deliberate check were imposed on expenditure in other fields, which would mean in particular restrictions on services in the acute sector and consequent constraint on the treatment that could be provided for individual patients.

11. Possible measures that could be considered in circumstances where there was overriding need to reduce expenditure are shown in the table below and explained briefly in the notes that follow. Together the measures amount to more than 2½ per cent and 5 per cent of expenditure in the respective years and in some cases a range of possible savings is indicated. It must be emphasised however that there are no easy options, only hard choices; and that none of these measures is recommended by the Health Departments and none in any way planned or selected.

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
(a) Increased charges				
Various increases in yield from prescription charges from April 1977	25–35	25–35	25–35	25–35
Full cost of road accidents recovered by levy on insurance companies from April 1978	—	40	40	40
Hospital meal charges of £1 a day from April 1978 (with various exemptions)	—	25	25	25
Various increases in charges for dental treatment from April or October 1977	22–30	22–60	22–60	22–60
A 100 per cent charge for lenses from April 1977 (except exempt classes)	6	6	6	6
	53–71	118–166	118–166	118–166
(b) Cuts in services				
Health capital	25–35	35–70	35–70	35–70
Health current growth ½ per cent–zero	40–60	71–110	103–162	83–162
Personal Social Services:				
Capital	0–28	0–30	0–30	0–30
Current growth 2–1 per cent	–	0–10	0–18	0–9
	65–123	106–220	138–280	118–271
Grand total	118–194	224–386	256–446	236–437

Prescription charges

12. A number of measures could be considered with a view to reducing the net cost of drugs prescribed in the NHS. From an administrative standpoint the simplest step would be to raise the present 20p prescription charge across the board; the additional yield from a charge of 40p (equivalent to the real value of the charge in 1971) would be about £35 million. The increase would marginally affect the Retail Price Index. However, the Government has not so far been willing to take this step and there are strong political objections. Other possibilities are for some kind of differential charging for drugs. A " white list " might be established of drugs to be available to NHS patients either free or at the present charge of 20p, leaving drugs not on this list to be charged either at a higher fixed level or at some proportion of full cost. Great difficulties and consequent delay would be encountered in drawing up a " white list " on other than an arbitrary basis; and in any case primary legislation would be required. With an arbitrary list it might not be reasonable to impose a charge significantly higher than 20p on drugs excluded from it that were necessary for treatment. Any " white list " would have implications for the pharmaceutical industry, particularly for its exports, the loss of which might well be of the same order as the public expenditure saving. Pharmacists might object to any complex scheme, and their remuneration might have to be increased. In view of the difficulties and uncertainties of any move towards differential charging, it would be unsafe to count on any large savings; a provisional sum of £25 million has been shown in the table.

Recovery of full cost of road accidents

13. The Road Traffic Act 1960 provides for small payments in limited circumstances towards the cost to the NHS of traffic accidents. It is estimated that if the cost were recovered in full by a levy on insurance companies related to income from motor vehicle business, the additional yield would be about £40 million a year. Legislation would be required; this would have to be preceded by discussions with other Departments and with the insurance companies. To introduce the change by April 1978, planning would have to start quickly and a suitable legislative opportunity be found in 1976–77, perhaps by an addition to the proposed Bill on drink and driving.

Hospital meals charge

14. It would be possible to recover from hospital patients a contribution towards meals and other " hotel " costs. The gross yield of a daily charge of £1, with various exemptions and exclusions, would be about £45 million but this would be reduced by about £20 million by administrative costs and overlap with the present deductions from social security

benefits. However, legislation would probably be required and there would be severe problems both of principle and practice. £1 a day exceeds the likely cost per head of meals at home in many cases. It is the most which could be paid by those whose only available income was retirement pension (or some other social security benefit) if they were to be left with a minimum of income for other personal requirements in hospital and for other continuing commitments at home. Any higher charge would require special compensatory arrangements for these groups at extra cost. Their position would be much harsher than under the present arrangements whereby benefits are not abated during the first eight weeks in hospital and only reduce to " pocket money " rates after a year—not even then where the patient has dependants. Most families suffer a substantial drop in income when the main wage earner is sick and this would be exacerbated if more of that reduced income was needed to meet hospital expenses. There would be considerable difficulties in recovering charges. The more substantial the charge the greater the possible need to arrange for insurance against the liability, with consequent increase in complexity and administrative costs. Great difficulty could arise if health authorities were required to increase staff to handle this new charge just when they had been pressed very hard to reduce management costs.

Increased charges for dental services

15. At present no charge is made to anyone for dental examinations, and no charge is made for dental treatment of children and expectant and nursing mothers; people on low income may also be excused charges. This represents about half the work of the General Dental Service. Flat rate charges made for other treatment recover part of the cost. In the extreme case these charges could be raised to cover the whole cost of this other treatment: the additional income would be about £60 million. This would however have profound implications for the dental health of the nation and for the dental profession and would need to be studied very carefully before any decision was taken. A more feasible proposal would be to increase the present yield of charges to a more limited extent that would be consistent with the maintenance of a viable General Dental Service; a provisional sum of £22 million has been shown in the table.

Increased charges for ophthalmic services

16. No charge is made for sight tests or for a range of spectacles for children, and people with low income may be excused charges. For others, lenses are charged at flat rates; if these charges were raised to cover the whole cost of supply and dispensing, the additional yield would be about £6 million in a full year. There would be some disruption of lens production which is just beginning to meet the current high level of demand after many months of supply difficulties; this would probably lead to redundancies in Wales.

Cuts in services

17. As already indicated, growth of 1 per cent a year is needed to support present standards of the NHS for the changing population and ½ per cent a year for some continuing spread of new methods of treatment. Overall reductions on the scale of 2½ per cent and 5 per cent would make it impossible to maintain even this " standstill " situation in the NHS. With capital cuts and with current expenditure frozen or growing at only ½ per cent a year as indicated in the table, the health services would decline progressively throughout the Survey period. In such a situation the Health Departments' first aim would be to try to maintain priority for services for the elderly, mentally ill and mentally handicapped, in line with the policies suggested in the Departments' Consultative Documents. This could only be done however by putting the acute services under severe constraint, and measures would be needed to limit expenditure on new equipment (with serious effects on the industry, and its exports potential contrary to Government industrial strategy) and to induce some reduction in the average length of stay of patients in hospital. This constraint would lead to greatly extended waiting lists and a general falling off of standards of care. Hospital closures and staff redundancies (many in areas already suffering high unemployment) would be unavoidable. New initiatives in the field of training (Briggs, Merrison and vocational training for GPs) would have to be postponed or abandoned. If all growth in current expenditure were halted, it would not be possible even to protect the priorities for the elderly and other deprived groups.

18. The capital cuts shown would also have severe consequences. They would require a moratorium on all new hospital and health centre schemes during

the Survey period. If cuts were kept to the lower end of the range, it would be possible to provide some new facilities badly needed for geriatric and psychiatric services and to provide the hospital facilities needed for the teaching programme; but in Wales existing commitments would make this impossible.

19. In the personal social services, as already indicated, the Health Departments consider that a growth of 3 per cent a year is the realistic requirement to maintain present standards. If cuts were required, there could be no question of undertaking any of the additional social work training recommended in a national working party report. There would be the greatest difficulty if local authorities were obliged to reduce their capital and current expenditures as shown in the table and to accept the political and other consequences of the severe shortfall in services of all kinds, especially those needed for the elderly, for children in care and for the disabled.

12. Social Security

TABLE 12 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Pension benefits: National Insurance										
Retirement pensions	4,018·0	4,339·0	4,571·0	5,058·0	5,425·0	5,735·0	5,915·0	6,119·0	6,352·0	6,354·0
Invalidity benefit	179·0	359·0	402·0	442·0	486·0	521·0	534·0	553·0	579·0	579·0
Industrial disablement benefit	139·0	143·0	145·0	158·0	163·0	167·0	171·0	174·0	182·0	182·0
Widows' pensions and industrial death benefit, etc.	367·0	383·0	389·0	425·0	436·0	448·0	450·0	465·0	479·0	479·0
Total	4,703·0	5,224·0	5,507·0	6,083·0	6,510·0	6,871·0	7,070·0	7,311·0	7,592·0	7,594·0
Pension benefits: Other										
Old persons' pensions	45·0	49·0	46·0	43·0	38·0	34·0	31·0	27·0	24·0	24·0
War pensions	270·0	276·0	273·0	287·0	293·0	286·0	280·0	278·0	277·0	276·0
Attendance allowance and invalid care allowance	12·0	42·0	59·0	88·0	110·0	127·0	144·0	148·0	151·0	151·0
Non-contributory invalidity pension	—	–		—	19·0	54·0	80·0	87·0	97·0	97·0
Mobility allowance	–	—	—	—	1·0	9·0	14·0	17·0	21·0	21·0
Lump-sum payments to pensioners	..	147·0	133·0	129·0	—	—	—	—	—	—
Total	327·0	514·0	511·0	547·0	461·0	510·0	549·0	557·0	570·0	569·0
Supplementary benefit										
Supplementary pensions	534·0	492·0	449·0	439·0	436·0	432·0	428·0	424·0	421·0	421·0
Supplementary allowances	715·0	758·0	681·0	737·0	912·0	1,024·0	990·0	912·0	845·0	846·0
Total	1,249·0	1,250·0	1,130·0	1,176·0	1,348·0	1,456·0	1,418·0	1,336·0	1,266·0	1,267·0
Family benefits										
Child benefit[1]	676·0	621·0	572·0	485·0	602·0	562·0	841·0	769·0	703·0	670·0
Family income supplement	7·0	18·0	21·0	17·0	15·0	18·0	21·0	21·0	21·0	21·0
Total	683·0	639·0	593·0	502·0	617·0	580·0	862·0	790·0	724·0	691·0
Other non-pension benefits: National Insurance										
Sickness and injury benefits and maternity allowance	745·0	643·0	620·0	623·0	571·0	594·0	610·0	621·0	623·0	623·0
Unemployment benefit	470·0	383·0	289·0	313·0	638·0	822·0	653·0	472·0	331·0	331·0
Widows' allowance, maternity/death grants	110·0	106·0	98·0	99·0	95·0	95·0	94·0	93·0	92·0	92·0
Total	1,325·0	1,132·0	1,007·0	1,035·0	1,304·0	1,511·0	1,357·0	1,186·0	1,046·0	1,046·0
Administration and miscellaneous services	405·7	417·2	434·9	514·4	504·8	519·8	515·2	501·5	486·0	486·0
Grand Total	8,692·7	9,176·2	9,182·9	9,857·4	10,744·8	11,447·8	11,558·2	11,473·5	11,480·0	11,451·0
Changes from Cmnd. 6393 revalued					−8·3	+63·6	+199·0	+189·0	−179·0	
Cmnd. 6393 revalued					10,736·5	11,384·2	11,359·2	11,284·5	11,301·0	

(1) The figures in the child benefit line for years 1977–78 represent family allowances and (for 1976–77 only) child interim benefit. The figures for 1977–78 onwards include all child benefit at the 1977–78 rates, deflated to 1976 Survey prices. The programme totals however include only the net Exchequer cost of the extension in 1977–78 of child benefit to the first child of two parent families.

I. EXISTING POLICIES

1. The bulk of the Social security Programme is only controllable by two means: (1) the policy adopted towards uprating benefits, which is constrained by legislation; and (2) the statutory conditions governing the award of benefits. DHSS point out that it has generally been judged impracticable to withdraw a cash benefit once it has been instituted.

2. The programme figures are critically dependent on, and indeed can only be calculated by using, the economic assumptions settled by the Treasury. They are subject to a significant margin of error either way.

3. So as to comply with the PESC ground rules agreed by the Cabinet, this year's base-line table uses last year's estimating assumptions (as regards numbers of beneficiaries, earnings and price movements, and so on). The amounts, negative or positive, needed to bring the figures into line with this year's assumptions are shown separately under "additional bids" in paragraph 5 below. DHSS hold this new method of calculating the base-line to be seriously misleading, on the grounds that it is not open to Ministers to consider, for acceptance or rejection, "proposals" to incur additional expenditure resulting solely from estimating changes, or to react by, for example, paying some, but not all, those qualifying for unemployment benefit. As explained above, the generality of expenditure in the social security programme is governed by statute or by uprating policy which is itself constrained by statute. Furthermore, any attempt to offset the estimating changes in any year by introducing amending legislation reducing the rate, or limiting the conditions of benefit, even if practical politics, would run up against the following difficulties—(i) unless the Government were content to envisage a decline in the scope of social security, "adverse" estimating changes could not be treated as justification for restrictive legislation unless "favourable" changes were regarded as grounds for liberalising benefit conditions: (ii) it would undermine the stability of the social security arrangements if each year's estimating changes had to be regarded as providing a *prima facie* case for amending the benefit provisions: (iii) it must be expected that sometimes (as this year) the net effect of the estimating changes will be favourable in some future years and adverse in others, and no feasible changes in legislation could serve to offset both sorts of divergence (yet Parliament could hardly be expected to accept revisions based solely on the years of "adverse" change especially as these are likely to be years when the need for the maximum amount of social security help will be at its highest).

Additional bids

4. The Secretary of State for Social Services is obliged by statute to review the rate of mobility allowance annually, and has already announced that the allowance will not be increased in November 1976. Apart from the pressure which would arise to maintain the value of allowance from November 1977 the Secretary of State wishes at that uprating to improve its real value and to extend entitlement in order to assist in ending the present vehicle service scheme. The rate he proposes is £7 a week—an increase of £2. The cost of the bid, after allowing for savings from the withdrawal of trikes, is shown in the following table. The Department have not identified any offsetting savings.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
2·0	10·0	13·0	17·0

5. A lower assumption about the growth of real gross earnings means that expenditure on long-term benefits is expected to be lower than shown last year in all years. However, this is more than offset in 1977–78 (and partially so in other years) by an increase in short-term benefit expenditure as a result of an increase in the unemployment assumption. The combined effect of these and other estimating changes is shown in the table below. The extra requirement for 1980–81 over 1979–80 is accounted for by the full year effect of the November 1979 uprating and the November 1980 uprating.

Uprating policy

6. The policy towards uprating benefits is as follows. Long-term benefits are assumed to be increased in line with the movement of earnings between upratings. Short-term benefits are assumed to be increased in line with the movement of prices between upratings. Such upratings are assumed to take place annually in November. Otherwise benefits are in general assumed to remain at their existing cash value throughout the Survey period. Thus a decline in the real value of child benefit is assumed—as previously with family allowances—and the same applies to the provision for mobility allowance and for the death and maternity grants of the national insurance scheme.

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Estimating (demographic, etc.) changes	−4·1	−67·8	+146·5	+185·0	+220
Revised economic assumptions	−56·0	−66·0	−128·0	−290·0	

Notes: The following assumptions underly the total of social security expenditure, that is the sum of the amounts in the base line table together with the amounts listed above for estimating and revised economic assumptions changes.

1. Unemployment assumption (thousands)	1,450	1,290	1,020	770	770
2. Price assumptions (percentage movement over previous year)	13	8	7	6	5
3. Money earnings assumptions (percentage movement over previous year)	12	8	8	8	7
		November 1977	*November 1978*	*November 1979*	*November 1980*
4. Assumed size of uprating:					
Long-term		8·0	8·0	7·8	6·8
Short-term		7·8	6·8	5·8	4·8

The real improvement of benefits

7. The following table shows the cost of the real improvement in social security benefits described in paragraph 6, after taking account of the new economic assumptions and estimating changes referred to in paragraph 5. The comparison is with the average rate of benefits in force in 1976–77.

£ million

	1977–78		*1978–79*		*1979–80*		*1980–81*	
	A	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Long-term benefits	278	273	342	293	489	322	674	347
Short-term benefit	106	106	105	105	93	93	102	102
Other benefits	−2	—	−5	—	−7	—	−8	—
Total	382	379	442	398	575	415	768	449

8. Three factors account for the total real improvement in benefits shown in columns A above. On the Survey assumptions, the four upratings from November 1977 onwards will lead to improvements in the real value of long-term benefits because earnings, by reference to the movement of which long-term benefits are uprated, will increase faster than prices. The rest of the improvement in long-term benefits and all the improvement in short-term benefits, is accounted for by the level at which the November 1976 uprating was pitched, and by the smaller decline in the value of benefits between upratings as the rate of inflation falls (columns B above).

Family support

9. The Child Benefit Act 1975 will come into force in April 1977, but full implementation of the scheme—which envisaged the withdrawal of child tax allowances, and the replacement of family allowances and child's interim benefit by a tax-free benefit for all children—has been postponed.

10. Instead, from April 1977, provision will be as follows. Child benefit will be paid at the existing family allowance rate of £1·50 a week for second and subsequent children in the family and at the rate of £1 a week for first or only children. Like family allowances child benefit, including the rate for the first child, will be taxed and subject to clawback. The existing child interim benefit will cease, but a taxable one-parent family premium of 50p a week will be introduced so that one-parent families will continue to receive the same total rate as now for the first child—£1·50 a week.

11. The April 1977 changes involve a large gross increase in public expenditure. The net increase in public expenditure will be less as a result of savings

on other social security benefits, and when account is taken of the accompanying tax changes the net Exchequer cost of the new provision will be £75 million in 1977–78.

12. The figures in the expenditure table assume that the rates of child benefit remain at their April 1977 cash levels throughout the Survey period. The extent of the decline in its real value is indicated by the family benefits line in Table 2.12.

Staff

13. Between April 1976 and April 1981 the non-industrial staff of the Department (including the central administration of the National Health Service) will increase from 90,072 to 91,337, if additional requirements, which rise to 1,500 by 1980, are included. This increase is largely accounted for by extra staff required for the maintenance of existing policies, including child benefit, the re-constructed national insurance scheme, and the new pension scheme. Savings from falling work loads are largely offset by increases needed for demand-determined work. The Department of Employment has 20,900 staff in 1976–77 falling to 11,700 in 1980–81 engaged on unemployment and supplementary benefit work.

II. THE PRESSURE FOR INCREASED EXPENDITURE

14. The purpose of this section is to give an indication of DHSS's views of the likely pressures for increased social security expenditure. What existing policy commitments do to the value of the benefits affected is relevant to the consideration of these pressures. In the absence of offsetting savings, any extra expenditure involved in responding to these pressures would be a charge on the contingency reserve.

15. Although the Child Benefit Act provides for the rate of child benefit to be reviewed annually, it does not contain any uprating requirement and the Cabinet have not decided on an uprating policy. The real value of child benefits thus declines over the Survey period. DHSS believe that this may not be tenable and that there will be strong pressure to maintain the value of the April 1977 provision, or indeed improve it in real terms.

16. After the 1976 uprating the value of national insurance long-term benefits increases in real terms and the value of short-term benefits holds steady over the Survey period. DHSS believe, however, that more generous upratings of national insurance benefits than those implied in the expenditure projections are likely for two reasons. First, the present policy of uprating benefits in line with current earnings and prices movements involves, since upratings have to be announced some months before they take effect, the prediction of such movements. In these circumstances a safety margin over the prices and earnings predictions may be thought desirable. Secondly wider political considerations—like the desire when settling the 1976 uprating to adopt a rate which was related to an aim of the TUC—may create further pressures to increase expenditure.

17. The Government is committed to considering extra provision for existing pensioners when the new pension scheme begins. In the White Paper "Better Pensions" (Cmnd. 5713) the Government undertook that "with the introduction of the new scheme, the position of existing pensioners will be further reviewed in the light of the development of the economy". As in Cmnd. 6393 no allowance has been made in programme for the result of this review.

18. On a different level of expenditure from the foregoing DHSS also draw attention to the pressure that will be likely to develop to:

(i) uprate Family Income Supplement in line with earnings (as will happen this July); and

(ii) ease the conditions for the award of the long-term rate of supplementary allowance particularly in relation to the present exclusion therefrom of the unemployed.

III. POLICY OPTIONS

19. The application of the Survey ground rules requires the display of feasible illustrative options for saving of 2½ per cent (£300 million) in 1977–78 and 5 per cent (£585 million) in later years.

20. What follows sets out a range of measures some or all of which would have to be adopted to effect savings in the Social security Programme. The inclusion of an option does not imply any view about its political acceptability; the majority would

require legislation which in DHSS's view would be difficult to get through. Nor are the options described in sufficient detail to enable final decisions to be made. So far as possible the cost calculations take account of associated changes needed to maintain coherence in the system of benefit provision, but they do not take account of changes which might be needed to make the proposals more palatable. To this extent the maximum savings quoted might not be realised. Some options are alternative to, or overlap with, others so that adoption of more than one option might not realise the total of savings shown.

Uprating benefits

21. The next paragraph gives estimates of the savings that would accrue from modifying the present uprating policy. The savings depend on the economic assumptions adopted for the Survey and in particular (*a*) and (*b*) depend on the relationship between the rise in earnings and prices respectively.

22. On the economic assumptions governing the social security expenditure projections, DHSS advise that all four of these options would require amendment of the Act.

Estimate of savings

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
(*a*) Uprating long-term benefits in line with the movement of prices between upratings rather than in line with the movement of earnings. (The savings are less than the total real improvements shown in paragraph 7 by the amount of the improvement accounted for by the two factors mentioned in paragraph 8)	5	49	167	327
OR				
(*b*) Uprating long-term benefits by more than the movement of prices between upratings, but less than the movement of earnings. (The figures relate to half the rise in real earnings)	3	25	87	169
(*c*) Uprating short-term benefits by less than the movement of prices between upratings—that is, allowing the real value of the benefit to fall. (The figures relate to one per cent; that is the savings were the benefit increases to be one percentage point less than that indicated by the economic assumptions adopted for the Survey)	7	21	33	50
(*d*) Uprating long-term child dependency benefits by the movement of prices between upratings rather than in line with the movement of earnings	—	1	3	6

Raising pension age for women

23. Amendment of the Act would be needed. The estimate of savings given below assumes that raising the pension age would need to be done gradually after a period of notice so that raising the age by one year would be the most that could be achieved by 1979–80. This would in turn mean that further increases in pension age would not be achieved until after the Survey period. Saving would be £12 million in 1979–80 and £36 million in 1980–81. If the age for women could be raised at one stroke to 65, the savings after five years would reach £190 million a year.

Deferment of the start of the new pension scheme

24. The new pension scheme will begin in April 1978 and the improved long-term benefits will become payable from April 1979. Deferring the start of the scheme to April 1979 would lead to savings of £28 million in 1979–80 and £66 million in 1980–81. Deferring the start of the new pension scheme until some date after April 1980, so that no expenditure on it occurred during the Survey period would lead to savings of £42 million in 1979–80 and £109 million in 1980–81.

Unemployment benefit for occupational pensioners

25. Restricting entitlement to unemployment benefit for those receiving substantial occupational pension. Many such pensioners claim unemployment benefit when not wanting work. Proof sufficient to disallow benefit is, however, hard to get. Governments of both parties have tried to restrict benefits to those with modest pensions but have withdrawn the proposals. Amendment of the Act would be required. Savings £12 million.

Deferment of the introduction of non-contributory invalidity pension for housewives

26. The Government's publicly stated plan is to start the non-contributory invalidity pension for housewives during 1977–78, but this does not involve a precise starting date within that financial year. The first year cost of the benefit is £21 million net.

Maternity and death grants

27. The maternity and death grants are insurance benefits paid on the satisfaction of a simple contribution test. Were they instead to be converted to a means-tested benefit the maximum savings would be about £25 million in a full year. Legislation would be necessary so that it would be difficult to make the change in time to make any savings in 1977–78. (Maternity grant, £13 million; death grant, £12 million.)

Supplementary benefit for young persons

28. Raising the age limit for claiming supplementary benefit in one's own right from 16 to 18 would save £25 million in a full year, ignoring the expenditure, which cannot at present be estimated, that would result from the fact that some of these 16 to 18 year-olds would have parents who were receiving supplementary benefit which would have to be increased to take account of the 16 to 18 year'old's requirements. Legislation would be necessary so that any savings would be unlikely before 1978–79.

Other savings options

29. The above options have been drafted in agreement with DHSS. In addition the Treasury believe the following further options relating to short-term national insurance benefits should be considered:

(i) Removing entitlement to flat-rate unemployment benefit for the first six days of any period of temporary suspension. This would save 300 staff and would not require principal legislation although it would be necessary to bring forward the commencement Order requiring an affirmative Resolution in the Commons. It would only affect those who still have jobs. Saving £30 million in 1977–78 and £25 million a year thereafter.

(ii) Removing entitlement to flat-rate unemployment or sickness benefit for the first six rather than for the first three days of the period of complete interruption of employment. Amendment of the Act would be required. Saving about £70 million.

(iii) Abolition of earnings related supplement paid with unemployment and sickness and other short-term benefits. Amendment of the Act would be required. Saving in the region of £200 million.

30. The saving options above are summarised in the following table:

Estimate of benefit savings

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
* Uprating long-term benefits in line with the movement of prices	5	49	167	327
OR				
* Uprating long-term benefits by more than the movement of prices but less than the movement of earnings	3	25	87	169
* Uprating short-term benefit by one per cent less than the movement of prices	7	21	33	50
* Uprating long-term child dependency benefits by the movement of prices	·	1	3	6
* Raising pension age for women	—	—	12	36
Deferment of the start of the new pension scheme	—	—	28–42	66–109
* Unemployment benefit for occupational pensioners	—	12	12	13
Deferment of the introduction of non-contributory invalidity pension for housewives	21	21	22	22
* Maternity and death grants	·	25	25	25
* Supplementary benefit for young persons	—	25	25	25
Removing entitlement for flat rate unemployment benefit for the first six days of any period of temporary suspension	30	25	25	25
* Abolishing Earnings Related Supplement	--	190	160	160
* Removing entitlement to flat-rate unemployment or sickness benefit for the first six days of the period of complete interruption of employment	—	69	66	67

* All these items require legislation.

31. Even if it were possible to implement all the options listed above, the savings for 1977–78 and 1978–79 would not reach the levels required by the Cabinet to be illustrated. The only way of making the savings up to the required level would be to postpone the 1977 uprating by, say, substituting two upratings for the three upratings due in November 1977, 1978, and 1979. This would save about £280 million in 1977–78. Savings in 1978–79 and thereafter would depend on the timing of the upratings. This would require legislation and DHSS think it difficult to imagine the circumstances in which it would be possible to obtain approval for such legislation, particularly having regard to the importance placed by the TUC on maintaining the Social security Programme.

Staffing consequences of savings proposals

32. Changing the basis of uprating proposals has no effect on staffing levels, and raising the pension age for women very little. Deferring the start of the new pension scheme would result in a staff saving of the order of 900; and deferring the start of the non-contributary invalidity pension for housewives a staff saving of about 200. This would largely offset the staff increase referred to in paragraph 13.

13. Other Public Services

TABLE 13

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Parliament and Privy Council:										
Functioning of Parliament and the Privy Council	22·2	22·2	20·9	19·9	19·6	19·7	19·0	19·1	19·0	19·0
Parliamentary election expenses	0·5	0·5	8·5	11·0	1·4	0·5	0·1	0·1	0·1	0·1
Economic and financial administration:										
Tax and rate collection	439·5	477·5	463·4	516·5	570·8	568·3	576·2	573·2	579·7	581·3
Other financial administration	87·1	87·6	98·2	98·7	117·4	115·1	113·4	109·5	110·2	109·2
Post-war credits	34·4	235·8	23·1	4·7	1·9	—		—	.	—
Central management of the Civil Service	16·8	18·0	18·7	18·7	19·8	18·5	17·5	16·8	16·4	16·4
Records, registrations and surveys	43·4	27·3	33·0	44·0	44·9	37·7	35·5	34·1	34·2	34·2
Broadcasting (capital expenditure):										
British Broadcasting Corporation	22·1	23·4	25·9	17·6	17·6	17·8	22·5	25·1	27·1	27·1
Independent Broadcasting Authority										
Television	7·5	7·6	6·4	4·5	4·2	4·0	3·8	3·5	3·0	3·0
Radio	—	0·4	0·7	0·8	0·5	0·1	0·1	0·1	0·1	0·1
Other services	37·0	32·3	33·8	44·4	55·3	57·5	60·7	57·3	52·8	52·4
VAT paid by local authorities	1·2	1·2	1·2	1·3	1·5	1·1	1·1	1·1	1·1	1·1
Grand Total	711·7	933·8	733·8	782·1	854·9	840·3	849·9	839·9	843·7	843·9
Changes from Cmnd. 6393 revalued					−6·2	−29·0	−17·2	−16·8	−16·7	
Cmnd. 6393 revalued					861·1	869·3	867·1	856·7	860·4	

Parliament and Privy Council

FUNCTIONING OF PARLIAMENT AND THE PRIVY COUNCIL

Implications of Survey figures

1. The provision for Parliamentary accommodation will allow the provision and maintenance of essential accommodation and services for the Houses of Parliament. For 1977–78 provision has been made for the additional office accommodation for MPs agreed by Ministers. Nothing has been included for the accommodation costs of broadcasting the proceedings of Parliament. (The BBC's capital costs are dealt with in paragraph 19 below.)

Policy options

2. The illustrative options would produce the following savings on the provision for accommodation:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Reduction in the provision and maintenance of accommodation and services	0·1	0·2	0·2	0·2

Cuts of this order cannot be found by deferment of new starts. The remaining provision covers ongoing new work and current expenditure. Savings could only be found by prejudicing the operational efficiency of Parliamentary accommodation or deferring schemes regarded as essential by Parliament. The postponement of an air conditioning scheme due to start in 1980–81 would be realistic and feasible; and would produce a saving of £0·2 million in that year.

Economic and financial administration

TAX AND RATE COLLECTION:

INLAND REVENUE AND CUSTOMS AND EXCISE

Implications of Survey figures

3. This expenditure consists almost entirely of wages and salaries and related administrative costs.

Additional bids

£ million

	1976–77	1977–78	1978–79	1979–80	1980–81
Inland Revenue:					
(i) Administrative expenditure	3·5	2·5	9·2	12·6	8·2
(ii) Life assurance premiums	—	—	—	5·0	5·0
Customs and Excise	−0·6	1·1	0·9	0·2	0·5

4. The Inland Revenue's additional administrative costs in 1976–77 are for overtime arising from the 1976 Finance Bill. In subsequent years they represent the net increase generated mainly by growth in the number of individual and corporate taxpayers, and of those liable to income tax at the higher and additional rates, less other savings achieved by legislation and administrative decision. Provision is also required for payments under the Finance Bill proposals for tax relief by deduction from life assurance premiums.

5. The additional expenditure by Customs and Excise is required for new and replacement telephone equipment, more uniforms because of greater turnover of uniformed staff and capital expenditure on the replacement, which cannot be further delayed, of vessels.

Policy options

6. The illustrative reductions would produce savings of:

£ million

	1977–78	1978–79	1979–80	1980–81
Inland Revenue	7·7	15·7	15·9	15·9
Customs and Excise	3·6	7·3	7·3	7·4

Significant economies, in addition to the contributions towards the savings of £140 million in 1978–79 in Civil Service staff costs, could not be achieved without considerably greater loss of revenue or seriously damaging the departments' control of tax collection.

DRIVER AND VEHICLE LICENSING

Implications of Survey figures

7. Driver and vehicle licensing is undertaken partly by the Centre (DVLC) at Swansea, partly by the Post Office under an agency agreement and partly by Local Vehicle Licensing Offices (LVLOs). The Survey figures include the administrative costs of Vehicle Excise Duty.

Additional bid

8. As a result of higher postal charges, and the relatively sparse distribution of LVLOs, more licences than expected are being renewed through the Post Office. Since use of the Post Office under the agency agreement is more expensive than use of LVLOs, additional sums are required:

£ million

1977–78	1978–79	1979–80	1980–81
0·8	0·7	0·7	1·0

These increases might be partly offset by reducing enforcement activity (which could lead to increased evasion and consequent loss of revenue).

Policy options

9. The illustrative reductions would produce savings of:

£ million

1977–78	1978–79	1979–80	1980–81
1·1	1·7	1·7	1·7

However, since the existing provision in the Survey is already inadequate, savings of this order could not be achieved without prejudicing DVLC operations.

OTHER FINANCIAL ADMINISTRATION

DEPARTMENT FOR NATIONAL SAVINGS

Policy options

10. The illustrative reductions would produce savings of:

£ million

1977–78	1978–79	1979–80	1980–81
0·8	1·5	1·5	1·4

The Department's expenditure is largely determined by the staff required to administer savings securities and by contractual arrangements with the Post Office. They have identified savings, largely by cutting publicity, of £0·1 million in 1977-78 and following years. They believe that further savings would require the withdrawal of major savings securities. For example the withdrawal of SAYE (Index linked) would save £0·2 million in 1977–78, £0·3 million in 1978-79 and £0·5 million in 1979-80 and 1980–81. Ministers have previously refused to contemplate this option and the withdrawal of other major securities because of the unacceptable consequences for financing the Public Sector Borrowing Requirement.

BANK OF ENGLAND

11. During 1975–76 at the request of the Treasury the Bank have carried out a comprehensive review of the cost of those of its services which fall within the Survey; on its own initiative the Bank decided to extend the review to cover all its activities. As a result it has been possible to make a number of economies which have been incorporated in the Survey figures as estimating reductions.

Policy options

12. The illustrative reductions would require the following savings:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
1·2	2·4	2·4	2·4

Since the greater part of this expenditure is determined by the demand for bank notes, by the success of the efforts to fund the Central Government borrowing requirement by the issue of government securities, and by the need for an effective exchange control, the scope for specific economies in the short term is limited. Within the exchange control area, the following options have been considered (but are not recommended since they would each have an adverse effect on the balance of payments):

(i) (*a*) Abolishing the scrutiny of company accounts to ensure that the overseas subsidiaries make the necessary remittances to the United Kingdom (saving 21 to 24 staff).

(*b*) Calling for a selected sample of accounts *e.g.* from just the major companies (saving 9 to 10 staff).

(ii) Increasing the future emigration entitlement to £20,000 worldwide (saving 6 to 17 staff).

(iii) Delegating authority to authorised banks to deal with all applications by United Kingdom residents to buy property abroad, to regard all the sale proceeds as investment currency and to authorise unlimited official exchange for maintenance (saving 16 to 22 staff).

13. The possibility of further economies in the longer term is being actively pursued, e.g. the use of different paper for bank notes and the relocation of the debt management work outside London, but these cannot be offered at this stage in the form of options for consideration by Ministers. Much of the Bank's work is subject to conditions of physical security. The capital expenditure programme is confined to projects required accordingly or designed to increase efficiency, *e.g.* by computerisation. Projects are phased so as to ensure a smooth expenditure profile.

Central management of the Civil Service and Royal Commissions

Implications of the Survey figures

14. This expenditure covers the management functions of the Civil Service Department (CSD), Royal Commissions, Government hospitality and Parliamentary Counsel. Expenditure at the level above would enable existing policies to continue without serious disruption of work, although some planned developments would need to be deferred or abandoned.

Additional bid

15. Since last year's Survey four new Royal Commissions have been appointed (National Health Service, Gambling, Legal Profession (England and Wales and Northern Ireland) and Legal Profession (Scotland)) and a committee was set up to review the rules governing the political activities of civil servants for which no provision was made in Cmnd. 6393. Additional provision is necessary in each year although some offsetting savings are available in 1977–78 following the suspension of civil service pay research.

16. The net effect of the additional bid for Royal Commissions is as follows:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Royal Commissions . .	0·8	0·6	0·1	—

In the CSD's view it would not be possible to contain these net additions within the Survey figures without seriously slowing down the progress of Royal Commissions or disrupting the CSD's work to an unacceptable degree.

Policy options

17. The illustrative reductions would produce savings of:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·5	1·0	1·0	1·0

The range of options open to the CSD is limited. The bulk of the expenditure in these programmes is in respect of salaries and wages.

18. If the CSD is required to make economies of up to 8 per cent in 1978–79 as the result of the current review of civil service staff costs, a reduction of £0·5 million (2½ per cent) in 1977–78 would be feasible by slowing down work on the implementation of Fulton and the closure of the Edinburgh Centre of the Civil Service College. In 1978–79 and subsequent years feasible reductions, which substantially exceed the minimum levels of cuts suggested in the ground rules, are being considered in the review of staff costs.

Broadcasting (capital expenditure)

Implications of Survey figures

19. The programme covers the capital expenditure of the BBC Home Service and the IBA. The provision allows for Phase I of the Ultra High Frequency (UHF) 625-line television transmitter building programme, for the replacement of existing worn-out plant and, in the case of BBC Home Services, for refurbishing existing studio facilities and studio development.

Additional bids

20. The Home Office propose additional expenditure as follows:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
(i) Rearrangement of frequency assignments	0·4	1·3	1·7	0·6	—
(ii) UHF programme Phase II	0·1	0·2	0·4	0·8	1·8
(iii) Sound broadcasting of Parliamentary proceedings	0·2	0·2	—	—	—
(iv) Fourth television service in Wales	0·1	2·3	5·3	7·3	5·9

Item (i) arises because of the proposed re-arrangement of low and medium frequency assignments following the 1975 Regional Administrative Broadcasting Conference in Geneva. Changes must be made by November 1978. The extra provision is required by the BBC. Item (ii) is for the construction of transmitters to broadcast television programmes at UHF in 625 lines and colour. The cost and method of financing item (iii) are still under discussion. The bid assumes that the BBC will be responsible for the sound signal at the Palace of Westminster but that there will be no significant capital expenditure by the IBA. Item (iv) was accepted in principle when the Government announced in 1974 that priority should be given to providing a primarily Welsh language fourth television service in Wales. It was announced in February this year that an immediate Government subvention could not be justified in present economic circumstances but that it would be kept under review as part of the public expenditure review. The figures are subject to variation and assume a decision in late 1976 for work to start in April 1977.

21. Offsetting savings could be found from within the broadcasting capital expenditure programme only by further cuts to the UHF programme; replacements and repairs to existing transmitters and BBC studios; and further deferments to BBC studio buildings in the regions and Wales. The Home Office has control only over the total capital expenditure of the BBC Home Services and IBA and it might well be impossible to override a refusal from either body to accommodate the new expenditure involved in these additional bids at the expense of their existing programme. The question of offsetting savings for the fourth television service in Wales would need to be discussed between the Treasury, Home Office and the Welsh Office.

Policy options

22. The illustrative options would save:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
BBC	0·6	1·2	1·3	1·3
IBA (television)	0·1	0·2	0·1	0·1

The savings would fall on plans to improve or refurbish studios, build UHF TV transmitters, and repair and replace existing transmitters. The BBC's

capital programme has already been reduced because of a shortfall in expected licence revenue.

23. The sum of the illustrative figures for reductions in total Home Office services amounts to something less than 2½ per cent and 5 per cent overall. If further reductions were required, they would have to fall on capital expenditure and it would be for decision how far the reduction should be carried on fundamental law and order services and what further contribution the BBC and IBA should be asked to make by further reductions in their capital expenditure programme.

Records, registrations and surveys

24. This includes expenditure by several Government Departments (the Office of Population Censuses and Surveys (OPCS), the General Register Office (Scotland) (GRO(S)), Land Registry, Ordnance Survey, and other minor departments) and some local authority expenditure. Provision is made under the OPCS for social surveys carried out as an allied service for Government Departments.

Implications of Survey figures

25. The Cmnd. 6393 provision for OPCS and GRO(S) included provisional estimates of the cost of preparatory work for a full population census in 1981. It is now estimated that this provision will be insufficient. For Ordnance Survey, the base figures show a steady decrease in net expenditure. Recent forecasts indicate a fall in the sales of Ordnance Survey maps. If this materialises it will have the effect of slowing down the rate of reduction in net expenditure unless offsetting savings are secured. The Public Record Office require additional capital provision. The provision for registration of electors in Scotland is insufficient.

Additional bids

26. The following additional provision is required to meet expenditure on the 1981 Census by a number of Departments:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
OPCS	0·8	0·7	1·8	4·1
GRO (S)	—	—	0·4	0·5

OPCS also estimate that the cost of dispersal, including transfer expenses, of part of the office to Southport by 1980 will be:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·1	0·4	0·8	0·2

The additional provision required by the Public Record Office for storage accommodation is:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·4	0·2	—	—

Additional provision will be required for the registration of electors in Scotland if local authorities are to be enabled to carry out their statutory duties:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·2	0·3	0·3	0·3

Policy options

27. Reductions of 2½ per cent in 1977–78 and 5 per cent in following years could produce the following savings:

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
OPCS and GRO (S) . . .	0·2	0·5	0·5	0·5
Ordnance Survey . . .	0·2	0·4	0·4	0·4
Electoral registration . .	—	8.0	—	8·0

Any reduction in the allocation for OPCS and GRO(S) would require a decrease in manpower. The options shown above would require staff to be reduced by 72 and 144 respectively. Given that additional manpower will be required to meet the needs of the 1981 census and that the Civil Service cuts required by Cmnd. 6393 have to be made, the implementation of the options would mean that the Departments would have to abandon or severely curtail some of their main functions on which the public and Government Departments rely. For Ordnance Survey, a reduction of 48 staff in 1977–78 and 104 in later years would be required. This would affect the standards of mapping and administrative work. The net expenditure figures of the

minor departments are relatively small and any savings would have to be made from manpower. All these departments are being asked to offer savings in connection with the CSD manpower savings exercise. The savings on electoral registration would be achieved by revising the register biennially. This would require legislation. The present register is reckoned to be only 85 per cent accurate at the end of its life, and there has been pressure for making it more up to date. A biennial register would contain more inaccuracies, and be contested and there would doubtless be pressure for exceptions which would reduce the expected savings.

Devolution

Additional bid

£ million

	1976 –77	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
Scotland . . .	1·1	6·6	9·4	10·3	10·3
Wales . . .	2·9	10·9	14·3	15·0	15·1

28. This is a new programme covering the net additional costs of devolution, *i.e.* the additional costs resulting from devolution after allowing for the reductions made possible in other public expenditure programmes. The expenditure includes the cost of elections, the salaries of members of the Assemblies and their staff, and the cost of additional staff for the Secretaries of State, as well as expenditure on the Assembly buildings themselves, office accommodation and common services such as printing and stationery. The estimates are necessarily extremely tentative at this stage.

29. The estimates provided by the Welsh Office assume a net build-up of staff to 2,100 (3,722 less 1,622 from manpower savings in Whitehall departments). This is an increase on the very rough estimate in the White Paper on "Our Changing Democracy: Devolution to Scotland and Wales" (Cmnd. 6348), which suggested that an additional 1,600 staff would be required, not allowing for *possible savings in other departments*. The manpower estimates for Scotland are in line with those in Cmnd. 6348.

30. The Welsh Office consider that if the Scottish Assembly comes into existence on 1 April 1978, there will be very strong pressure for the Welsh Assembly to come into being on the same date. But, this timetable would cause very considerable staffing problems for the Welsh. If the Welsh Assembly did not come into existence until 1 April 1979, this would lead to the following reductions in expenditure:

£ million

1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
2·6	7·4	4·0	0·9	0·1

31. The Scottish and Welsh Offices have made no suggestions for offsetting savings in other programmes, not related to devolution, for which they are responsible.

Other services

Additional bids

32. There are a number of miscellaneous bids as follows:

£ million

	1976 –77	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
(i) Inland Revenue: transitional relief for charities	0·6	0·3	—	—	—
(ii) Home Office: Wireless Telegraphy . .	—	0·4	0·3	0·4	0·1
(iii) Direct elections to the European Assembly .	—	—	10·0	—	—

Item (i) arises from slippage and late claims in payments under the charities relief programme. Item (ii) covers the World Administrative Radio Conference as well as radio monitoring. The estimate at (iii) covers the cost to the United Kingdom of the direct elections. The cost might be less if the elections were held in conjunction with local government elections.

Policy options

£ million

	1977 –78	*1978 –79*	*1979 –80*	*1980 –81*
Advances to the Agricultural Mortgage Corporation (AMC) .	—	–0·1	–0·1	–0·1

33. It is not possible to predict accurately the amount of Exchequer advances which will be required to enable the AMC to meet the demand

for loans. Provision of £2 million a year is included in the Survey but actual requirements may vary above or below this figure in any particular year. The option would imply a change from what has previously been regarded as a contingency provision, to an absolute ceiling from 1977–78. This could mean that in some years the Government might not be able to meet its obligation to the AMC to provide sufficient financial backing to enable the Corporation to issue its debentures and this in turn could mean a restriction in the amount of money available for lending to farmers. The Agricultural Departments consider that this would be against the spirit if not the letter of the Agricultural Credits Act 1928 and subsequent legislation, and that it would be undesirable to curtail the supply of funds to the Industry particularly at a time when the Government is anxious to encourage investment in agriculture.

34. This heading also covers the capital investment programme of Cable and Wireless Ltd. which is discussed in the separate report to Ministers on nationalised industry investment.

14. Common Services

TABLE 14 £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Office and general accommodation services:										
Capital expenditure	68·4	61·0	59·0	54·9	78·9	87·6	84·5	81·1	79·6	79·6
Rent	78·2	81·9	84·8	87·3	93·2	108·1	92·9	90·5	88·3	83·5
Maintenance and other running costs	70·0	59·7	71·7	67·0	76·5	76·7	74·7	77·7	77·7	77·7
Departmental administration	37·9	41·1	33·9	31·0	23·1	27·6	26·3	25·7	24·9	24·9
Total	254·5	243·7	249·4	240·2	271·7	300·0	278·4	275·0	270·5	265·7
Stationery and printing (home)	80·2	82·6	90·3	92·3	87·2	86·9	92·0	93·4	94·9	94·9
Computers and telecommunications	23·7	33·7	27·9	30·4	38·1	37·0	42·0	40·7	40·3	40·3
Home publicity	16·4	18·2	22·0	18·9	22·9	17·7	17·0	16·1	16·0	16·0
Civil superannuation	198·9	208·7	202·4	206·1	264·5	246·4	237·1	260·5	286·8	313·7
Rates on Government property	111·4	115·0	107·3	117·9	120·4	121·9	125·6	129·4	133·5	133·5
Other common services	14·3	12·8	14·8	14·6	16·0	15·9	16·3	16·1	16·1	16·3
Grand Total	699·4	714·7	714·1	720·4	820·8	825·8	808·4	831·2	858·1	880·4
Changes from Cmnd. 6393 revalued:					–7·0	+11·1	–4·9	–1·9	–1·6	
Cmnd. 6393 revalued					827·8	814·7	813·3	833·1	859·7	

Office and general accommodation services and transport services

Implications of the Survey figures

1. Expenditure on this sub-programme is mainly determined by the area of office space required for the Home Civil Service. The size of this programme will be influenced by the CSD manpower exercise: in particular, the size of the reductions in staff numbers and where they are to occur. Much will depend on how far and how quickly space can be re-allocated to produce surplus holdings of a size that can be offered on the market, and also on the state of the property market. The interim assumption, *reflected in the forecasts for rent and for* office space is that after 1976–77 the total number of non-industrial civil servants will fall by some 30,000.

2. On present information the area of civil service offices will be as follows:

Office space – millions of square feet

	Crown-owned		*Leased*		
	London	*Elsewhere*	*London*	*Elsewhere*	*Total*
1975	7·8	17·0	15·1	19·6	59·5
1976	7·9	17·5	15·6	21·5	62·5
1977	8·0	17·9	16·5	23·4	65·8
1978	8·0	18·6	16·5	23·1	66·2
1979	8·1	18·7	16·3	22·7	65·8
1980	8·1	20·0	15·9	21·5	65·5

3. The figures in this table and the rent figures in the baseline include a preliminary assessment of the effects of the £140 million civil service savings, but this is subject to change when firm decisions have been taken on the extent and location of staff savings.

Additional bids

4. The Survey figures make no allowance for the proposed increase of 10,000 staff in some departments (including 5,000 for Inland Revenue), in the latest CSD forecasts. If these staff increases take place additional provision will be required as follows:

£ million

	1976 –77	1977 –78	1978 –79	1979 –80	1980 –81
10,000 extra staff	—	2·5	5·0	5·0	5·0

5. Any savings needed to be found from this programme to cover the increased costs would have to be at the expense of the policy options. Provision for the extra staff in Edinburgh and Cardiff as a result of devolution is proposed in Programme 13.

6. The 1975 Survey figures made no provision for the level of staff now planned and agreed by the CSD as part of the 1975 manpower forecast for 1 April 1977. Alignment with the 1975 manpower forecast requires additional expenditure as follows:

£ million

	1977–78	1978–79	1979–80
Adjustment of rents to agree with 1975 manpower forecast	5·7	4·2	0·7

This expenditure is required to accommodate agreed manpower totals any savings to cover it would only be available at the expense of the policy options.

Policy options

7. Illustrative options up to the percentages proposed in the ground rules would not be feasible on the rent bill as commitments have to be met; the saving indicated would involve cutting back on schemes for rehousing staff. Further cuts on departmental administration beyond those which may be required under the manpower exercise would not be feasible. This means that disproportionately large cuts would have to fall on capital expenditure (10 per cent in later years) and to a lesser extent on maintenance and running costs (6 per cent in later years). The figures are as follows:

£ million

	1977 –78	1978 –79	1979 –80	1980 –81
Capital:				
New Works	2·4	7·2	6·8	6·6
Furniture and Equipment	1·0	2·0	2·0	2·0
Rent	0·5	0·5	0·5	0·5
Maintenance and Running costs	3·4	4·6	4·6	4·6
	7·3	14·3	13·9	13·7

8. On the basis that cuts in the content and timing of the dispersal and office improvement programmes are avoided, the reduction on new works would involve:

(*a*) deferring a number of new building projects to rehouse regional offices of departments in the interests of efficiency or improved working environment, where there is not already an unavoidable commitment; and

(*b*) cutting the provision for minor adaptation schemes. However, if additional and urgent schemes not at present foreseen were to be required by departments, then it would be necessary either to allocate further funds or to make reductions in other high priority new works programmes which might have to include office improvement or dispersal schemes.

9. The savings on furniture would have to be achieved by cutting back on replacement and modernisation programmes. The reductions on maintenance and running costs would have to be sought through fuel saving as far as possible, and by lowering standards of maintenance below what has hitherto been regarded as the minimum essential.

Stationery and printing (home)

10. Her Majesty's Stationery Office supplies Government departments with their printing, stationery and office machinery, and is responsible for the printing and in most cases the publication, distribution, and sale of Government publications. Although HMSO tries to meet departments' requests for stationery and printing economically, in the main it cannot reject or reduce them.

Additional bids

11. HMSO have made bids for additional expenditure in respect of the publications main distribution

centre; a new central warehouse; and the Parliamentary Press. The Treasury and the CSD have asked for offsetting savings, but none have so far been identified. The amounts involved are:

£ million

1976-77	1977-78	1978-79	1979-80	1980-81
0·4	1·3	2·6	4·1	3·5

The figures do not take account of the expectation that within the Survey period HMSO operations will be put on a trading fund basis.

Policy options

12. The illustrative options would mean reductions of £2·3 million in 1977–78 and £4·7 million in the following years. Such reductions would be likely to lead to interruptions of supply unless there were corresponding reductions in departments' requirements.

Computers and telecommunications

Implications of Survey figures

13. The expenditure reductions shown in Cmnd. 6393 have meant the cancellation or deferment of a number of projects designed to achieve economies in departmental operations and to improve efficiency. Further action will be required during 1976 to ensure that the announced reductions are achieved in 1978–79 and subsequent years. This will involve extending the life of existing equipment where possible, hiring some new equipment rather than purchasing it and cancelling some new projects. However, it is impossible at this stage to identify particular schemes that would be affected. For telecommunications, the Cmnd. 6393 figures would mean that the Central Computer Agency (CCA) could not provide various types of communications facilities which are required for efficient work by dispersed staff, and which are covered by the additional bids. Provision has not been made for the procurement of such items as shared exchanges, which will largely be met by the transfer of funds from other programmes.

Additional bids

14.

£ million

	1978–79	1979–80	1980–81
Computers	0·1	0·8	0·2
Telecommunications	0·4	0·1	
Total	0·5	0·9	0·2

The additions are required for essential dispersal needs. Given that the basic programme is inadequate to meet existing requirements, compensating savings could be found only by cutting out schemes of equal or greater priority than those covered by the additional bids. For telecommunications, the additions (together with the sums to be transferred from other programmes) represent the sums required to enable CCA to carry out its agreed function of purchasing telecommunications equipment which is essential for existing policy requirements. The present programme is in the Department's view too small to enable new requirements to be met by savings.

Policy options

15.

£ million

	1977–78	1978–79	1979–80	1980–81
Cancellations and deferments of computer and telecommunications projects	1·0	1·9	1·9	1·9

16. The main burden of cuts must fall on the purchase of equipment. Any option which involved the cancellation or deferment of projects would further adversely affect the functioning of Government computing, especially in the later years of the Survey. Hiring of equipment rather than purchasing would be necessary. Over the Survey period this would be more costly, and would increase the difficulty of keeping within limits in subsequent years.

17. For telecommunications, from 1978–79 onwards there would be insufficient money available to cover the acquisition of shared telephone exchanges. Proposals including the purchase of shared exchanges, and the extension of the remote meeting table network, would have to be deferred indefinitely.

Home publicity

18. This covers expenditure on publicity campaigns which are carried out by the Central Office of Information and Scottish Office for other Government departments and includes the related printing costs on HMSO's Vote. Publicity is directed principally at audiences in the United Kingdom through the media of press and television advertising, films, exhibitions and publications in support of departmental policies. The Survey base figures

imply economies in the publicity programmes for all departments including the major continuing campaigns.

Policy options

19. The illustrative options would mean savings of £0·4 million in 1977–78 and £0·8 million in subsequent years. It is not possible to say at this stage which Departmental publicity campaigns would be affected.

Civil superannuation

Implications of Survey figures

20. This programme covers expenditure on the pensions, lump sum benefits and other superannuation benefits (including transfer payments to other schemes) payable to civil servants and their dependants, offset by contributions payable by certain funds and organisations, by civil servants towards the cost of widows' pensions, transfer payments received from other schemes and certain other receipts. The 1976–77 estimate includes a payment of £25 million to the Civil Aviation Authority (CAA), to be added to the £40 million paid in 1975–76, in respect of the accrued pension rights of 6,500 civil servants transferred to the CAA at the beginning of 1975.

21. No provision has been made for improvements in the benefits of the scheme. Nor do the forecasts take into account increased numbers of pensions and other superannuation awards that may arise from accelerated retirements or redundancies resulting from the decisions that may be taken to implement the savings in Civil Service manpower announced in Cmnd. 6393. Ignoring the special payment of £25 million in 1976–77, the forecasts show increases of about 9 per cent a year in net expenditure, reflecting the cumulative effect of the increase in the number of payments.

Additional bids

22. The additional bids result solely from revisions of the estimates of the net costs of paying benefits in accordance with the rules of the scheme.

£ million

	1977–78	*1978–79*	*1979–80*	*1980–81*
Revision to estimates of superannuation payments	2·2	0·7	– 0·1	—

Policy options

23. The figures below show the effect of the 2½ and 5 per cent reductions.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
6·0	13·2	14·5	15·8

24. In a programme where expenditure is directly related to the numbers of people eligible to receive benefits under existing provisions, reductions of this order are not a feasible proposition. Even if it were practical to reduce the benefits of the scheme, the reductions could apply only to those who retired in future and the bulk of the expenditure arises from the payment of benefits to people who have already retired or who will have a reserved right to the existing benefits of the scheme.

Other common services

25. This programme covers the cost of legal services, the Government Actuary and Civil Service Catering Services.

Additional bid

26. The Cmnd. 6393 provision for the Treasury Solicitor's Office would not allow existing policies to be maintained. This would require an additional bid as follows:

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·3	0·4	0·3	0·3

Policy options

27. The following savings could only be achieved by reducing the scope of services performed by the Treasury Solicitor for other government departments.

£ million

1977–78	*1978–79*	*1979–80*	*1980–81*
0·1	0·1	0·1	0·1

15. Northern Ireland

TABLE 15 — £ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975 76	1976–77	1977–78	1978–79	1979–80	1980–81
PART A										
Expenditure by Northern Ireland Departments:										
Agriculture, fisheries, food and forestry	24·0	26·9	38·2	39·6	44·1	43·9	38·3	32·7	32·5	33·3
Trade, industry and employment	138·0	131·9	136·8	192·1	194·6	172·8	166·0	145·6	151·3	151·3
Fuel	44·9	52·9	39·6	53·9	70·2	81·3	62·1	41·3	30·6	24·7
Roads and transport:										
Roads	49·7	47·4	55·2	56·8	56·5	56·8	59·0	54·9	55·6	56·2
Transport	11·4	17·9	12·1	15·1	11·3	15·1	17·9	15·2	15·0	16·0
Housing	94·5	73·9	81·3	109·5	113·7	145·4	155·4	160·4	166·1	165·9
Other environmental services	51·8	51·0	48·4	57·9	68·9	71·4	64·4	61·8	60·3	60·0
Law, order and protective services	54·9	107·1	84·1	3·8	4·0	4·0	4·6	3·9	4·2	4·2
Education and libraries, science and arts	177·0	190·1	200·2	218·9	238·3	250·0	248·5	247·0	247·8	246·8
Health and personal social services	171·1	174·7	181·2	196·9	207·6	215·2	219·6	220·6	223·9	228·1
Social security	250·5	261·1	266·0	292·2	329·5	348·2	362·8	359·1	358·4	359·5
Other public services	21·0	18·2	14·8	14·8	9·8	9·1	9·4	9 7	10·1	10·1
Common services	9·6	8·2	10·2	10·8	19·3	15·3	16·0	14·5	14·6	14·8
VAT paid by local authorities	2·9	3·0	2·9	2·9	3·2	2·5	2·2	2·0	2·0	2·0
Total	1,101·3	1,164·3	1,171·0	1,265·2	1,371·0	1,431·0	1,426·2	1,368·7	1,372·4	1,372·9
PART B										
Expenditure by United Kingdom Government Departments:										
Agriculture, fisheries, food and forestry	60·3	51·5	39·8	50·9	31·3	25·4	24·0	21·8	21·1	21·1
Law, order and protective services	0·3	0·3	28·4	130·2	156·4	167·6	143·0	135·7	134·4	134·4
Other public services	—	1·0	2·8	2·5	3·2	3·4	2·9	3·0	2·9	2·9
Common services	—	—	0·6	2·8	1·2	1·7	1·2	1·2	1·2	1·1
Total	60·6	52·8	71·6	186·4	192·1	198·1	171·1	161·7	159·6	159·5
Grand Total	1,161·9	1,217·1	1,242·6	1,451·6	1,563·1	1,629·1	1,597·3	1,530·4	1,532·0	1,532·4
Changes from Cmnd. 6393 revalued					−49·4	- 9·8	−1·8	−3·9	−6·1	
Cmnd. 6393 revalued					1,612·5	1,638·9	1,599·1	1,534·3	1,538·1	

1. Table 15 shows the division of Northern Ireland expenditure between Northern Ireland departments and United Kingdom departments. It does not include (i) the cost of food subsidies and price guarantees for milk and wool which appear for the United Kingdom as a whole in Table 3 (Northern Ireland's share of this in 1976–77 is about £20 million reducing to £3 million by 1979–80); (ii) expenditure by the Intervention Board for Agricultural Produce on market regulation operations to implement the Common Agricultural Policy in the United Kingdom as a whole (also in Table 3); and (iii) extra costs attributable to the Army's task in Northern Ireland, which are included within the figures in Table 1 and are likely to be about £59 million in 1976–77.

Implications of Survey figures

2. The expenditure figures in the above Table are those contained in the White Paper on Public Expenditure (Cmnd. 6393), adjusted to allow for

the unemployment relief measures announced in February 1976; changes announced at the time of the Budget; additional expenditure in respect of administration of social security and industrial training; additions in 1976–77 following the decisions announced in connection with the new pay policy agreed with the TUC to defer increases in the charge for school meals and to provide additional training services; and some small downward estimating changes. Basically they represent little change in the level of expenditure envisaged in Cmnd. 6393 and, in the main, provide for a continuation of services at the standard envisaged in that White Paper. Emphasis continues to be placed on employment, on the maintenance of law and order, and on those programmes of social significance such as education, and health, and particularly on housing where there is the greatest need to remedy deficiencies and improve standards. In education, existing levels of expenditure are being maintained, while the health and housing programmes show some growth. On housing, provision is made for maintaining the building programme of new houses at a level marginally above that of the previous five years, and for an extensive programme of urgently needed repairs and improvements to existing houses. The net effect should be an increase in the number of homes provided with a high degree of flexibility in the means used to achieve this end.

3. The detailed allocation of funds within the trade, industry and employment programme may be affected by an urgent review of economic and industrial strategy which is currently taking place, against a background of over 51,000 unemployed *i.e.* 9·9 per cent of the labour force with further closures pending. The review is aimed at ensuring that the best use is made of the limited resources available. Other current policy reviews, *e.g.* on areas of special social need, may result in some reallocation between several social programmes.

Additional bids

4. There are the following additional bids:

£ million

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
1. Agriculture	3·2	0·3	0·9	1·2	1·6
2. Trade, Industry and Employment:					
(i) Security Guards Grant Scheme	—	4·6		—	
(ii) Enterprise Ulster	—	—	—	0·5	0·5
(iii) Northern Ireland Development Agency	—	—	3·5	5·0	5·0
(iv) Regional Employment Premium (women's rate)	—	3·8	3·8	3·8	3·8
3. Education:					
School meals	. .	0·6	0·8	1·1	1·1
4. Law, Order and Protective Services: Police	0·9	6·1	9·6	13·9	17·1
5. Economic Assumptions:					
(i) Social Security	−4·9	9·0	−9·9	−11·5	−2·7
(ii) Regional Employment Premiums	—	0·6	1·0	1·4	1·9
(iii) Housing subsidies	−0·5	0·8	—	1·2	. .
Totals	−1·3	6·2	9·7	16·6	28·3

Item 1 relates to agricultural services provided to Northern Ireland by the United Kingdom Ministry of Agriculture, Fisheries and Food and covers both those governed by statute and others required to maintain existing United Kingdom administered agriculture policies. £2·8 million in 1976–77 reflects delayed payments of EEC compensatory allowances for less-favoured areas.

Item 2 (i) is for the continuation of the existing Security Guards Grant scheme. This is expenditure which it is reasonable to review year by year, since it depends upon the security situation. In present circumstances it is not possible to think of discontinuing the Security Guards Grant scheme in 1977–78. Enterprise Ulster provides work with a training and rehabilitation element. The token expenditure under *item 2* (ii) is needed to provide its statutory board with an assurance that it will remain in existence throughout the Survey period. Existing provision ends in 1978–79. The new Development Agency, *item 2* (iii), is the Northern Ireland counterpart of the National Enterprise Board and the Scottish and Welsh Development Agencies, and will require finance for its activities as they develop. It has recently replaced the former Northern Ireland Finance Corporation for which, as it had only a limited statutory life, no provision had been made beyond 1978–79, and only very limited provision in that year.

The additional bid in respect of Regional Employment Premium, *item 2* (iv), relates to the suggestion by the United Kingdom Department of Employment, recorded under GB Programme 4, that the women's rate be increased to equal the men's, and is contingent upon a decision on GB Programme 4.

The additional bid against school meals, *item 3*, reflects the suggestion under GB Programme 10 that the planned increases in school meals charges from September 1977 may have to be implemented one year in arrear.

The object of the expenditure against *item 4* is to continue the process of making the police more effective in securing the conviction of terrorists through the courts and thus in due course making it possible for the involvement of the Army in Northern Ireland to be reduced as is provided for in MOD plans and reflected in the Defence Budget figures. The aim is also to achieve a more cost-effective system.

Item 5 shows the changes resulting from the revised economic assumptions. It reflects similar changes on account of these in GB programmes 12, 4 and 7.

Offsetting savings

5. The additional bids in respect of agriculture services, item 1, would be offset in the same way as the corresponding United Kingdom additional bids under Programme 3.

6. In order to offset the additional bids at items 2 (i), (ii) and (iii) above by the Northern Ireland Departments, the factory building programme would have to be reduced by about one-sixth; the new Central Bus Station planned for Belfast deferred to beyond the Survey period, and administrative economies made in agricultural and miscellaneous common services. Item 2 (iv), as stated above, is contingent on the decision taken in GB. Item 3 is similarly contingent on GB decisions.

7. To produce offsets to meet item 4 a reduction of £10 million on electricity, involving cuts in expenditure on distribution, transmission and generation, and on office accommodation would have to be made. Industrial development expenditure would have to be reduced, possibly by cutting the factory building programme further to a level of only £10 million a year and by curtailing the provision for grants and loans for industrial development. Reductions of £10 million and £7 million would have to be made in the Housing and Roads programmes respectively. Further administrative economies would have to be made and a number of new works contracts deferred.

8. The net effect of the changes under item 5 (i), (ii) and (iii) is a reduction in expenditure.

Policy options

9. A list of illustrative options to meet the target of reducing expenditure by 2½ per cent in 1977–78 and 5 per cent thereafter is set out below. If decisions to reduce expenditure were taken, changes might need to be made to this list in the light of options taken up in Great Britain in respect of comparable services.

£ million

	1977–78	1978–79	1979–80	1980–81
Northern Ireland Departments:				
Agriculture, Fisheries, Food and Forestry	0·5	1·1	1·3	1·3
Trade, Industry and Employment	7·9	11·3	12·2	13·1
Roads and Transport	0·5	3·4	3·6	3·6
Housing	8·7	12·0	11·6	12·1
Other Environmental Services	0·2	2·5	2·3	2·3
Education and Libraries, Science and Arts	6·2	13·3	12·9	13·0
Health and Personal Social Services	5·5	12·0	12·2	11·4
Social Security	9·0	18·0	17·9	18·0
Other Public Services	0·4	0·8	0·8	0·8
Common Services	—	0·7	0·6	0·4
UK Departments:				
Agriculture, Fisheries, Food and Forestry	0·6	1·1	1·1	1·1

10. The effect of the Northern Ireland Departments' options bears most heavily on the programmes for trade, industry and employment; roads and transport; housing; education and libraries, science and arts; and health and personal social services. Some of these programmes have already sustained heavy cuts under the 1975 Survey. If the offsetting savings described in paragraphs 5 and 6 were taken in full and the listed options were adopted in full, the ensuing reduction of the provision for the trade, industry and employment programme could gravely inhibit the Government's ability to make an impression on the economic problems facing Northern Ireland. Little new construction work would be undertaken on roads while maintenance standards would be adversely affected.

The resultant capital programme for schools would barely provide classrooms to meet changes in the school population and there would be no scope for badly needed school improvements. No new capital projects would be carried out for health and personal social services before 1980–81. Against the background of Northern Ireland's serious housing problem, a reduction in the building programme which left spare capacity in the construction industry would be feasible, but difficult to defend. There would be a severe slowing down of drainage, forestry and fishery programmes and restriction of work on the advisory, education and inspectorate aspects of agriculture. Other services such as water and sewerage, industrial training and sport and recreation would also be curtailed. Further administrative economies would be made and new works deferred.

Social Security is a service in which exact parity is maintained with Great Britain, so that any options which were adopted there would also be applied to Northern Ireland and the Northern Ireland totals would have to be adjusted accordingly. In the meantime savings from reductions of 2½ per cent and 5 per cent are shown for the relevant years without being attributed to specific changes.

11. Although the full effects on employment if the options were taken up were still being assessed when this Report was printed it was already clear that the reductions would have serious consequences. In manufacturing industry the massive reductions in the trade, industry and employment provision would affect Northern Ireland's ability to maintain or promote employment. The construction and associated industries would be severely affected by cuts in the capital programmes. There would also be reduced employment opportunities for those undergoing training in technical and professional employment *e.g.* in health and education.

12. The options for expenditure on Northern Ireland agricultural services by the United Kingdom Ministry of Agriculture Fisheries and Food would be determined in the light of agricultural support policies in the United Kingdom as a whole.

SPECIAL ANALYSES

1. Local authorities' current expenditure

Summary Table

TABLE A

£ million at 1976 Survey prices

	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
England and Wales							
Agriculture, fisheries, food and forestry	4·5	3·5	3·1	3·1	3·1	3·1	3·1
Trade, industry and employment	24·1	26·8	28·9	28·6	29·3	29·9	30·2
Roads and transport	767·3	824·4	750·4	674·9	609·8	611·9	611·9
Housing	524·5	504·0	459·1	486·2	502·0	515·0	515·0
Other environmental services	1,051·3	1,128·3	1,068·9	1,039·4	1,001·6	1,006·9	1,010·8
Law, order and protective services	1,044·6	1,111·6	1,133·8	1,160·8	1,172·2	1,189·1	1,189·1
Education and libraries, science and arts	4,892·9	5,077·6	5,185·0	5,180·1	5,184·4	5,178·6	5,195·7
Personal social services	719·2	775·5	805·5	821·7	838·4	855·2	855·2
Other public services	77·6	83·1	79·5	79·5	79·3	79·3	79·3
Estimated longfall in 1975–76(¹)	—	150·0	—	—	—	—	—
Total current expenditure (PES) basis	9,106·2	9,684·8	9,514·2	9,474·3	9,420·1	9,469·0	9,490·3
Adjustments to current expenditure (PES basis) excluding (i) and (ii) below(²)	−445·3	486·4	−525·6	−563·9	−584·4	−606·3	−616·8
Current expenditure ranking for RSG purposes (*i.e.* excluding (i) and (ii) below)	8,660·9	9,198·4	8,988·6	8,910·4	8,835·7	8,862·7	8,873·5
(i) Capital expenditure met from revenue(³)	222·9	342·5	356·1	330·6	304·4	303·5	303·8
(ii) Loan charges(⁴)	975·8	984·1	1,118·9	1,118·9	1,118·9	1,118·9	1,118·9
Total relevant expenditure (RSG basis)	9,859·6	10,525·0	10,463·6	10,359·9	10,259·0	10,285·1	10,296·2
Scotland							
Agriculture, fisheries, food and forestry	0·2	0·2	0·2	0·2	0·2	0·2	0·2
Trade, industry and employment	2·6	3·4	3·7	3·6	3·7	3·7	3·7
Roads and transport	78·2	89·8	102·4	99·7	97·7	100·0	100·0
Housing	73·9	70·4	77·2	91·3	83·1	85·2	85·2
Other environmental services	122·1	126·0	138·8	130·9	128·8	129·1	129·1
Law, order and protective services	101·5	107·5	111·3	109·9	111·2	112·6	112·6
Education and libraries, science and arts	523·0	544·7	545·1	531·5	525·5	517·1	511·3
Personal social services	87·4	98·7	101·5	103·6	105·7	107·8	107·8
Other public services	14·0	14·8	15·2	15·4	15·8	16·3	16·3
Estimated longfall in 1975–76(¹)	—	55·0	—	—	—	—	—
Total current expenditure (PES basis)	1,002·9	1,110·5	1,095·4	1,086·1	1,071·7	1,072·0	1,066·2
Adjustments to current expenditure (PES basis) excluding (i) and (ii) below(²)	−92·0	−90·7	−91·6	−97·8	−85·9	−88·3	−88·3
Current expenditure ranking for RSG purposes (*i.e.* excluding (i) and (ii) below)	910·9	1,019·8	1,003·8	988·3	985·8	983·7	977·9
(i) Capital expenditure met from revenue	9·2	9·3	9·2	9·1	9·1	8·9	8·9
(ii) Loan charges(⁴)	170·1	171·9	190·1	190·1	190·1	190·1	190·1
Total relevant expenditure (RSG basis)	1,090·2	1,201·0	1,203·1	1,187·5	1,185·0	1,182·7	1,176·9
Great Britain							
Total current expenditure (PES basis)	10,109·1	10,795·3	10,609·6	10,560·4	10,491·8	10,541·0	10,556·5
Total relevant expenditure (RSG basis)	10,949·8	11,726·0	11,666·7	11,547·4	11,444·0	11,467·8	11,473·1

(¹) It is not yet possible to allocate this estimated additional expenditure to individual services.
(²) Net adjustment for public expenditure not ranking for RSG and relevant expenditure not counted as public expenditure.
(³) The figures for 1975–76 onwards reflect the introduction of the Transport Supplementary Grant system.
(⁴) The level of loan charges is assumed to be constant in real terms in 1976–77 and subsequent years.

Current expenditure and relevant expenditure by Main Programme: England and Wales

TABLE B £ million at 1976 Survey prices

	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Agriculture, fisheries, food and forestry:							
Current expenditure (PES basis)	4·5	3·5	3·1	3·1	3·1	3·1	3·1
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	0·7	0·7	0·7	0·7	0·7	0·7	0·7
Loan charges	1·6	1·9	2·3	2·3	2·3	2·3	2·3
Relevant expenditure (RSG basis)	6·8	6·1	6·1	6·1	6·1	6·1	6·1
Trade, industry and employment:							
Current expenditure (PES basis)	24·1	26·8	28·9	28·6	29·3	29·9	30·2
Adjustments to current expenditure[1]	—	·0·5	·1·0	—	—	—	—
Capital from revenue	—	0·1	0·1	0·1	0·1	0·1	0·1
Loan charges	0·1	0·1	0·1	0·1	0·1	0·1	0·1
Relevant expenditure (RSG basis)	24·2	26·5	28·1	28·8	29·5	30·1	30·4
Roads and transport:							
Current expenditure (PES basis)	767·3	824·4	750·4	674·9	609·8	611·9	611·9
Adjustments to current expenditure[2]	−27·1	.	—	—	—	—	—
Capital from revenue[3]	52·9	204·2	216·5	192·0	166·0	166·0	166·0
Loan charges	137·9	135·1	164·6	164·6	164·6	164·6	164·6
Relevant expenditure (RSG basis)	931·0	1,163·7	1,131·5	1,031·5	940·4	942·5	942·5
Housing:							
Current expenditure (PES basis)	524·5	504·0	459·1	486·2	502·0	515·0	515·0
Adjustments to current expenditure[4]	−260·8	−242·4	−269·5	−304·6	−319·3	−331·3	−331·3
Capital from revenue	0·3	1·2	1·6	1·6	1·6	1·6	1·6
Loan charges	74·1	111·5	147·0	147·0	147·0	147·0	147·0
Relevant expenditure (RSG basis)	338·1	374·3	338·2	330·2	331·3	332·3	332·3
Other environmental services:							
Current expenditure (PES basis)	1,051·5	1,128·3	1,068·9	1,039·4	1,001·6	1,006·9	1,010·8
Adjustments to current expenditure[5]	—	—	−7·5	−13·3	−17·4	−22·7	−26·6
Capital from revenue	118·2	43·7	43·3	41·8	40·1	40·1	40·1
Loan charges	207·4	200·7	219·3	219·3	219·3	219·3	219·3
Relevant expenditure (RSG basis)	1,377·1	1,372·7	1,324·0	1,287·2	1,243·6	1,243·6	1,243·6
Law, order and protective services:							
Current expenditure (PES basis)	1,052·5	1,111·6	1,133·8	1,160·8	1,172·2	1,189·1	1,189·1
Adjustments to current expenditure[6]	2·1	−2·4	−2·4	−2·3	−2·4	−2·4	−2·4
Capital from revenue	17·1	22·6	20·4	20·0	20·8	18·9	18·9
Loan charges	42·3	41·5	42·4	42·4	42·4	42·4	42·4
Relevant expenditure (RSG basis)	1,109·8	1,173·3	1,194·2	1,220·9	1,233·0	1,248·0	1,248·0
Education and libraries, science and arts:							
Current expenditure (PES basis)	4,892·9	5,077·6	5,185·0	5,180·1	5,184·4	5,178·6	5,195·7
Adjustments to current expenditure[7]	−224·3	−241·1	245·2	−243·7	−245·3	−249·9	−256·5
Capital from revenue	59·8	61·9	65·3	66·1	66·7	67·6	67·9
Loan charges	459·2	439·9	483·2	483·2	483·2	483·2	483·2
Relevant expenditure (RSG basis)	5,187·6	5,338·3	5,488·3	5,485·7	5,489·0	5,479·5	5,490·3
Personal social services:							
Current expenditure (PES basis)	719·2	775·5	805·5	821·7	838·4	855·2	855·2
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	8·1	8·1	8·2	8·3	8·4	8·5	8·5
Loan charges	53·2	53·4	60·0	60·0	60·0	60·0	60·0
Relevant expenditure (RSG basis)	780·5	837·0	873·7	890·0	906·8	923·7	923·7

TABLE B (continued) £ million at 1976 Survey prices

	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Other public services:							
Current expenditure (PES basis)	77·6	83·1	79·5	79·5	79·3	79·3	79·3
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	—	—	—	—	—	—	—
Loan charges	—	—	—	—	—	—	—
Relevant expenditure (RSG basis)	77·6	83·1	79·5	79·5	79·3	79·3	79·3
Estimated longfall in 1975–76	—	150·0	—	—	—	—	—

Notes: Adjustments to current expenditure:

(1) Specific grant for temporary scheme to strengthen the Careers Service to deal with high unemployment.

(2) Central government capital grants for road projects (discontinued from 1975–76).

Notes: Capital from revenue:

(3) The figures for 1975–76 onwards reflect the introduction of the Transport Supplementary Grant system.

Notes: Adjustments to current expenditure:

(4) Central government grants to rent rebates and allowances.

(5) Price adjustments to land drainage precepts by Water Authorities; current expenditure on community land scheme.

(6) Miscellaneous grants to community services.

(7) Central government grants for mandatory student awards.

Current expenditure and relevant expenditure by Main Programme: Scotland

TABLE C £ million at 1976 Survey prices

	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Agriculture, fisheries, food and forestry:							
Current expenditure (PES basis)	0·2	0·2	0·2	0·2	0·2	0·2	0·2
Adjustments to current expenditure(1)	−0·1	−0·1	−0·1	−0·1	−0·1	−0·1	0·1
Capital from revenue	—	—	—	—	—	—	—
Loan charges	—	—	—	—	—	—	—
Relevant expenditure (RSG basis)	0·1	0·1	0·1	0·1	0·1	0·1	0·1
Trade, industry and employment:							
Current expenditure (PES basis)	2·6	3·4	3·7	3·6	3·7	3·7	3·7
Adjustments to current expenditure(2)	—	−0·1	−0·2	—	—	—	—
Capital from revenue	—	—	—	—	—	—	—
Loan charges	—	—	—	—	—	—	—
Relevant expenditure (RSG basis)	2·6	3·3	3·5	3·6	3·7	3·7	3·7
Roads and transport:							
Current expenditure (PES basis)	78·2	89·8	102·4	99·7	97·7	100·0	100·0
Adjustments to current expenditure(3)	−14·4	−16·8	−10·4	−4·4	—	—	—
Capital from revenue	1·4	1·5	1·5	1·5	1·5	1·5	1·5
Loan charges	21·1	21·3	27·7	27·7	27·7	27·7	27·7
Relevant expenditure (RSG basis)	86·3	95·8	121·2	124·5	126·9	129·2	129·2

TABLE C (continued) £ million at 1976 Survey prices

	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Housing:							
Current expenditure (PES basis)	73·9	70·4	77·2	91·3	83·1	85·2	85·2
Adjustments to current expenditure(⁴)	−72·6	−69·3	−76·2	−90·2	−82·0	−84·1	−84·1
Capital from revenue	—	—	—	—	—	—	—
Loan charges	6·9	8·7	9·3	9·3	9·3	9·3	9·3
Relevant expenditure (RSG basis)	8·2	9·8	10·3	10·4	10·4	10·4	10·4
Other environmental services:							
Current expenditure (PES basis)	122·1	126·0	138·8	130·9	128·8	129·1	129·1
Adjustments to current expenditure(⁵)	−5·8	−5·5	−4·8	−4·8	−5·4	−5·7	−5·7
Capital from revenue	3·5	3·5	3·5	3·5	3·5	3·5	3·5
Loan charges	60·5	56·9	64·8	64·8	64·8	64·8	64·8
Relevant expenditure (RSG basis)	180·3	180·9	202·3	194·4	191·7	191·7	191·7
Law, order and protective services:							
Current expenditure (PES basis)	101·5	107·5	111·3	109·9	111·2	112·6	112·6
Adjustments to current expenditure(⁶)	0·9	1·1	0·1	1·7	1·6	1·6	1·6
Capital from revenue	3·2	3·0	2·9	2·8	2·8	2·6	2·6
Loan charges	4·4	5·0	5·5	5·5	5·5	5·5	5·5
Relevant expenditure (RSG basis)	110·0	116·6	119·8	119·9	121·1	122·3	122·3
Education and libraries, science and arts:							
Current expenditure (PES basis)	523·0	544·7	545·1	531·5	525·5	517·1	511·3
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	0·9	1·1	1·1	1·1	1·1	1·1	1·1
Loan charges	72·9	75·4	77·3	77·3	77·3	77·3	77·3
Relevant expenditure (RSG basis)	596·8	621·2	623·5	609·9	603·9	595·5	589·7
Personal social services:							
Current expenditure (PES basis)	87·4	98·7	101·5	103·6	105·7	107·8	107·8
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	0·2	0·2	0·2	0·2	0·2	0·2	0·2
Loan charges	4·3	4·6	5·5	5·5	5·5	5·5	5·5
Relevant expenditure (RSG basis)	91·9	103·5	107·2	109·3	111·4	113·5	113·5
Other public services:							
Current expenditure (PES basis)	14·0	14·8	15·2	15·4	15·8	16·3	16·3
Adjustments to current expenditure	—	—	—	—	—	—	—
Capital from revenue	—	—	—		—	—	—
Loan charges	—	—	—	—	—	—	—
Relevant expenditure (RSG basis)	14·0	14·8	15·2	15·4	15·8	16·3	16·3
Estimated longfall in 1975–76		55·0	—	—	—	—	—

Notes: Adjustments to current expenditure:

(¹) Expenditure by fishery boards.

(²) Specific grant for temporary scheme to strengthen the Careers Service to deal with high unemployment.

(³) Expenditure on concessionary fares up to 1975–76; central government grants for rail services.

(⁴) Rate fund contributions to housing revenue account deficit and rent rebates and allowances; central government grants to rent rebates and allowances.

(⁵) Rate fund expenditure on clean air schemes; contributions to special funds.

(⁶) Rate fund contributions to common police services.

1. Table A brings together for England and Wales and for Scotland the figures for local authority current expenditure in PES terms from the individual programme tables in Part 2 and shows the adjustments which are necessary to move from current expenditure on the PES basis to relevant expenditure as defined for rate support grant purposes. These adjustments are shown separately by main programme in Tables B and C.

2. The Public Expenditure White Paper published in February 1976 (Cmnd. 6393) made it clear that no increase in the total of local authority current expenditure could be afforded over the next few years; and that any increases in individual services, whether for demographic or other reasons, must be offset by reduced levels of provision in other services. The rate support grant settlements for 1976–77 which were announced in November 1975 were made on this basis; and the aggregate figures in Table A accordingly show a picture of broad stability for the future years of the Survey period, with modest falls in total current expenditure in both England and Wales and in Scotland in 1977–78 and 1978–79.

3. The figures for 1974–75 are near-final outturn figures submitted by the local authorities. For 1975–76 the estimates for England and Wales are largely based on information about spending intentions which was available when the rate support grant settlement was made last Autumn. The figures for individual programmes do not take account of information recently received from the new DOE/CIPFA enquiry into provisional outturn figures for 1975–76 and budget estimates for 1976–77. These suggest that current expenditure in England and Wales in 1975–76 is likely to be about £150 million higher than expected last Autumn, and this figure is included in the totals in Table A. A similar addition of £55 million is made to the totals for Scotland. For the current year, the figures imply that the local authorities will keep their expenditure to the rate support grant level: the implications of the information from the new returns mentioned above which suggested that local authority spending plans may exceed the White Paper figures by about £400 million in England and Wales, and information suggesting the possibility of a similar £40 million excess in Scotland, and the action which has been taken to cut back these plans is discussed in Annex E to Part 1 of this Report.

4. The projections of local authority current expenditure for the later years of the PESC period have been prepared by departments in the light of the ground rules for the 1976 Survey. The implications for the main local authority services of holding expenditure to these levels are described in the programme chapters of Part 2. A summary of bids for additional local authority expenditure submitted by Departments is given in Special Analysis 3, Table F.

5. Following discussions in the Consultative Council on Local Government Finance, arrangements have been made this year to involve the local authorities more fully in the PESC process. To this end, groups of Central Government and local authority officials have been set up to examine the implications for local authority services of the Cmnd. 6393 figures in the future years of the PESC period, and to consider the balance between current and capital programmes, particularly in the years after 1977–78. Additionally, to facilitate discussion in the Consultative Council of priorities between services, the official groups will also consider the possible application of illustrative cuts of 2½ per cent in 1977–78 and 5 per cent in 1978–79 and 1979–80 to local authority programmes. The results of this work, both for 1977–78 and for later years, will be discussed by the Consultative Council in July.

Current and relevant expenditure

6. The differences in definition between current expenditure in PES terms and relevant expenditure ranking for payment of rate support grant give rise to continuing problems of communication between Central Government and the local authorities, particularly in regard to the appropriate definition of expenditure for control purposes. Some progress has been made in this area in the last year: the various definitions of expenditure have been discussed with the local authorities and, when the Public Expenditure White Paper was published in February, the members of the Consultative Council were provided with a table showing the Cmnd. 6393 figures expressed in terms of current expenditure ranking for rate support grant and total relevant expenditure. A table of this kind, with figures revalued to November 1975 prices (the price base of the 1976–77 rate support grant settlement) has recently been circulated to local authorities, omitting

estimates of loan charges and total relevant expenditure for the years after 1976–77. The most helpful presentation of loan charges in future years remains a particular problem. The real burden of loan charges is not subject to the same degree of control by local authorities as is the volume of current expenditure and will depend primarily on the interaction between future interest rates and the rate of inflation, both of which are very uncertain over a five-year period, and to a much smaller extent on changes in the level of capital expenditure and in the proportion of outstanding debt which needs refinancing. The estimates of relevant expenditure in this Special Analysis are again based on the neutral convention that the real burden of loan charges will remain constant at its 1976–77 level.

7. The rates of growth of current and relevant expenditure implied by the estimates in this Special Analysis are shown in the table below. The differences between the definition of current expenditure for PES and RSG purposes are explained in the footnotes to Tables B and C. The most significant of these are in education and housing and relate to expenditure by local authorities reimbursed by Central Government which is excluded from current expenditure ranking for RSG.

Per cent

	Annual rates of growth					
	1975 –76	*1976 –77*	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
England and Wales						
Total current expenditure (PES basis)	+6·4	−1·8	−0·4	−0·6	−0·5	+0·2
Current expenditure ranking for RSG (*i.e.* excluding loan charges and capital met from revenue)	+6·2	−2·3	−0·9	−0·8	+0·3	+0·1
Total relevant expenditure excluding loan charges	+7·4	2·1	1·1	−1·1	+0·3	+0·1
Total relevant expenditure (RSG basis)	+6·7	0·6	1·0	1·0	+0·3	+0·1

Per cent

	Annual rates of growth					
	1975 –76	*1976 –77*	*1977 –78*	*1978 –79*	*1979 –80*	*1980 –81*
Scotland						
Total current expenditure (PES basis)	+10·7	−1·4	0·8	−1·3	—	−0·5
Current expenditure relevant for RSG (*i.e.* excluding loan charges and capital met from revenue)	+12·0	−1·6	−1·5	0·3	−0·2	0·6
Total relevant expenditure excluding loan charges	+11·8	−1·6	1·5	−0·3	0·2	−0·6
Total relevant expenditure (RSG basis)	+10·2	+0·2	1·3	−0·2	−0·2	−0·5

The financing of local authority relevant expenditure 1971–72 to 1976–77

TABLE D

£ million at outturn prices

	1971–72 *actual*	1972–73 *actual*	1973–74 *actual*	1974–75 *actual*	1975–76 *provisional*	1976–77 *estimated*
England and Wales						
Expenditure:						
1. Current expenditure (PES basis)	3,419	4,084	4,901	6,937	9,347	10,212
2. Current expenditure on services transferred from local authorities on 1.4.74 (PES basis)(1)	225	260	298	—	—	—
3. Other adjustments to current expenditure(2)	−92	−188	−305	−383	461	565
4. Capital from revenue	110	106	150	231	339	386
5. Loan charges	490	488	636	804	972	1,154
6. Total relevant expenditure (RSG basis)	4,152	4,750	5,680	7,589	10,197	11,187
7. Other rate-borne expenditure: housing(3)	38	49	120	—	—	—
Income:						
8. Rates(4)	1,912	2,180	2,415	2,900	3,743	4,135
9. Rate rebate grant and Special Domestic relief	14	18	21	180	101	108
10. Rate support Grant	2,173	2,528	3,155	4,327	5,779	6,333
11. Specific and Supplementary Grants	200	229	310	418	851	999
12. Aggregate Exchequer Grants (lines 10 and 11)	2,373	2,757	3,465	4,745	6,630	7,332
13. Total Income (lines 8 + 9 + 10 + 11)	4,299	4,955	5,901	7,825	10,474	11,575
14. Excess (+) of Income over Expenditure (line 13 less lines 6 and 7)	+109	+156	+101	+236	+277	+388
Scotland						
Expenditure:						
1. Current expenditure (PES basis)	425	485	573	792	1,082	1,188
2. Current expenditure on services transferred from local authorities on 1.4.74 (PES basis)(5)	13	15	16	—	—	—
3. Other adjustments to current expenditure(2)	−40	−40	−54	−67	−80	−89
4. Capital from revenue	4	8	8	7	9	10
5. Loan charges	68	80	104	134	169	196
6. Total relevant expenditure (RSG basis)	470	548	647	866	1,180	1,305
7. Other rate-borne expenditure(6)	53	52	65	53	105	55
8. Total rate fund expenditure	523	600	712	919	1,285	1,360
Income:						
9. Rates(4)	223	235	262	305	401	466
10. Rate rebate grant and Special Domestic relief	2	2	3	9	16	19
11. Rate Support Grant	271	317	404	552	677	878
12. Specific and Supplementary Grants	28	33	37	44	49	62
13. Aggregate Exchequer Grant (lines 11 + 12)	299	350	441	596	726	940
14. Total Income (lines 9 + 10 + 11 + 12)	524	587	706	910	1,143	1,425
15. Excess (+) of Income over Expenditure (line 14 less line 8)	+1	−13	−6	−9	−142	+65

Notes:

(1) Local health and sewerage services.

(2) Public expenditure not ranking for RSG less relevant expenditure not counted as public expenditure.

(3) In England and Wales rate fund contributions to housing became relevant expenditure for rate support grant in 1974–75.

(4) Rate income excluding domestic element of rate support grant and rate rebate grant.

(5) Local health services.

(6) Rate fund expenditure which is not relevant for rate support grant, *e.g.* housing.

The financing of relevant expenditure

8. Table D shows that relevant expenditure in Great Britain has risen from £4,622 million in 1971–72 to an estimated £12,492 million in 1976–77—a very rapid rate of growth which reflects both the expansion of local authority spending in volume terms and the high rate of inflation. Over the same period rates have more than doubled from £2,135 million to £4,601 million. Aggregate exchequer grants, however, have more than trebled in the same period from £2,672 million to £8,272 million. The table below shows aggregate exchequer grants as a percentage of the approved level of relevant expenditure for the years covered by the table:

	England and Wales	*Scotland*
1971–72	57½	66
1972–73	58	66¾
1973–74	60	68
1974–75	60½ (+ special provision = 65¾)	68 (+ special provision = 71)
1975–76	66½	75
1976–77	65½	74

9. For 1971–72 to 1975–76 the estimates of expenditure in Table D have been obtained from returns made by departments and the estimates of rates and of exchequer grants from published sources and estimates by DOE. In principle, the differences between expenditure and income should reflect changes in local authority balances but the figures shown in the table appear to reflect also a small difference between relevant and rate fund expenditure and some discrepancies between the sources of the various estimates.

10. In 1976–77 the amount of additional rate support grant and supplementary grants payable in respect of pay and price increases is subject to a cash limit. The estimates of expenditure for the year are the figures shown in Table A, revalued to 1976–77 outturn prices using the assumptions about inflation underlying the cash limit, and assuming that the additional amount payable in respect of loan charges and specific grant—which are excluded from the cash limit—will conform to the estimates made when the cash limits were announced. The rates forecast is based on local authority rate calls for 1976–77 which represented an average rise of about 8 per cent in England and Wales and little change in Scotland (after allowing for the shorter financial year in 1975–76). The excess of income over expenditure of £388 million shown for England and Wales (and £65 million for Scotland) will of course be reduced if inflation proves to be higher than assumed for the purpose of setting the cash limit or if local authorities spend more than allowed for in the tables above (see paragraph 3 above).

2. Local authorities' capital expenditure

TABLE E

£ million at 1976 Survey prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
England and Wales										
KEY SECTOR										
Agriculture, fisheries, food and forestry	3·0	4·8	9·7	6·3	5·4	1·3	0·3	0·5	0·5	0·5
Trade, industry and employment	0·5	0·6	0·4	0·3	8·6	7·5	11·3	11·3	11·3	11·3
Roads and transport	407·9	450·4	458·7	400·8	361·2	393·5	351·5	309·1	296·7	296·7
Housing	1,651·2	1,630·9	2,023·7	2,723·4	2,329·0	1,835·0	1,693·2	1,710·6	1,709·5	1,709·5
Other environmental services	22·3	61·6	108·7	60·5	31·0	49·5	85·8	117·9	96·8	92·9
Law, order and protective services	68·0	38·4	53·8	56·9	65·8	63·5	57·9	39·1	27·7	27·7
Education and libraries, science and arts	531·2	611·3	565·2	427·4	321·7	306·0	230·1	187·1	178·7	178·1
Health and personal social services	74·0	96·2	125·2	102·1	93·9	48·4	43·6	43·6	43·4	43·4
Total key sector	2,758·1	2,894·2	3,345·4	3,777·7	3,216·6	2,704·7	2,473·7	2,419·2	2,364·6	2,360·1
LOCALLY DETERMINED SECTOR										
Agriculture, fisheries, food and forestry	−1·0	−13·7	−5·2	0·2	0·6	−2·1	−2·1	−0·7	−0·7	−0·7
Trade, industry and employment	0·8	0·9	0·8	0·8	1·1	5·1	1·3	1·3	1·3	1·5
Roads and transport	177·8	187·5	189·3	132·6	155·1	172·8	147·3	145·6	144·2	138·3
Housing	11·2	11·2	11·2	11·3	11·2	8·6	8·6	8·6	8·6	8·6
Other environmental services	375·1	389·7	373·6	394·4	386·5	233·3	230·8	180·5	178·7	178·7
Law, order and protective services	23·0	19·4	15·4	13·4	15·6	14·7	11·5	8·1	5·2	5·1
Education and libraries, science and arts	145·4	159·0	171·8	137·1	101·9	97·6	94·7	81·4	75·6	75·5
Health and personal social services	8·2	10·3	12·2	9·5	14·3	9·9	7·2	6·6	6·6	6·6
Total locally determined sector	740·5	764·3	769·1	719·3	686·3	539·9	499·3	431·4	419·5	413·6
Total	3,498·6	3,658·5	4,114·5	4,497·0	3,902·9	3,244·6	2,973·0	2,850·6	2,784·1	2,773·7
Scotland										
Agriculture, fisheries, food and forestry	1·0	0·7	0·9	0·8	0·8	1·7	1·6	1·6	1·6	1·6
Trade, industry and employment	0·5	0·3	0·1	0·1	1·5	2·0	2·1	2·1	2·0	2·0
Roads and transport	71·7	84·3	88·1	76·6	72·1	85·8	88·6	85·0	84·3	84·3
Housing	280·1	256·7	286·5	298·4	269·1	273·7	244·7	226·5	229·2	229·2
Other environmental services	121·3	122·6	121·5	108·5	127·6	110·4	111·4	108·5	100·1	100·1
Law, order and protective services	12·2	13·8	13·2	10·6	13·8	10·7	9·1	7·6	7·2	7·2
Education and libraries, science and arts	76·8	96·8	102·8	61·2	72·1	78·4	62·1	49·5	41·6	41·4
Health and personal social services	5·4	8·4	12·1	7·4	7·1	7·9	6·9	6·4	6·1	6·1
Total	569·0	583·6	625·2	563·6	564·1	570·6	526·3	487·2	472·1	471·9
Great Britain										
Total	4,067·6	4,242·1	4,739·7	5,060·6	4,467·0	3,815·2	3,499·5	3,337·8	3,256·2	3,245·6

11. Table E shows a decline in local authority capital expenditure in Great Britain from 1974–75 to a level in 1980–81 substantially lower than at the beginning of the previous decade. Because of the consequences of capital projects for recurrent expenditure (on both loan charges and running expenses), the importance of which is being increasingly recognised, the fall in capital programmes is a necessary accompaniment to the stability in current expenditure shown in Table A.

12. In England and Wales total provision falls from £4,497 million in 1974–75 to £2,774 million

in 1980–81, a fall of 38 per cent. The only substantial programme not showing a fall over this period is key sector expenditure on Other environmental services; this is due to the effect of the new provision for the Community Land Scheme in the later years. In Scotland total provision falls from £625 million in 1973–74 to £472 million in 1980–81, a drop of 24 per cent.

13. In England and Wales a distinction is made between key sector services such as housing and school building which are subject to specific departmental approval and the locally determined sector within which local authorities are free to set their own priorities. For the latter sector, the programme shares in future years are based on departmental estimates and can be no more than a guide.

3. Additional Bids for Local Authority Expenditure

TABLE F

	1976–77	1977–78	1978–79	1979–80	1980–81
England and Wales					
Agriculture, fisheries, food and forestry:					
Current	—	—	—	—	—
Capital	3·0	3·3	1·5	1·6	1·5
Trade, industry and employment:					
Current	—	2·0	1·7	1·3	1·3
Capital	−0·2	—	—	—	0·1
Roads and transport:					
Current	—	21·5	20·8	20·7	22·5
Capital	−11·0	−7·9	−5·6	15·7	6·1
Housing:					
Current(1)	18·6	47·7	94·8	101·6	116·5
Capital	139·5	125·4	28·2	4·4	−6·5
Other environmental services:					
Current	—	—	30·0	30·0	30·0
Capital	1·5	3·5	7·0	5·5	5·5
Law, order and protective services:					
Current	—	12·9	19·4	23·4	33·2
Capital	2·5	3·9	3·7	4·7	4·7
Education and libraries, science and arts:					
Current	—	54·6	70·5	70·6	68·8
Capital	—	—	—	—	0·2
Health and personal social services:					
Current	—	7·9	16·2	25·0	51·4
Capital	—	—	—	—	—
Other public services:					
Current	—	—	10·0	—	—
Capital	—	—	—	—	—
Total:					
Current	18·6	146·6	263·4	272·6	323·7
Capital	135·3	128·2	34·8	31·9	11·6

(1) Although technically additional bids for expenditure by local authorities, these increases represent in practice an accounting adjustment to the forecasts of Cmnd. 6393 and in the later years are more than offset by consequential reductions in forecasts of central government subsidies.

TABLE F (continued)

	1976–77	1977–78	1978–79	1979–80	1980–81
Scotland					
Agriculture, fisheries, food and forestry:					
Current		—	—	—	—
Capital		—	—		—
Trade, industry and employment:					
Current		—	—	—	—
Capital	0·1	—	—	0·1	—
Roads and transport:					
Current	—	—	—	—	—
Capital	—	—	—	—	—
Housing:					
Current	−15·7	−15·1	12·0	8·7	0·7
Capital		—	—	—	—
Other environmental services:					
Current	—	32·6	34·7	34·4	34·4
Capital	3·5	7·0	8·1	9·4	9·4
Law, order and protective services:					
Current	—	3·0	2·7	2·4	2·5
Capital	—	2·2	3·7	5·1	5·0
Education and libraries, science and arts:					
Current	5·1	24·3	27·8	29·5	29·2
Capital	4·9	5·3	1·1	—	—
Health and personal social services:					
Current	—	0·9	1·9	3·0	6·3
Capital			—	—	—
Other public services:					
Current	—	0·2	0·3	0·3	0·3
Capital	—	—	—	—	—
Total:					
Current	−10·6	45·9	55·4	60·9	72·0
Capital	8·5	14·5	12·9	14·6	14·4
Total (G.B.):					
Current	8·0	192·5	318·8	333·5	395·7
Capital	143·8	142·7	47·7	46·5	26·0

Additional bids for local authority expenditure

1. Table F brings together the additional bids for local authority expenditure contained in the individual programme sections of this Report. For current expenditure these bids amount to £193 million in 1977–78 and rise to £396 million in 1980–81, while for capital they fall from £144 million in 1976–77 to £26 million in 1980–81.

2. The bids do not in general result from proposals for new policies. Some of the bids are made in recognition that local authority expenditure on particular items is virtually certain in practice to be above the Cmnd. 6393 provision, because the consequences of cutting back to keep within that provision are likely to be regarded as unacceptable by local authorities, even if not to Ministers. In

this category comes some expenditure on concessionary fare schemes, refuse collection and recreation under Other environmental services, the increased cost of salary drift in the education services, and expenditure on personal social services to maintain existing standards of services for the elderly and children in care. These three items alone amount to over £50 million in 1978–79. If these bids are to be accepted then compensating savings will have to be found from among the options discussed in the individual programme sections of this Report if aggregate expenditure is to be kept to the Cmnd. 6393 level.

3. Other bids cover expenditure, required to maintain existing standards or policies, which could be prevented if Ministers were to accept policy changes and issue specific guidance to local authorities, unpalatable though such action would be. In this category are police salaries to cover improved recruitment, additional expenditure related to the decision to defer the increased charge for school meals, and expenditure on housing. The main elements of the relatively large housing figures in Table F are capital expenditure on new dwellings (not at present controlled); and increased current expenditure (which was not fully taken into account in the figures in Cmnd. 6393) on rate fund contributions to housing revenue accounts, and rent rebates and allowances consistent with a rent policy of 10 per cent real growth annually. The negative figures for Scotland reflect reductions in subsidies. Much of the additional bids total falls into this category. If these bids are to be accepted, and this has to be considered in the light of Annex C to Part 1 of this Report, then again compensating savings will have to be found elsewhere if expenditure in total is to be kept to the Cmnd. 6393 level.

4. Local authorities' manpower

TABLE G Full time equivalents at 1 April '000

	1974	1975	1976	1977	1978	1979	1980	1981
England and Wales								
Agriculture, fisheries, food and forestry	2	2	2	2	2	2	2	2
Trade, industry and employment	7	7	7	8	8	8	8	8
Roads and transport	97	99	99	96	92	93	93	93
Housing	100	102	104	106	108	110	112	114
Other environmental services	417	430	434	423	409	410	411	411
Law, order and protective services	216	226	236	237	239	241	243	245
Education, libraries, science and arts	932	950	977	995	1,000	1,004	996	983
Health and personal social services	172	186	195	198	202	206	209	209
Other public services	7	7	6	3	2	2	2	2
Total	1,950	2,009	2,060	2,068	2,062	2,076	2,076	2,067
Scotland								
Agriculture, fisheries, food and forestry	—	—	—	—	—	—	—	—
Trade, industry and employment	1	1	1	1	1	1	1	1
Roads and transport	24	24	24	25	25	25	25	25
Housing	13	13	13	13	13	13	13	13
Other environmental services	31	33	34	33	33	33	33	33
Law, order and protective services	22	23	24	24	24	24	24	24
Education, libraries, science and arts	122	129	128	128	127	126	124	124
Health and personal social services	19	22	24	25	25	26	26	26
Other public services	4	4	4	5	5	5	5	5
Total	236	249	252	254	253	253	251	251
Total Great Britain	2,186	2,258	2,312	2,322	2,315	2,329	2,327	2,318

Local authorities' manpower

1. The manpower figures in Table G are in full-time equivalent terms, and take account of part-time employees who make up about one third of total local authority employment in Great Britain of 3 million. The figures shown include employees in local authorities' revenue producing undertakings, e.g. housing and passenger transport, as well as those in rate fund services. The estimates for individual services are based on departmental returns except those for roads and transport and housing in England and Wales where estimates have been made by the Treasury.

2. The figures relate to the base line figures in the Survey Report, and therefore do not take any account of additional bids for expenditure or reductions which might be achieved by the adoption of lower expenditure options. The figures show local authority employment reverting in 1981 to the 1976 level with higher totals for the intervening years. Small planned increases over the period in police and personal social services are offset by 1981 by reductions in other services. The decline in education manpower after 1979 reflects demographic trends.

3. Local authority staffing in England and Wales has been monitored since the middle of 1975 by the Government and the local authority associations through the Joint Manpower Watch Group reporting

to the Consultative Council on Local Government Finance. A watch on staff numbers in Scotland similar to the Joint Manpower Watch in England and Wales has recently been instituted in consultation with the Convention of Scottish Local Authorities. The December 1975 Joint Manpower Watch return for England and Wales gave a full-time equivalent total of 2,086,000 employees, which is reasonably in line with the 1 April 1976 figure of 2,060,000 shown in Table G for England and Wales.

4. Department of Environment Circular 129/75 setting out the implications for local authorities of the rate support grant settlement for 1976–77, stated that the "overall standstill on current expenditure allows virtually no scope in national terms for any further growth in total employment".

5. Expenditure within the responsibilities of the Secretary of State for Scotland and the Secretary of State for Wales

SCOTLAND

Expenditure within the Secretary of State's responsibility

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Agriculture, fisheries, food and forestry	132·5	112·7	102·1	125·4	85·4	96·8	94·1	85·4	83·0	81·4
Trade, industry and employment	11·2	12·5	14·9	13·4	27·6	116·5	85·2	86·1	89·2	85·5
Nationalised industries' capital expenditure	176·5	179·5	146·1	148·1	152·1	181·0	208·6	231·9	244·6	244·6
Roads and transport	191·7	204·6	209·8	206·9	217·7	246·4	255·5	243·0	248·7	248·7
Housing	488·4	480·1	560·2	595·2	603·1	638·3	617·3	601·4	637·3	637·3
Other environmental services	245·2	253·5	255·6	251·8	274·7	271·2	265·1	260·3	252·4	252·4
Law, order and protective services	126·0	131·2	139·4	141·8	152·2	154·4	151·2	150·9	152·0	152·0
Education and libraries, science and arts	595·5	645·8	684·5	670·1	705·7	717·5	686·3	666·8	649·9	646·1
Health and personal social services	576·6	615·7	638·3	692·8	726·8	739·7	750·3	761·4	772·3	773·1
Other public services	25·8	23·9	23·7	24·0	25·9	26·0	26·4	26·8	27·6	27·6
Common services	0·2	0·3	—	0·4	0·4	0·5	0·5	0·5	0·5	0·5
Total	2,569·6	2,659·8	2,774·6	2,869·9	2,971·6	3,188·3	3,140·5	3,114·5	3,157·3	3,149·2

WALES

Expenditure within the Secretary of State's responsibility

£ million at 1976 Survey prices

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Agriculture, fisheries, food and forestry	0·2	0·1	0·2	0·3	0·2	0·2	0·2	0·2	0·2	0·2
Trade, industry and employment	1·5	2·5	4·9	1·8	17·3	26·3	32·6	36·2	38·6	38·7
Nationalised industries' capital expenditure	—	0·1	0·1	0·2	0·1	0·1	0·1	0·1	0·1	0·1
Roads and transport	113·5	123·4	118·3	112·6	129·7	139·3	132·6	134·8	136·1	136·1
Housing	112·9	101·4	132·8	225·9	213·1	222·7	156·1	149·5	152·5	152·5
Other environmental services	122·3	138·7	158·8	135·5	131·0	121·7	124·9	128·0	128·8	128·7
Education and libraries, science and arts	221·0	238·5	247·5	247·0	254·8	259·1	253·6	250·1	246·4	243·9
Health and personal social services	279·9	292·2	305·4	316·1	328·9	330·1	335·7	340·9	346·3	346·9
Other public services	2·9	3·0	3·1	4·4	4·5	4·6	4·7	4·8	4·6	4·4
Total	856·2	899·9	971·1	1,043·8	1,079·6	1,104·1	1,040·5	1,044·6	1,053·6	1,051·5

6. The construction industry

Construction and the associated building material industries have a weight of over 17 per cent in the index of industrial production. Within construction itself public sector clients account for some 45 per cent of building and 85–90 per cent of civil engineering output.

2. The surge of demand in the early 1970's which was accompanied by steep rises in tender prices for some types of building work, has been followed by an exceptionally sharp and prolonged fall in demand. Output in 1974 was 8 per cent lower than its 1973 peak level, the greatest fall of the post-war period. In 1975 output fell by a further 5½ per cent. The rates of increase in the building tender prices slowed down at the beginning of 1974, and during that year and 1975 they averaged 2 per cent per quarter for local authority housing and less for other building. With material and labour costs increasing at quarterly rates of 4 and 5 per cent respectively, contractors' margins were under increasing pressure.

Recent conditions

3. Public Works orders in 1975 were 5 per cent above 1974 but 17 per cent below 1973, the year when orders were already beginning to decline (down 15 per cent) from the high 1971 and 1972 levels. Private industrial and private commercial orders fell away sharply in 1974 and in 1975; by the fourth quarter of 1975 orders from these sectors were respectively only 35 per cent and 48 per cent of the average quarterly levels in the peak year of 1973, and there was little sign of a revival of orders at the beginning of 1976. Public housing orders recovered during 1974 and also during 1975. Private housing orders were down to half their 1973 levels in 1974, but they have been recovering since early 1975.

4. This lower level of new orders in construction has had its effect on the level of work outstanding and consequently output. In the second half of 1975, output was 15 per cent below the 1973 peak, and work outstanding was about one third lower than in mid-1973. Public housing was the only sector to show an increase in new work output in 1975 (9½ per cent above 1974). Output of the main building material industries (bricks, cement, etc) fell by 13 per cent in 1974 from the peak year 1973, and by a further 8 per cent in 1975. Production continues at a low level; for example a recent survey of brick producers indicated that brick production at the end of 1975 was still only at 70 per cent of capacity. Stocks of bricks have fallen in 1975 from the unusually high levels of 1974.

5. Total employment in construction (including estimates for labour only subcontractors) peaked at 1,934,000 in Q_4 1973. Unemployment grew steadily during 1974. The rate of increase of registered unemployment of adult male construction workers slowed from 10,000 per month from March to July 1975 to 1,000 per month between December 1975 and April 1976. The figure for that month of 197,000 represents 12½ per cent of the total work force in construction (including the unemployed): it is the highest unemployment rate for any major industry and compares with a rate of 5½ per cent for all industries. Since the October 1973 peak of employment there has been a fall of about 110,000 employees in employment and an estimated decrease of 120,000 self employed operators in construction alone, apart from any fall in employment in Building Materials.

6. Tender prices had increased in 1972 and 1973 at average annual rates of about 30 per cent for both PSA building contracts and for local authority housebuilding, but in 1974 both indices rose by annual rates of about 15 per cent, the former index levelling off, the latter rising more slowly. When these indices are adjusted for project VOP payments the rise in 1974 was less than 10 per cent. Although LA housebuilding prices (VOP adjusted) have again risen by almost 10 per cent in 1975, provisional fourth quarter estimates for other building sectors (PSA and the Building Cost Information Service's Index) show tender prices to be almost the same as a year earlier. By contrast in the first quarter of 1976 material prices and earnings were both 17 per cent higher than a year previously so that the implied margin of tender prices over building costs fell to a level more consistent with the long term average mark up. The only available price index for civil engineering contracts is for roads which rose much less steeply than the two building indices in 1972 and 1973; the roads index increased sharply in 1974, but slowed in 1975 showing provisionally 223 in Q_4 1975.

Prospects for the construction industry

(a) Output

7. The following tables show the latest forecasts of output in the construction industry, 1976–77—1980 81 by sector (building and civil engineering) and types of purchases. For sectors other than housing, the public sector forecasts are based on figures in the Programme Tables shown in this report, and the private sector forecasts are related to two interpretations of the latest Medium Term Assessment (MTA). The interpretation giving the higher rates of growth (see Table 1) assumes little change in the proportion of investment going to new buildings and works, while the lower path results from buildings and work receiving a smaller share of investment. The chart shows quarterly movements for both paths of output over the period from 1970–1980 for building, civil engineering and total output.

8. Given the planned 1976–77 expenditure programme the volume of new orders from the public works sector is expected to stabilise in 1976 at about their present level, and 1975–76 output is expected to show no change on 1974 75. Thereafter orders and correspondingly output will fall steadily with output at a level in 1980–81 some 25 per cent below 1971-72, a peak output year for this sector. It is possible that local authorities' desire to avoid renewed sharp increases in rates could involve building expenditure programmes being pruned to below the amounts implied by the survey.

9. Housing output is expected to increase by 8½ per cent in 1976–77, but to show marginal decreases in 1977–78 and 1978–79. Thereafter despite a falling trend for public housing, total housing output is forecast to gently rise. Total housing repairs and maintenance including housing improvements is forecast to maintain a steady growth throughout the period.

10. With the very steep recovery for investment in the private manufacturing and distribution sectors forecast by the MTA, the new buildings and works element is not expected initially to maintain its past share of the total, mainly because the quantity of empty office and factory space may dampen demand for new building. But in order to sustain the investment recovery, both private industrial building and private commercial building output would need to grow from the very low levels forecast for 1976 at rates never continuously experienced in the past. For the combined building sector, average rates of over 10 per cent a year must occur for the three year period, 1977–78—1979–80 (see Table 1), and the value of new orders begin to increase sharply during 1976.

11. Using the somewhat lower interpretation of the MTA assumptions, assuming a further drop in the share of investment for buildings and works, the growth in 1977–78 and 1978–79 of private non-housing building would be expected to be at about the past maximum rates over a 24 month period (9 per cent a year) (see Table 2). The rate of growth is forecast to slow significantly in 1979–80, and by the end of the period building output in this sector is some 6 8 per cent lower than on the higher assumptions.

12. The movement in civil engineering output from North Sea platforms depends upon the timing of orders for these concrete and steel structures, and also the extent to which technological change obviates their need. Recent indications are that there will be not more than one order in 1976, but 1977 should see an increase in orders leading to output in 1978–79 returning to the 1974–75 levels.

13. By the end of the decade total output in the private non-housing sectors on the higher MTA interpretation is forecast to be running at about 1973–74 levels and some 18 per cent above 1975–76. With the assumption of lower growth rates, output for this sector is expected to be 7 per cent below the peak in 1973–74, 10 per cent above 1975–76.

14. Non-housing repairs and maintenance is expected to increase from 1976–77 onwards by 2 per cent a year reflecting a stronger government policy in some sectors towards rehabilitation and the general recovery in the private sector.

15. The outlook for total construction output is for a steady but slow recovery over the period from 1976–77 but with the emphasis for growth coming from the private sector. The average growth for the next five years on the higher path would be 1·3 per cent a year, somewhat below past trend rates and from a relatively low base. On the lower forecast the annual growth is 1·0 per cent. Within both total profiles building and civil engineering movements differ. Building output is expected to recover from its 1975–76 low and grow steadily throughout the period giving 1980 81 either 10 per cent or 8 per cent above 1975–76. Civil engineering output is expected

to fall each year from 1975–76 and by 1980–81 to be 6 per cent below that year in total. The overall index for the higher forecast of total construction output in 1979–80 is 99·6 (1970 = 100) which would be 6½ per cent above 1975–76 but still 6 per cent below 1972–73. In 1980–81 the index remains steady at 99·6. For the lower forecast the index values in 1979–80 and 1980–81 are 97·9 and 98·3 respectively.

(b) Capacity and possible constraints on future expansion

16. There are unlikely to be major capacity constraints or supply problems during the period under review if output in the construction industry follows either of the forecast paths. There is still considerable spare capacity in the bricks and cement industries since closures in the last two years have mostly been of very small units. None the less during the current slack in this industry capacity has been reduced at least in the short-run and supply problems could arise if proposals were made to increase considerably public sector demand on the construction industry over a short period. The uncertainties facing the industry could exacerbate the reduced numbers of skilled manpower, through losses to other industries and a lack of a sufficient supply of apprentices, especially if general industrial activity recovers earlier than construction. The industry have argued that there is likely to be a shortage of land for private housing towards the end of the decade.

Summary of prospects

17. It seems as if the trough of the construction industry recession may now have been reached, with output 15 per cent below the peak level in 1973. A quarter of a million jobs have been lost since 1973 in the construction and associated building materials industries, and with only a very slow rate of recovery in output in 1976, associated with a similarly slow recovery in output per man from present low levels, a further 25,000 jobs are likely to be lost during 1976–77. This would result in an unemployment total in construction alone of about 210,000. Even under the more optimistic assumption output is projected to continue to increase only slowly, reaching in 1979–80 a level 6½ per cent above 1975–76 but still 6 per cent below 1972–73, and just below the level of the late 'sixties.

Construction Output and Forecasts with Percentage Changes

TABLE 1. HIGHER PATH

GREAT BRITAIN | £ million at constant 1970 prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
New work										
Public housing	636	579	592	617	693	737	703	667	657	650
		(−9·0)	(+2·2)	(+4·2)	(+12·3)	(+6·3)	(−4·6)	(−5·1)	(−1·5)	(−1·1)
Private housing	904	992	989	701	688	744	770	790	805	825
		(+9·7)	(0·3)	(−29·1)	(−1·9)	(+8·1)	(+3·5)	(+2·6)	(+1·9)	(+2·5)
Total housing	1,539	1,571	1,581	1,318	1,381	1,481	1,473	1,457	1,462	1,475
		(+2·1)	(+0·6)	(16·6)	(+4·8)	(+7·2)	(−0·5)	(−1·1)	(+0·3)	(+0·9)
Public works:										
Building	633	648	604	509	523	498	464	418	428	404
Civil engineering	735	710	682	629	641	665	650	625	618	617
Total	1,368	1,358	1,286	1,138	1,164	1,163	1,114	1,043	1,046	1,021
		(−0·7)	(−5·3)	(11·5)	(−2·3)	(−0·1)	(−4·2)	(6·4)	(+0·3)	(−2·4)
Private industrial:										
Building	590	566	542	547	454	431	497	554	621	622
Civil engineering –										
North Sea platforms	–	7	36	34	56	18	25	35	14	11
Other	48	40	42	49	56	63	64	66	61	52
Total	638	613	620	630	566	512	586	655	696	685
		(−3·9)	(+1·1)	(+1·6)	(−10·2)	(−9·5)	(+14·5)	(+11·8)	(+6·3)	(1·6)
Private commercial	665	663	722	661	561	513	566	615	654	655
		(−0·3)	(−8·9)	(−8·4)	(−15·1)	(−8·6)	(−10·3)	(−8·7)	(+6·3)	(+0·2)
Total new work	4,211	4,205	4,209	3,747	3,672	3,669	3,739	3,770	3,858	3,836
		(−0·1)	(+0·1)	(−11·0)	(−2·0)	(−0·1)	(+1·9)	(+0·8)	(+2·3)	(−0·6)
Repair and maintenance										
Housing:										
Public sector improvement	103	178	225	230	202	218	200	200	200	200
Private sector improvement	97	138	152	143	71	77	88	90	97	100
Public other	203	158	177	192	180	196	202	206	211	217
Private other	321	341	291	248	283	300	311	316	314	316
Total	724	815	845	813	736	791	801	812	822	833
		(+12·6)	(+3·7)	(−3·8)	(−9·5)	(+7·5)	(+1·3)	(+1·4)	(+1·2)	(+1·3)
Public non-housing:										
Building	333	347	327	307	313	323	331	337	341	346
Civil engineering	272	280	264	250	258	249	250	251	257	260
Total	605	627	591	557	571	572	581	588	598	606
		(+3·6)	(−5·7)	(−5·8)	(+2·5)	(+0·2)	(+1·6)	(−1·2)	(+1·7)	(−1·3)

TABLE 1. HIGHER PATH—*continued*

GREAT BRITAIN £ million at constant 1970 prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Repair and maintenance—(continued)										
Private non-housing:										
Building	239	241	225	246	212	226	237	243	248	251
Civil engineering	21	20	20	25	22	24	26	28	28	31
Total	260	261	245	271	234	250	263	271	276	282
		(+0·4)	(−6·1)	(+10·6)	(−13·7)	(+6·8)	(+5·2)	(+3·0)	(+1·8)	(+2·2)
Total repair and maintenance	1,589	1,703	1,681	1,641	1,541	1,613	1,645	1,671	1,696	1,721
		(+7·2)	(1·3)	(−2·4)	(−6·1)	(+4·7)	(+2·0)	(+1·6)	(+1·5)	(+1·5)
Total output	5,800	5,908	5,889	5,387	5,213	5,282	5,384	5,441	5,554	5,557
Index 1970 = 100	104·0	105·9	105·6	96·6	93·5	94·7	96·5	97·6	99·6	99·6
		(+1·9)	(−0·3)	(−8·5)	(−3·2)	(+1·3)	(+1·9)	(+1·1)	(+2·1)	(+0·1)
Of which										
Building	4,724	4,851	4,846	4,401	4,180	4,263	4,369	4,436	4,576	4,586
Index 1970 = 100	106·2	109·1	109·0	99·0	94·0	95·9	98·2	99·8	102·9	103·1
		(+2·7)	(−0·1)	(9·2)	(−5·0)	(+2·0)	(+2·5)	(+1·5)	(+3·2)	(+0·2)
Civil engineering	1,076	1,057	1,044	987	1,033	1,019	1,015	1,005	978	971
Index 1970 = 100	95·2	93·5	92·4	87·3	91·4	90·2	89·8	88·9	86·5	85·9
		(−1·8)	(1·2)	(−5·5)	(+4·7)	(1·4)	(−0·4)	(−1·0)	(−2·7)	(−0·7)
Public sector	2,915	2,900	2,871	2,739	2,810	2,886	2,800	2,704	2,712	2,694
		(0·5)	(−1·0)	(4·6)	(+2·6)	(+2·7)	(−3·0)	(3·4)	(+0·3)	(−0·7)
Private sector	2,885	3,008	3,019	2,649	2,403	2,396	2,584	2,737	2,842	2,863
		(+4·3)	(+0·4)	(−12·3)	(9·3)	(−0·3)	(+7·8)	(+5·9)	(+3·8)	(−0·7)

Construction Output and Forecasts with Percentage Changes

TABLE 2. LOWER PATH

GREAT BRITAIN

£ million at constant 1970 prices

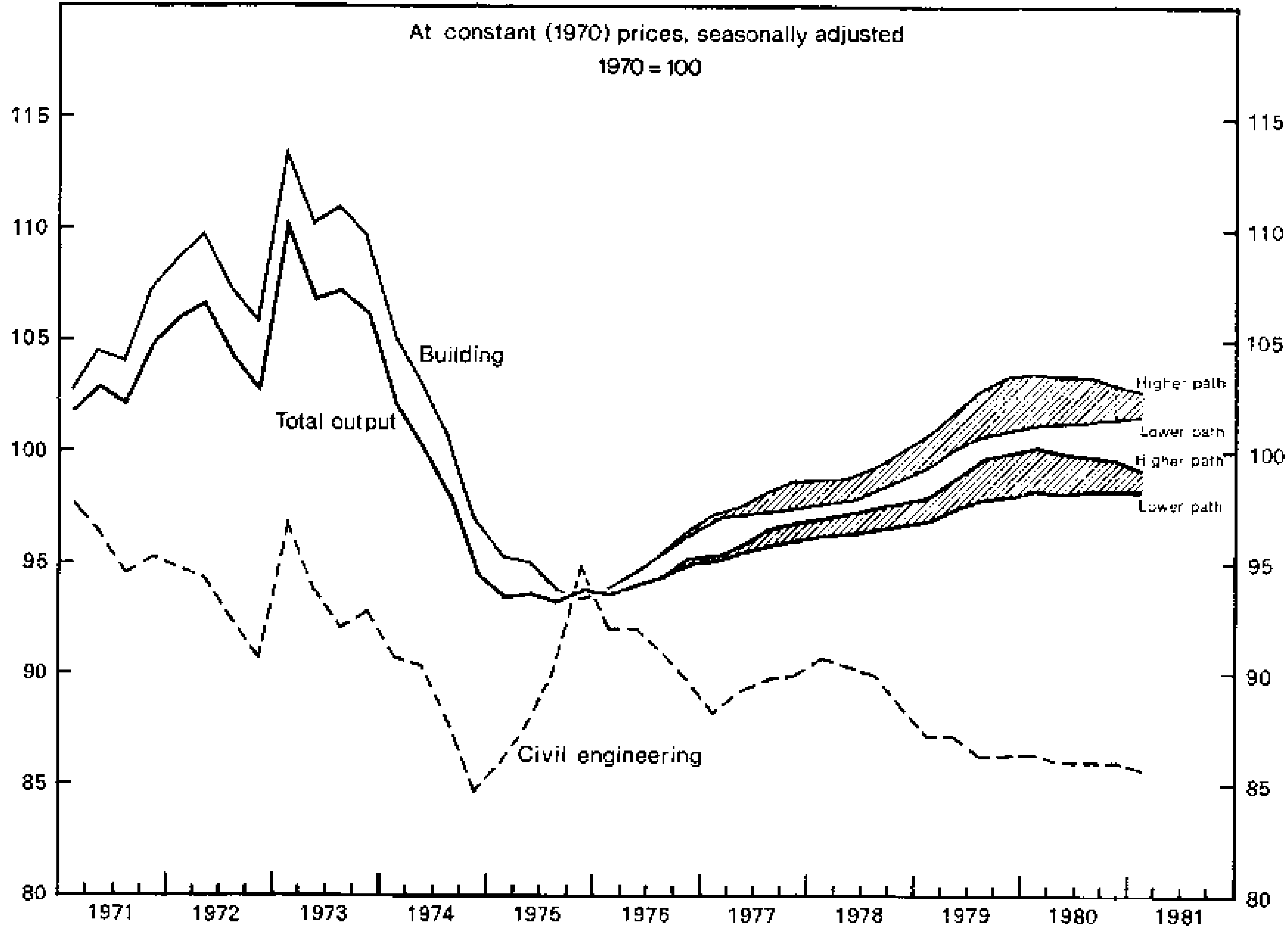
	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
New work										
Public housing	636	579	592	617	693	737	703	667	657	650
		(−9·0)	(+2·2)	(+4·2)	(+12·3)	(+6·3)	(−4·6)	(−5·1)	(−1·5)	(−1·1)
Private housing	904	992	989	701	688	744	770	790	805	825
		(+9·7)	(−0·3)	(−29·1)	(−1·9)	(+8·1)	(+3·5)	(+2·6)	(+1·9)	(+2·3)
Total housing	1,539	1,571	1,581	1,318	1,381	1,481	1,473	1,457	1,462	1,475
		(+2·1)	(+0·6)	(−16·6)	(+4·8)	(+7·2)	(−0·5)	(+1·1)	(+0·3)	(+0·9)
Public works:										
Building	633	648	604	509	523	498	464	418	428	404
Civil engineering	735	710	682	629	641	665	650	625	618	617
Total	1,368	1,358	1,286	1,138	1,164	1,163	1,114	1,043	1,046	1,021
		(−0·7)	(−5·3)	(−11·5)	(+2·3)	(−0·1)	(−4·2)	(−6·4)	(+0·3)	(−2·4)
Private industrial:										
Building	590	566	542	547	454	430	478	527	572	594
Civil engineering										
North Sea platforms	—	7	36	34	56	18	25	35	14	11
Other	48	40	42	49	56	63	64	66	61	52
Total	638	613	620	630	566	511	567	628	647	657
		(−3·9)	(+1·1)	(+1·6)	(−10·2)	(−9·7)	(+11·0)	(−10·8)	(+3·0)	(+1·5)
Private commercial	665	663	722	661	561	512	546	588	610	606
		(−0·3)	(+8·9)	(−8·4)	(−15·1)	(−8·7)	(+6·6)	(+7·7)	+(3·7)	(−0·7)
Total new work	4,211	4,205	4,209	3,747	3,672	3,667	3,700	3,716	3,765	3,759
		(−0·1)	(+0·1)	(−11·0)	(−2·0)	(−0·1)	(+0·9)	(+0·4)	(+1·3)	(−0·2)
Repair and maintenance										
Housing:										
Public sector improvement	103	178	225	230	202	218	200	200	200	200
Private sector improvement	97	138	152	143	71	77	88	90	97	100
Public other	203	158	177	192	180	196	202	206	211	217
Private other	321	341	291	248	283	300	311	316	314	316
Total	724	815	845	813	736	791	801	812	822	833
		(+12·6)	(+3·7)	(−3·8)	(−9·5)	(+7·5)	(+1·3)	(+1·4)	(+1·2)	(+1·3)
Public non-housing:										
Building	333	347	327	307	313	323	331	337	341	346
Civil engineering	272	280	264	250	258	249	250	251	257	260
Total	605	627	591	557	571	572	581	588	598	606
		(+3·6)	(−5·7)	(−5·8)	(+2·5)	(+0·2)	(+1·6)	(+1·2)	(+1·7)	(+1·3)

TABLE 2. LOWER PATH—*continued*

GREAT BRITAIN £ million at constant 1970 prices

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Repair and maintenance—(continued)										
Private non-housing:										
Building	239	241	225	246	212	226	237	243	248	251
Civil engineering	21	20	20	25	22	24	26	28	28	31
Total	260	261	245	271	234	250	263	271	276	282
		(+0·4)	(−6·1)	(10·6)	(−13·7)	(+6·8)	(+5·2)	(+3·0)	(+1·8)	(+2·2)
Total repair and maintenance	1,589	1,703	1,681	1,641	1,541	1,613	1,645	1,671	1,696	1,721
		(+7·2)	(1·3)	(−2·4)	(−6·1)	(+4·7)	(+2·0)	(+1·6)	(+1·5)	(+1·5)
Total output	5,800	5,908	5,889	5,387	5,213	5,280	5,345	5,387	5,461	5,480
Index 1970 = 100	104·0	105·9	105·6	96·6	93·5	94·7	95·8	96·6	97·9	98·3
		(+1·9)	(−0·3)	(8·5)	(−3·2)	(+1·3)	(+1·2)	(+0·8)	(+1·4)	(+0·3)
Of which										
Building	4,724	4,851	4,846	4,401	4,180	4,261	4,330	4,382	4,483	4,509
Index 1970 = 100	106·2	109·1	109·0	99·0	94·0	95·8	97·4	98·5	100·8	101·4
		(+2·7)	(−0·1)	(−9·2)	(−5·0)	(+1·9)	(+1·6)	(+1·2)	(+2·3)	(+0·6)
Civil engineering	1,076	1,057	1,044	987	1,033	1,019	1,015	1,005	978	971
Index 1970 = 100	95·2	93·5	92·4	87·3	91·4	90·2	89·8	88·9	86·5	85·9
		(−1·8)	(−1·2)	(5·5)	(+4·7)	(−1·4)	(−0·4)	(−1·0)	(−2·7)	(−0·7)
Public sector	2,915	2,900	2,871	2,739	2,810	2,886	2,800	2,704	2,712	2,694
		(−0·5)	(−1·0)	(−4·6)	(+2·6)	(+2·7)	(−3·0)	(−3·4)	(+0·3)	(−0·7)
Private sector	2,885	3,008	3,019	2,649	2,403	2,394	2,545	2,683	2,749	2,786
		(+4·3)	(+0·4)	(−12·3)	(−9·3)	(−0·4)	(+6·3)	(+5·4)	(+2·5)	(+1·3)

Construction output



CP(76) 41 COPY NO 81

5 July 1976

CABINET

CUTTING THE COST OF THE CIVIL SERVICE: ABOLITION OF VEHICLE EXCISE DUTY

Memorandum by the Secretary of State for the Environment and the Lord Privy Seal

1. The paper CP(76) 39 sets out very clearly the difficulties we face in securing the saving of £140 million in staff costs in 1978-79 to which we are pledged. The agreed options total only £95 million. Abolition of Vehicle Excise Duty (VED) offers a public expenditure saving of £34 million, and would leave us only £11 million more to find.

2. Without VED we must resort either to much of Annex X of CP(76) 39 or to an arbitrary cut across the board. The implications of doing either are so serious that we regard it as essential that before reaching decisions on the manpower exercise the Cabinet re-examine the case for abolishing VED.

CONSEQUENCES OF ABOLITION

3. Abolition would reduce by 3,000 the number of civil servants needed in 1978 to run the combined vehicle registration and duty collecting system. Annual vehicle registration would continue as a necessary support to road traffic law enforcement. By abolishing VED on petrol vehicles we would save £12 million a year in staff costs and there would be a further credit of £22 million in the public expenditure figures through retention of a £2 fee for the vehicle registration. Collection of VED falls squarely into the category of extravagant uses of manpower; it costs 5p per pound of revenue.

4. The tax revenue of £625 million forgone by VED abolition would be equivalent to an increase of 15p a gallon in petrol duty which could presumably be collected without any additional cost. Furthermore such an increase in the price of petrol following the abolition of VED would, on recent Department of Energy estimates, save between £25 million and £35 million a year on imported fuel and the effect on the Retail Price Index (RPI) should be neutral.

TRANSPORT POLICY

5. The effects of abolishing VED are discussed in the Transport Policy Consultation document published in March. In transport policy terms an increase in petrol costs would raise the perceived costs of motoring and put in perspective the increases in the cost of public transport, brought about by the decision to reduce revenue support subsidies. It would mean that motorists paid for the actual use made of their cars, and paid more as they added to congestion costs.

MOTOR INDUSTRY

6. It is of course right to consider the possible implications of abolition on the pattern of demand for new cars. The Secretary of State for Industry fears that there would be particularly adverse effects on British Leyland's profitable production of Jaguars and Rovers, and that there would be a move down to smaller capacity cars which, in the absence of adequate United Kingdom production, would pull in further imports. The view of the Central Policy Review Staff (CPRS) during the earlier discussions in the Ministerial Committee on Economic Strategy was that the tax change would cause a 1 per cent drop in the operating cost of the Mini segment of the market and a rise of 1 per cent for a new medium sized vehicle. They concluded that abolition would have no more than a marginal effect on the structure of new demand.

7. A rise of 15p a gallon in the price of petrol is not of course unprecedented. In the 18 months from summer 1973, petrol rose from 36p to 72p a gallon, an increase in real terms of 60 per cent. Between 1973 and 1975 the imported share of the new car market rose from 27 per cent to 34 per cent (compared with 14 per cent in 1970); and purchases of new cars under 1200 cc rose from 22 per cent to 29 per cent. It would be grossly misleading however to attribute these trends solely or even mainly to the increases in petrol price. As the CPRS have reported, the real cost of buying a car rose sharply after 1973 for the first time since the Korean War. Moreover, whilst at the beginning of 1973 British cars were invariably cheaper than their principal competitors by fairly wide margins - 20 per cent or more - this price advantage has subsequently declined or entirely disappeared. In our view it is the cost of buying a new car and not the cost of running it which mainly determines the choice of model.

8. Our conclusion therefore is that the effects of abolition on demand would, at most, be marginal and minor and that fears for the United Kingdom motor industry are unjustified. But in any case an early announcement of the intention to abolish VED, say in 1978, would provide the motor industry with the necessary period of time to increase the range of small cars. Certainly in the context of the £140 million exercise, the cost of retaining 3,000 civil servants seems to represent an addition to the substantial support of the motor industry already provided by the British taxpayer which it is very difficult to defend.

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PRESENTATIONAL ASPECTS OF ABOLITION

9. a. VED is expensive to collect and unpopular with the law-abiding because it is so widely evaded (probably as high as 5 per cent (£40 million a year)).

b. The Driver Vehicle and Licensing Centre (and its local offices) has been particularly subject to charges of bureaucracy and attracted adverse publicity following criticisms by the Public Accounts Committee last Session. Thus a staff saving in this sector would be recognised by the public as genuine.

c. Recent disclosures in the Press mean that it is now widely accepted that the abolition of VED is the major option under consideration. The trade unions will judge our decisions on this option as the critical test of whether we intend to achieve the savings by actually cutting the work of Government.

d. It should be possible to secure much of the saving without causing redundancy. A third of the 3,000 are not yet recruited. If a decision is taken quickly to abolish VED it will be possible, by the use of short term contracts using temporary staff, to achieve a phased rundown of employment over the next 18 months. There is a high turnover of the junior staff involved - currently about 700 a year - which would be sufficient to dispose of the estimated surplus of non-mobile staff; redundant mobile staff would be dealt with as part of the redundancy arrangements for the whole of the Department of the Environment.

JOB OPPORTUNITIES

10. There will undoubtedly be some reduction of the job opportunities, mainly for young female labour, at the Driver Vehicle Licensing Department Headquarters in Swansea and this will be a matter of concern to the Secretary of State for Wales and the local communities. But the loss of jobs at Swansea itself should be not more than 1,000. The remainder will be spread throughout the country in 80 local offices which should assist in redeploying redundant staff.

COSTING THE OPTION

11. In CP(76) 39 the contribution of the VED option is counted as only £12 million. This accords strictly with the Public Expenditure Survey Committee conventions. It can however be argued that the £22 million receipts from the vehicle registration fee should nevertheless count towards the £140 million. It is after all the existence of the rule that receipts in such cases are an offset to public expenditure that has made the achievement of the £140 million harder by putting established repayment services outside the exercise. We do not see why we should lose both on the swings <u>and</u> on the roundabouts.

CONCLUSION

12. In our view, VED should be abolished from April 1978 and an announcement to this effect made at the earliest date possible in order to avoid unnecessary staff redundancies and to provide adequate notice to the motor industry.

PS
S

Department of the Environment

5 July 1976

CP(76) 42 COPY NO 81

2 July 1976

CABINET

PUBLIC EXPENDITURE 1977-78 - THE ECONOMIC BACKGROUND

Memorandum by the Chancellor of the Exchequer

1. In our last Public Expenditure White Paper (Cmnd 6393) which we published in February 1976, we said (paragraph 31) -

> "While the Government recognise the need for spending authorities to plan ahead on as firm a base as practicable, the uncertainties in the prospects for the economy and for world trade and payments rule out a firm commitment to expenditure plans. The Government will therefore be ready to modify and adapt these plans as the general course of the economy and the most important needs of the community require".

THE PROSPECTS AHEAD

2. The prospects had already changed when on 5 March I circulated my Memorandum on the Economic Background to the Public Expenditure Survey 1976 (C(76) 25). At that time the Treasury economists estimated that "the world recession has been deeper and more prolonged and the upturn so far more sluggish than we had reckoned on". Moreover, they assumed only 2 per cent growth in 1976. I was criticised at the time for basing the hoped of British recovery too much on the pace of recovery in the rest of the world.

3. At the beginning of July the picture has changed again. In fact, the pace of world recovery has turned out to be faster, not slower, than we expected when we drew up the last White Paper. And the big improvement in our competitivity implied by the 12 per cent depreciation combined with the 4½ per cent pay limit has substantially increased our chance of building our recovery on exports and import substitution. Moreover, our Gross Domestic Product (GDP) has risen so far this year at 1 per cent a quarter, and it would be reasonable to assume 4 per cent growth for 1976 as a whole. On the other hand, commodity prices have risen in recent months more sharply than we expected and, if the traditional J-curve applies, our current account deficit on the balance of payments may deteriorate significantly later this year.

4. The main implications of these changes in our economic prospects are as follows:-

a. The demands made on our manufacturing industry for exports and import substitution are likely to require an exceptionally rapid growth of output in 1977 which, if it is to be sustained, may need a parallel increase in productive capacity through acceleration of investment unless growth is to be frustrated by supply bottlenecks and overheating.

b. The great improvement we have achieved in industrial relations over the last 18 months should mean that the flow of industrial supplies is likely to be much less subject to interruption than it was in the last two periods of upturn.

c. This is the problem to which the International Monetary Fund (IMF) in their recent consultations with us drew special attention: the need to ensure that scope is available in 1977 for the continued development of export-led growth and expansion of industrial output through investment. Their judgment was that the presently planned levels of net public sector demand on real resources would prove to be excessive in 1977, and, on the alternative monetary analysis, we would be driven into dangerously inflationary monetary financing, with damaging effects on both domestic prices and the external balance of payments.

d. It is likely in any case that we shall face substantial deficits on current account of the balance of payments during the next two years. Since our reserves are now low, we shall have to finance these deficits by borrowing abroad. Most of the foreign Governments which have the money to lend are likely to insist either that we draw the remaining IMF credit tranches; or that we accept the conditions which the IMF would undoubtedly insist on: namely, a specified reduction in our Public Sector Borrowing Requirement (PSBR) representing net public sector demand on the economy, with particular importance being attached to the financial year 1977-78, in order to make room for continued industrial recovery, particularly in exporting and import-substituting industries, without running into severe inflation.

FINANCING THE PSBR

5. We have rightly done our best to limit unemployment during the years of recession by accepting a large PSBR. So far we have been able to finance our PSBR without refuelling inflation because industry has not been borrowing and the private citizen has been saving a higher proportion of his earnings than ever before. Thus, in spite of an unprecedented PSBR we have kept the money supply under control. It rose only 8 per cent in 1975

compared with 28 per cent in 1973. On the other hand, the accumulation of debt imposed by our borrowing requires very heavy payments of interest in the coming years: that in itself imposes a limit on our scope for public expenditure in other fields.

6. Now that the economy is recovering we must aim steadily to reduce our PSBR. Business must be in a position to borrow more for investment, stockbuilding and increased working capital as recovery proceeds; and private saving is likely to fall as inflation and unemployment fall. It will, therefore, be difficult to finance a large PSBR except by driving interest rates to levels at which industry cannot afford to borrow, thus choking off the investment on which sustained growth will depend and without which there is no hope of reducing unemployment to acceptable levels.

7. The only alternative would be to print money as the Conservative Government did in 1972 and 1973, with consequences for inflation from which we are still suffering. Indeed, the present prospect is that the growth of the money supply, which has been fairly stable over the past two years, will be accelerating later this year. In 1977, with unchanged policies, it may be growing at a rate faster than the national income. If no action were taken to rein back the growth of money we would create an excess of liquidity which would add to our difficulties. Our efforts to bring down the rate of inflation and maintain the expansion of the economy would be at risk. Moreover the excessive growth of money supply could rapidly spill over into external capital flows and seriously increase our difficulties in managing the sterling exchange rate.

8. The conclusion therefore must be that, to maintain firm control over the growth of money supply and at the same time ensure that industry can finance itself, we need a substantial fall in the public sector deficit in 1977. We have already committed ourselves to taking such action, if necessary, in the White Paper just published - "The Attack on Inflation: The Second Year" (Cmnd 6507) - when we said in paragraph 31:-

> "In addition to exercising firm control of public expenditure, the Government are determined to see to it that the money supply does not grow too rapidly: the Chancellor of the Exchequer has said he will ensure that the growth of the money supply is consistent with the Government's plans for the growth of demand expressed in current prices. The Government are equally determined that the expansion of productive capacity and exports should not be held back by competing public sector demands for finance. These policies will be reinforced if necessary by further action in the fiscal and monetary fields".

9. Other countries are planning rapid returns towards fiscal balance. France intends to eliminate its budget deficit in 1977. In the United States, the Federal deficit is likely to be reduced by at least 25 per cent in the next financial year - and by more if President Ford gets his way. The Germans have published a medium-term plan for a reduction of two-thirds in their deficit by 1979.

10. Our strategy has been to move progressively over three to four years towards eliminating the balance of payments deficit and restoring full employment. As I explained when we considered our expenditure plans last year, there would also have to be a progressive reduction in the public sector deficit.

11. I said then that a deficit at the current level (about 10 per cent of GDP in 1976-77) "is not consistent with balance of payments equilibrium unless the other two sectors of the economy are willing to save in excess of their capital expenditure far greater proportions of their incomes than they have ever done in the past. There is no reason to expect such a major change in habits ... If the Government persisted in raising insufficient taxation to pay for the resources it was extracting from the economy, the other sectors would one way or another be left with excessive income which they would be likely to spend and would in turn absorb resources from the rest of the world. It therefore follows that if we are to remove our balance of payments deficit over a run of years to make room for the extra exports required we must reduce the excess of public spending over public sector revenue" (C(75) 62).

12. While we were in the depths of the recession we could not make a start on reducing the PSBR but the worst of the recession is now clearly past and the time has come, as we always expected it would, to begin. As a very rough guide we should be aiming to reduce the PSBR to about 4 per cent of GDP over three to four years, ie by an average of about £2 billion a year at present prices.

13. A part of the improvement required in the PSBR will come about automatically as recovery proceeds and the Government gets more revenue and pays out fewer benefits. But since employment lags behind output the benefit of this next year will be small, and the bulk of any improvement in the PSBR must come from fiscal action on tax or expenditure cuts.

THE CASE AGAINST TAX INCREASES NEXT YEAR

14. To cut the PSBR in 1977-78 by, say, £1,000 million through increases in income tax would mean increasing the basic rate by 3p, involving a cut in take-home pay for a single person earning £60 a week of £1.38, for a married couple on the same earnings of £1.17 and for a couple

with two children of 90p. To cut the PSBR by £1,000 million by indirect taxation would mean unifying the Value Added Tax rate at 12½ per cent plus increases in the duties on drink, tobacco or petrol, which would together increase the Retail Price Index by 2½-2¾ per cent. These cuts in real take-home pay would come towards the end of a year when it had already fallen by 3-4 per cent.

15. Thus I do not believe it would make sense to plan on large increases in direct or indirect taxation next April since both would cause an immediate fall in real take-home pay in the middle of a pay round in which the unions accepted an exceptionally low and strict pay limit in return for tax cuts. Moreover next April may well fall in the middle of our negotiations concerning pay policy in the following round. A collapse in our pay policy would do us irreparable harm at that time.

16. If, on the other hand, we sought to reduce the deficit through big increases in company taxation, we would frustrate the industrial investment on which sustained growth depends. For these reasons, public expenditure must make a major contribution to the necessary reduction in next year's PSBR by reducing public consumption of goods and services.

THE SIZE AND TIMING OF CUTS IN PUBLIC EXPENDITURE

17. In my judgment we should aim at public expenditure savings leading to a reduction in the PSBR of £1 billion. We would be wise to link this reduction with a statement of our objectives for the PSBR in 1977-78 and with measures to control the money supply and to reduce excess liquidity. On the other hand to publish acceptable objectives for the PSBR or to set limits for the growth of the money supply without simultaneously taking steps to achieve these objectives would carry conviction with no-one.

18. If, however, reductions in expenditure are to be carried through in an orderly way, the more notice the better. Unless we take decisions to reduce public expenditure in 1977-78 in the near future, we shall be left with no alternative except swingeing increases in taxation at the worst possible moment for our incomes policy.

19. There are, in my view, overriding arguments for seeking to take and publish our decisions on public expenditure reductions before the House rises for the Recess. Otherwise we would have to recall the House during the Recess or wait until November. I do not think we can safely wait that long. There has been significant pressure on the sterling rate, even since we announced the $5.3 billion standby credit.

20. If we rise for the Recess without making such an announcement the pressure on sterling is likely to resume and we may face a choice between letting the rate collapse, with unacceptable consequences for inflation and

for our agreement with the Trades Union Congress, or spending the whole of the standby credit without any assurance it will be sufficient to hold the rate for long. In that case we would be forced to the IMF in a crisis in which our ability to negotiate acceptable terms for further drawings was very weak. Moreover, our remaining credit with the IMF is only for $3,800 million - far less than is required to repay the $5.3 billion standby credit, still less to finance the external deficits we expect over the next few years.

21. For all these reasons I believe that we should decide, and announce before the Recess, reductions in public expenditure for 1977-78 designed to reduce the borrowing requirement by about £1 billion. To achieve this in full would require cuts amounting to about £1¼ billion. This is equivalent to a general cut of 2½ per cent in programmes - a very difficult task when we are far from being able to guarantee that the limits set by the last White Paper will be adhered to. But the threat to our economic strategy for sustained growth and a return to full employment will be far greater if we fail to make these reductions.

CONCLUSIONS

22. I therefore propose that we should take the enclosed memorandum by the Chief Secretary, Treasury, as a basis for decisions which will achieve the reductins in public expenditure in 1977-78 which I have described.

D W H

Treasury Chambers

2 July 1976

PUBLIC EXPENDITURE - THE 1976 SURVEY

Memorandum by the Chief Secretary, Treasury.

1. The plan which we announced in our last Public Expenditure White Paper was that (apart from debt interest) the total would continue to rise in 1976-77, but that, in the following years, it would be stabilised at about the level projected for 1976-77. This meant that the previously planned increases in most programmes had to be scaled down. Up to that point public expenditure had increased by 20 per cent in real terms since 1972, while our national output had risen by only 2 per cent. The object of our medium-term strategy was, by stabilising the level of resources allocated to public expenditure, to make as much as possible of our annual growth in wealth available for industrial growth, for closing the balance of payments gap, and for some increase in real take-home pay.

2. We now have to review our public expenditure plans up to 1979-80, and to bring into account a further year ahead, 1980-81. As background material the usual report of the Public Expenditure Survey Committee has been circulated. In addition, I enclose a Treasury Report, which draws on that material, and sets out to present the salient figures and issues, as a basis for our policy decisions without itself making any policy recommendations.

1976-77

3. The planning and control of public expenditure involves both the decisions which we take following each year's medium-term survey; the decisions taken during the year in between surveys; and the implementation of those decisions. The new system of cash limits, the new financial information system for central Government expenditure, and the improved systems of returns for expenditure by the local authorities and nationalised industries, all these are relevant to the carrying out of our plans during the year. The development of the contingency reserve as an operational arrangement is important in relating our new decisions during the year to the planned total.

4. We have resisted great pressure, domestic and international, to cut planned expenditure for the current year, but we have renewed our commitment that the contingency reserve for 1976-77 will not be exceeded. The enclosed report suggests that the current year's problem should continue to be dealt with on the basis of periodical progress reports to Cabinet, and that the new decisions to be taken on the basis of the 1976 survey should be related to future years. I accept this, but I must make it clear that, although I believe that it will be possible to keep without our planned total for 1976-77, this will require the utmost restraint in restricting new claims unless they can be matched by offsetting savings, to those of the very highest priority and even these will have to be limited in amount.

Future Years

5. As regards future years, the Treasury report poses questions of procedure or method, on which I should like to comment first, and questions of substance, to which I will come presently. The system of medium-term planning of public sector programmes, which necessarily has to be carried out mainly in volume terms rather than by forecasting money totals 4 or 5 years ahead - a system which has been developed on the basis of the Plowden report of 1961 - has been increasingly questioned, and some critics see it as a factor in what they regard as the excessive growth of public expenditure. I am sure that there has been a great deal of room for improvement in the workings of the system - I have already mentioned some of the improvements which we have made - but we have made it clear to the Expenditure Committee that we should regard it as a retrograde step to abandon medium-term planning. However, I do think that, under the Tories, the system was a factor in their mismanagement of the economy through encouraging them to concentrate their attention on the relatively distant future while the short-term situation was getting out of control.

6. The report poses the question whether, so long as we are sticking to the medium-term strategy which we so painfully hammered out before the last White Paper, the emphasis should now be put on the implementation of the strategy over the next year or two. I do not think that in this

respect we can lay down rules which will hold good for every survey. On a future occasion, without losing sight of the short-term situation, we may well wish to redefine our medium-term objectives. But in the present situation I see a strong case for reverting, as the report puts it, to the earlier practice of taking firm decisions for one year ahead and near-firm decisions for a further year after that, where this is necessary, while adhering for the time being as closely as possible to the programme levels for subsequent years. In this way we should neither pre-empt hoped-for future growth before it becomes a real prospect, as so often happened in the past, nor risk mortgaging the whole benefits of North Sea oil through a continuing accumulation of debt; but at the same time we should not commit ourselves to cuts in future programmes which should be unnecessary if we manage our affairs well in the meanwhile, nor do we forego the option of framing plans for further improvements when we have achieved success in our policies.

<u>1977-78</u>

7. Paragraphs 7 to 10 of the report summarise the figures in the 1976 survey. Both for 1977-78 and 1978-79 the total of the programmes in the survey, drawn up in accordance with the approved ground rules, is closely in line with the corresponding White Paper total - all the figures are in the range £53-54 billion - and we have a contingency reserve for the first and second years ahead of the same size as we had for the corresponding years in the last White Paper. But these figures do not allow for any of the additional bids which have been tabled and which add up to about £1½ billion in each year. The report poses the question whether we should now set out to keep to the White Paper planned totals for programmes plus contingency reserve, or to plan now to exceed or reduce these totals.

8. It is quite clear that there can be no question of exceeding the White Paper total: a decision to do so could well precipitate a renewed and unmanageable sterling crisis. The implication of this is that, at the very least, the Ministers concerned should rearrange their programmes so as to eliminate or offset the additional bids of £1.6 billion for 1977-78, and I propose that this should be our initial decision.

9. As regards possible net reductions in 1977-78, I have approached this in terms of feasibility, and I have myself carefully gone through each programme to form a preliminary judgement of what reductions would be administratively and technically feasible, without much addition to the legislative programme for such new measures - as distinct from any legislation needed to carry out earlier decisions. This does not mean that we will want to adopt measures purely because they are feasible, but rather that we must rule out those which are not.

10. The social security programme poses a major problem. It is the largest single expenditure block of all and, because of changes in demographic factors and economic assumptions, an increase above the White Paper figures is likely unless offsetting savings are made. But there is relatively little scope for savings unless we are prepared to modify our statutory commitment to annual uprating of benefits in line with prices or earnings as the case may be. Sizeable savings would be possible in unemployment and certain other benefits, without going back on this commitment, but these too would require either legislation or the introduction of new conditions. The one possible saving which does not encounter any of these difficulties would be the postponement of non-contributory invalidity pensions for housewives involving about £20 million in 1977-78.

11. On the basis of this appraisal, the greatest scope for new savings without legislation is to be found in housing expenditure other than on subsidies. Like social security, this programme is running at a much higher level than a few years ago, but it is one in which there are some large items which could be cut back quite quickly. To the extent that we exclude social security from the scope of this exercise, the more we will be obliged to look towards the housing programme.

12. I do not want to comment in this paper on every single programme, though I should be prepared to give further reasons in discussion for my assessment of what is feasible, but some comment is called for on the programmes of capital expenditure by the nationalised industries and of support for industry generally. We are committed to giving priority to support for the manufacturing industry. Nevertheless this expenditure

must be kept under tight control and must be strictly related to effective projects and programmes. Some net saving from this whole area would, in my view, be feasible, but at the most, taking these programmes together, I do not think that we should contemplate any increase above the totals in last year's White Paper.

13. The Treasury report discusses the special problem of local authority current expenditure. There has been an actual overspend in 1975-76 of some £150 million, and there is a likely overspend in 1976-77 of up to £200 million. We have already said that rate support grant for 1977-78 will be related to the White Paper programmes, and that local authorities must cut back their expenditure plans to those levels. This will require an absolute cut in 1977-78 in programmes over which we have no direct control. The question is whether we should be prepared to restrict rate support grant still further, and ask for a corresponding scaling down of local authority spending plans. If we did so, no doubt some of the local authorities would comply, in which case, since such a large proportion of the expenditure is on education, the teachers would be likely to be further affected. Other local authorities probably would not comply, so that the cut in grant would be matched by a rise in rates.

14. In the enclosed list I have brought together my estimates of the reductions which would be feasible in each of the 15 survey programmes in 1977-78, without bringing in any fresh savings on social security or local authority current expenditure. The resulting total is about £1.5 billion. Only two of these measures, involving food subsidies and some health service charges, would affect prices; this would be unwelcome, but the RPI effect would be little more than ¼%. To the extent that we maintain or increase subsidies at the expense of other expenditure, we affect the level and standard of essential services, and we are also likely to affect employment in the public services. There are, however, some transfer payments, such as mortgage lending by local authorities and various of the grants to industry, where action could be taken without affecting prices or directly affecting employment.

15. As regards the programmes for 1978-79, in some cases it would be appropriate to carry through the cuts or postponements on a provisional basis, to be confirmed or reversed in the next survey. In some other cases the economies might be possible only on a once-for-all basis. In any event the essence of the approach would be to make a special once-for-all effort to give the best possible chance for export-led growth. The detailed consequentials both for 1978-79 and subsequent years would have to be worked out in the light of our decisions on 1977-78. Although the additional bids for the later years would have to be held back at this stage, the existing programmes beyond 1978-79 need not necessarily be affected, except to the extent needed to secure a workable progression, but naturally we should have to consider any special cases where new decisions affecting the later years could not be put off.

Conclusions

16. I have tried to set out in this paper some of the practical problems that will have to be faced if we are to make savings of £1 billion in the previously planned programmes for 1977-78. I have deliberately kept detailed commentary to a minimum at this stage, but the list at the Annex of what I have called "feasible reductions" speaks for itself as far as the nature of the problem is concerned. My broad conclusion is that net savings on survey programmes of the order of £1 billion, after offsetting or eliminating additional bids, would be feasible, though they would involve a number of unpalatable measures. If we wished at the same time to reinforce the contingency reserve for 1977-78, so as to give us more room for manoeuvre when the time comes, correspondingly greater reductions would be needed now.

17. I explain at paragraph 9 that when I refer to "feasible reductions", I refer only to what I believe to be technically and administratively feasible. There will no doubt be differing views on the political feasibility of a number of the items, and certainly none are easy. It is however my view that if Cabinet decides to make net savings of £1 billion in 1977-78, they will have to be found from the list in the Annex. The decisions required would include the following:-

(i) Whether the reductions are to be secured from among those set out in the enclosed list, including a substantial reduction in housing expenditure.

(ii) Whether the social security programme is to be wholly or largely exempt.

(iii) Whether any of the other programmes listed are to be given a substantial degree of relative priority.

(iv) Whether we confine our objective on local authority current expenditure in 1977-78 to securing the reductions necessary to keep to the White Paper figures.

(v) Whether there are any further possible savings in particular programmes which we should consider.

SECRET

FEASIBLE NET EXPENDITURE REDUCTIONS IN 1977-78
(EXCLUDING SOCIAL SECURITY AND LOCAL AUTHORITY CURRENT EXPENDITURE)

(£million at 1976 Survey prices)

Programme	Feasible net reduction £m	Is legislation needed	Measures required other than legislation
Defence	140	No	Mainly by deferrals.
Aid programme	100	No	Limit new commitments.
Food and Agriculture	225	No	Phase out food subsidies more quickly; save £25 million on agricultural grants.
Trade, industry and employment	140	No	Delay payment of regional development grants.
	50	Order required	Equalise rates of regional employment premium for men and women at £2 a week.
	-	No	Negotiate change in scheme of refinance for export credits to eliminate additional bid.
Nationalised industries investment	-	No	Gross savings of £305 million required to offset additional bids of £260 million for BNOC and £45 million for other industries. The savings would involve treating £95 million uncommitted BNOC expenditure as an unresolved claim on the contingency reserve.
Roads	100	No	No new starts for central or local government roads for 12 months.
Housing	400	No	Reduce expenditure on mortgage lending, municipalisation, housing associations, new towns etc; control level of council house building.
	130	Yes	Abolish improvement grants to the private sector.
Other environmental services	100	No	Reductions in local authority capital projects; postpone some capital expenditure by water authorities; postpone some community land purchases

(£million at 1976 Survey prices)

	Programme	Feasible net reduction £m	Is legislation needed	Measures required other than legislation
9	Law, order and protective services	15	No	Moratorium on capital projects.
10	Education	80	No	Mainly cuts in building projects and university expenditure.
	Science and the arts	10	No	
11	Health and personal social services	70	No	Cuts or postponements in capital and current expenditure.
		30	Order required	Increase some charges.
12	Social security	-130		Estimating increase required if not offset by savings.
13	Other public services	-		
14	Common services	10		
15	Northern Ireland	25		Proportionate savings.
		1495		

PUBLIC EXPENDITURE - THE 1976 SURVEY

Report by the Treasury

Introduction

1. The report on this year's survey by the Public Expenditure Survey Committee has been circulated separately. It has been prepared in accordance with the ground rules approved by Cabinet. The figures and the presentation in the PESC Report have been agreed interdepartmentally. It is necessarily long and complicated. This Treasury report is designed to meet the requirement for a shorter, simpler piece of work, summarising the figures and focussing attention on the main issues.

The White Paper Plan

2. The last public expenditure exercise required exceptionally difficult decisions. These took a long time to reach and the resulting White Paper (Cmnd 6393) did not appear until February this year. The plans which it set out were intended broadly to stabilise the level of resources taken by expenditure programmes after 1976-77. If this was achieved, public expenditure would fall as a proportion of national output from its present exceptionally high level, ie 60%. In order to achieve this, most previously planned programmes had to be scaled down by £3,000 million (at 1975 survey prices) by 1978-79. Other programmes were to increase by about £500 million.

3. For several years the expenditure programmes in successive White Papers had been substantially exceeded in the event, and there was widespread criticism of the White Paper plan on the grounds that the profile of expenditure over the years lacked credibility. The

Government have therefore made it a prime objective to implement the plan, and prevent it from being frustrated through lack of will or failure of control. This has been regarded as important not only for financial and economic reasons but also to demonstrate the country's ability to plan effectively and achieve objectives. The Government have made it a further objective to get back on course by carrying out this year's survey, and reaching decisions on it, in accordance with a more normal timetable.

1975-76 and 1976-77

4. Firm estimates of expenditure in the past year, 1975-76, will not be available for some months, and the figures in the Survey report do not incorporate all the excess that local authorities seem to have spent. The present assessment is that total expenditure on programmes was quite close to the net provision in the February White Paper. Overspending by local authorities, including that on housing, largely offset savings elsewhere.

5. For 1976-77, as part of the effort to keep within planned expenditure totals, the use of the contingency reserve as a decision-making instrument has been developed in accordance with the arrangements approved by Cabinet. The contingency reserve in the White Paper was equivalent, at current prices, to £875 million. At the date of preparation of this report, Cabinet had agreed to £455 million of this being committed. In the preparation of the Survey report, estimating reductions have been incorporated in the Survey programmes. On the other hand, there are additional bids for 1976-77 as well as for future years, and these include some estimating increases in demand-determined services. Moreover, on the basis of present information, it would be imprudent to assume that, in the absence of further Government measures, local authorities would overspend by less than £100 million on current expenditure; and the overspend could well be as much as £200 million, even if the Government is still pressing for the White Paper figures to be observed.

6. It will be necessary to decide which of the additional bids are either ineluctable or have to be accepted for other reasons. However, the continued monitoring of the contingency reserve for the current year will be pursued separately, and the present report deals with the decisions which need to be taken in the Survey on expenditure programmes for the subsequent years. But it should be noted meanwhile that the contingency reserve for 1976-77 remains under strain. It will still therefore be necessary to pursue vigorously the action decided by Cabinet on 20 May to examine ways of offsetting the prospective excess on housing expenditure and of cutting down claims on the contingency reserve by nationalised industries, and also to keep any overspend on local authority current expenditure to the irreducible minimum.

<u>Future Years - Programmes in the Survey</u>

7. The programmes for 1977-78 and later years set out in the Survey Report are designed to carry forward so far as possible the programmes published in the White Paper, in accordance with the ground-rules which took the implementation of the White Paper plan as a starting point for the 1976 exercise. But the programmes have been revalued to 1976 survey prices, and estimating reductions have been taken into account. Also, additional expenditure approved since the White Paper has been incorporated in the programmes; and the White Paper figures for the contingency reserve have been adjusted downwards.

8. The resulting picture can be summarised as follows:-

	£ million at 1976 Survey Prices			
	1977-78	1978-79	1979-80	1980-81
Total of programmes:- (i)				
In the White Paper	53,389	52,927	53,327	-
In this Survey	53,700	53,175	53,564	53,533
Contingency reserve:-				
In the White Paper	1,050	1,425	1,650	
In this Survey	800	1,100	1,400	1,700
Total of programmes (i) and contingency reserve:-				
In the White Paper	54,439	54,352	54,977	-
In this Survey	54,500	54,275	54,964	55,233

(i) Before taking account of the Civil Service manpower savings rising to £140 million at 1975 Survey prices in 1978-79.

9. Thus, the totals of programmes plus contingency reserve in the Survey are constrained broadly within the White Paper plan. But this is achieved only because the Survey programmes take account of some estimating reductions, while estimating increases are treated under the Survey ground rules as part of the additional bids on which decisions have to be taken. The ground rules provided that bids could be tabled for additions to the White Paper programmes, if departments considered this necessary either for the purpose of existing policies (and it is sometimes difficult to distinguish which of these bids should be regarded as estimating increases), or to enable new policies or projects to be introduced. The total amount of all the bids which have been tabled in the Survey, and which are summarised on a programme basis in Annex A to this report, is as follows:-

£ million at 1976 Survey Prices			
1977-78	1978-79	1979-80	1980-81
1596	1676	1144	1790

Since finalising the Survey Report we have received some further additional bids.

10. These bids, if accepted, would use up the contingency reserve and produce an excess over the White Paper totals for the next two years. But the nature of the individual bids varies substantially. A limited number are demand-determined in the strict sense and may be ineluctable or very nearly so. Others flow from existing schemes but the schemes are capable of being changed to reduce expenditure. Some bids constitute demands for improvement or new measures which could be rejected or postponed. All these will be matters for decision.

Decision required

11. The Government now have to decide between three broad approaches:-

(a) To keep to the White Paper planned totals. To achieve this, while maintaining an adequate contingency reserve for future years, the additional bids, including the estimating increases on demand-determined services, would have either to be eliminated, or else offset by reductions in existing programmes.

(b) To increase the planned totals above the White Paper figures.

(c) To reduce planned totals below the White Paper figures.

12. A decision between these three broad policies will have to be seen in terms of, and accompanied by, the concrete decisions

required on particular programmes. Thes individual decisions in turn have to be taken in terms of the specific measures required in order to give effect to them. Even to implement the existing White Paper plan, specific measures remain to be taken in order to achieve some of the savings incorporated in the White Paper figures. The cases involved are:-

Reductions in housing subsidies
Savings on school meals
Reductions in the cost of overseas students
The £140 million civil service manpower savings

13. On the other hand, although concrete decisions on particular programmes and measures are needed for at least one year ahead in all cases, and perhaps more in some cases, such decisions are not necessarily required on all programmes for the whole period covered by the survey. This point is discussed further below.

<u>Which years?</u>

14. In last year's exercise the focus year for decisions was 1978-79. This was appropriate in an exercise designed to evolve a new medium-term strategy for public expenditure and a better balance in the economy over a period of years. So long as the Government are sticking to that strategy, whether or not with limited modifications to the totals for particular years, then it becomes a matter of year-by-year budgeting on the lines of the agreed strategy, and the focus shifts to the earlier years of the survey period. This would be a reversion to the approach adopted in some earlier stages of the development of the present public expenditure system, entailing decisions on firm programmes only for the first year ahead (that is, in the present exercise, 1977-78) and near-firm programmes for the second year ahead (1978-79).

15. There are now special reasons for restoring the emphasis on the earlier years, and particularly on the year immediately ahead. First, the credibility of the expenditure profile, and thus of the Government's whole strategy in this field, will depend crucially on keeping the planned total next year to this year's level at most. The decision between the three courses listed above must therefore be taken in relation to 1977-78 in the first instance.

16. In addition, the Chancellor's statement on 7 June, following the sterling crisis, said that, for the current year, the Government were determined to ensure that the planned total of expenditure is not exceeded; that they were now reviewing expenditure programmes for future years in the normal way; and that they would adjust these programmes in good time as required to meet the prior claims of exports and investment in the light of the expected pace of recovery. By implication, any such adjustment must relate to 1977-78 in the first instance.

17. It would in principle be open to Ministers to take decisions about either 1977-78 only, or about 1977-78 and 1978-79, in advance of settling programme figures for the whole survey period. In any event the status of the figures for the later years would be different since they will remain subject to year-by-year review in successive exercises. Whatever provisional view is taken about the prospective public expenditure totals for the later years, there are many individual programmes on which firm decisions are neither necessary nor possible now for as long as 4-5 years ahead. For instance, following last year's review of the procedures for approving the investment programmes of the nationalised industries, approval for 100 per cent of the programme figures is given only for the coming year (1977-78) with an 85 per cent approval for the subsequent year and 70 per cent for the year after that.

Areas for decision

18. There are 15 programmes in the Survey (9 of them account for over 85% of the total) and decisions are required on these and on the size of the contingency reserve. These are summarised in the Annex. The total of public expenditure is made up of these items together with shortfall and debt interest, but these last two items cannot be planned but only estimated, and do not require decisions. At the same time, in taking decisions on the planned total of programmes and the contingency reserve, it is necessary to consider to what extent the sum total of public expenditure may be affected by movements in shortfall and debt interest.

19. Estimates of debt interest are highly volatile, and depend on assumptions about future inflation, rates of interest and the size of the borrowing requirement. On present assumptions it is estimated that the figures for debt interest which appeared in the last White Paper should be scaled down by some hundreds of millions (this is of course nothing like the scale of the increase in estimated debt interest which was disclosed in the White Paper) but this estimate is liable to further revision before the next White Paper, according to the assumptions which seem the most realistic at the time. For the time being, this reduction in the estimate of debt interest could be regarded as roughly accounting for the estimated shortfall which was assumed in the last White Paper.

20. In the case of a number of programmes, a larger or smaller part of the functional programme is not in fact controlled functionally, but forms part of local authority current expenditure; this is not subject to direct control, whether in total or in its distribution between local authorities and services, though its size and distribution is influenced by Government policies and by the rate support grant. The estimates for 1976-77 compiled in May, on the basis of new returns from the local authorities, showed that they had overspent the White Paper figures in the previous year and were budgeting for a further substantial excess in the current year. In requesting that this excess should be cut back, the Government made it clear that in any event

the rate support grant for the following year, 1977-78, would be based on the White Paper figures.

21. To the extent that the local authorities fail, in the event, to cut back this year's current spending to the White Paper level, the actual amount spent next year would have to be got down below this year's figures, in order to be brought into line with the White Paper projections. It has already been explained in paragraph 5 that local authorities may well overspend in the current year and the present expectation is that, in the absence of further Government measures, they may well again overspend in 1977-78 by a broadly comparable amount, ie £100-200 million. There is, therefore, a general question which cuts across these functional programmes, ie whether the Government wishes to set local authorities the target of cutting expenditure in 1977-78 below the White Paper level, and, if so, whether it would be realistic to plan in the expectation that they would do so. It may well be that the effect of setting such a target might be to produce a better chance of getting down to the White Paper levels, though not in practice below them. The answers to these general questions will affect the decisions on the choice of options for those programmes in which local authority current expenditure forms an important part.

22. As regards the contingency reserve, the figure which has been included for 1977-78 in the Survey is about the same, in real terms, as the reserve provided for 1976-77 in last February's White Paper. But there are still 9 months to go until 1977-78 even begins. If any new claims on the reserve were to be accepted without replenishing it by savings on expenditure programmes, this year's experience suggeststhat the remaining reserve would be too small in relation to the bids that can be expected during the course of a year.

23. The ground rules for the public expenditure survey provided both for the tabling of additional bids and for the working out of options for reducing the survey programmes by 2½ per cent in 1977-78 and 5 per cent in 1978-79. A general 2½ per cent reduction of planned expenditure programmes in 1977-78 would involve about £1.3 billion; this would reduce the public sector borrowing requirement by about £1 billion. In relation to 1977-78 the contribution to be made by public expenditure savings to a reduction in the borrowing requirement would depend less on arguments of principle about the balance between changes in expenditure and taxation, and less on considerations of what financial opinion might expect, than on what is feasible in making adjustments for the year immediately ahead. In some programmes reductions of 2½ per cent would be feasible, in others more, and in others less.

HM Treasury
June 1976

SUMMARY OF PUBLIC EXPENDITURE PROGRAMMES
AND ADDITIONAL BIDS

Programme	£ million at 1976 Survey prices				
	1976-77	1977-78	1978-79	1979-80	1980-81
1. Defence					
Survey figures	5621	5644	5627	5652	5630
Additional bids	-	-	-	-	190*
2. Overseas aid and other overseas services					
Survey figures	1007	1275	1375	1472	1542
Additional bids	2	63	201*	65*	- 82
3. Agriculture, fisheries, food and forestry					
Survey figures	1110	853	632	600	598
Additional bids	24	9	15	14	20
4. Trade, industry and employment					
Survey figures**	2762	2606	2569	2548	2460
Additional bids	258	332*	340*	339*	404*
5. Nationalised industries					
Survey figures	3690	3310	3477	3613	3612
Additional bids***	55	369	399	242	335
6. Roads and transport					
Survey figures	2686	2489	2284	2279	2265
Additional bids	10	17	19	37	30
7. Housing					
Survey figures	4574	4435	4381	4468	4468
Additional bids	175	267	274	121	124
8. Other environmental services					
Survey figures	2458	2470	2385	2369	2368
Additional bids	18	68	114	88	56
9. Law, order and protective services					
Survey figures	1811	1833	1813	1816	1816
Additional bids	3	176*	62	70	85
10. Education, libraries, science and arts					
Survey figures	7500	7362	7247	7220	7249
Additional bids	10	85	106	109	109

* upper end of range

** of which export and shipbuilding credit refinance:

Survey figures	444	502	571	579	535
Additional bids	153	101	85	74	100

*** Including British Aerospace and British Shipbuilders.

CONT'D

SUMMARY OF PUBLIC EXPENDITURE PROGRAMMES

AND ADDITIONAL BIDS

Programme	£ million at 1976 Survey prices				
	1976-77	1977-78	1978-79	1979-80	1980-81
11. Health and personal social services					
Survey figures......................	6515	6610	6710	6813	6818
Additional bids.....................	-	21	30	52	17[illegible]
12. Social Security					
Survey figures......................	11448	11558	11474	11480	1145[illegible]
Additional bids.....................	-60	136	28	-92	23[illegible]
13. Other public services					
Survey figures......................	840	850	840	844	844
Additional bids.....................	19	38	66	71	6[illegible]
14. Common services					
Survey figures......................	826	808	831	858	880
Additional bids.....................	-	9	12	11	1[illegible]
15. Northern Ireland					
Survey figures......................	1629	1597	1530	1532	153[illegible]
Additional bids.....................	-1	6	10	17	2[illegible]
Contingency Reserve					
Survey figures......................	400	800	1100	1400	1700
Total Survey figures(1)	54877	54500	54275	54964	5523[illegible]
Total Additional bids	513	1596	1676	1144	179[illegible]

(1) Before taking account of the Civil Service manpower savings rising to £140 million at 1975 Survey prices in 1978-79.

CP(76) 43

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2 July 1976

CABINET

ECONOMIC POLICY

Memorandum by the Secretary of State for Energy

1. The Government is being subjected to the demand by powerful financial institutions for further cuts in public expenditure as a condition of the international assistance which is vitally needed to underpin sterling. Such cuts would have their main effect in the year preceding an election, damaging the economy, harming our supporters and raising unemployment even further.

2. There are three questions which the Cabinet should discuss before a decision is reached -

   i. Has the Government any alternative but to comply with the demand?

   ii. Ought the Government to wish to comply with it?

   iii. Ought the Government to put forward other measures instead ?

THE GOVERNMENT'S NEGOTIATING POSITION

3. An immediate decision to cut public expenditure is not the right basis on which to negotiate durable arrangements to settle the sterling crisis. The Government has insufficient exchange reserves and credit to meet persistent runs on the Pound. Even if the exchange rate is defended (as it must be) there is a serious risk of continuing withdrawals of the £7 billion balances held by foreigners at such a rate as to absorb the recently agreed $5 billion swap facilities within a few weeks or months.

4. To settle the issue once and for all will require not just another tranche of credit, but a standing arrangement on "re-cycling" of any outflow of sterling balances held by foreigners, together with a medium-term loan large enough to meet other flows.

5. Stabilisation of sterling is as much in the interests of other Western governments as in ours. But, as an immediate condition for lasting support, the International Monetary Fund (IMF) and other lending institutions will certainly require an on-going commitment by the Government to agree its overall financial and monetary targets. By itself an immediate decision on expenditure cuts would therefore not be enough.

6. On the other hand a commitment to agree financial and monetary targets need not involve expenditure cuts at all. It would be contrary to the Fund's articles and to normal banking practice for the international institutions to insist on determining the specific composition of tax and expenditure measures by which such targets were to be achieved.

7. The Government will have plenty of freedom of manoeuvre if it proposes to agree financial targets under the well-established timetable for public expenditure and budget decisions. This timetable is designed to allow decisions to be reached on the basis of the best information and forecasts with opportunity for proper assessment and discussion. If the IMF and other banking institutions accept a commitment to agree financial policy on this basis, the Government will be in a relatively strong position because of its comprehensive command over the relevant considerations and evidence needed to substantiate them. At a technical level the Treasury can certainly hold its own with the Fund on domestic financial and monetary policy.

8. It may conceivably be the case that in present circumstances the IMF and other Governments will insist on large expenditure cuts as a condition for assistance. The Cabinet will certainly need to establish whether this is the case, or whether an on-going commitment to agree financial and monetary targets with the IMF would be an acceptable, or indeed a preferred, alternative.

THE MERITS OF FURTHER CUTS IN PUBLIC EXPENDITURE

9. Assuming that some freedom of choice remains the Cabinet must consider whether it accepts the case for further cuts in public expenditure on their own merits. The argument put forward in their favour - that they are necessary to 'make room' for industrial recovery - is unconvincing.

10. At the end of last year the Government imposed a standstill on public expenditure in 1977-78 and 1978-79. This means that the entire increase in resources in those years has already been made available for industry, the balance of payments and private consumption. The Cabinet is now asked to accept that the resources provided by 4 - 5 per cent growth planned for these years will be insufficient. We are asked to make damaging cuts in public investment, or in employment in public services, or in welfare benefits to low-income families, in order to release resources on a still larger scale.

11. The only truth in the resources argument is that if the target of 4 - 5 per cent growth is pushed ahead there will probably be shortages of capacity in specific industrial sectors. Cuts in public expenditure would be the worst possible way to deal with this problem because they would have a selective and damaging impact entirely unrelated to the industrial bottlenecks which may emerge. As far as possible, specific shortages of capacity should be dealt with directly and selectively. If any general restraint on growth of demand is required, tax increases will provide a fairer, less discriminatory method of achieving it.

THE ALTERNATIVE TO FURTHER CUTS IN PUBLIC EXPENDITURE

12. The basic problem is how to carry through sustained economic expansion when industrial capacity is now so weak. If the Government succeeds in maintaining economic recovery, the growth of tax revenues and private income will make expenditure cuts unnecessary. But if it fails, whether because expansion peters out or because growth has to be checked on account of a rising trade deficit, further cuts in public expenditure might be unavoidable.

13. Therefore if the Cabinet decides against immediate cuts in public expenditure it will not be enough to proceed with the normal timetable for financial decisions without making other changes in economic policy. The Government must be prepared for the likelihood that shortages of industrial capacity will cause the trade deficit to widen as recovery proceeds. Three types of measure should be adopted as soon as possible to deal with this eventuality.

14. First, the Government must strengthen its capacity to restrict inessential imports, both by preparing to introduce compulsory selective measures and by negotiating import ceilings with major importers and foreign suppliers. Such negotiations would be more effective if they could be linked to planning agreements in which the Government had some effective bargaining counters (such as the power to release reserve investment funds).

15. Second, the Government should increase taxes on commodities which are mainly or wholly imported. Obvious examples are oil (which in some uses would be substituted by coal and gas) and tobacco and alcohol. Together these at present contribute nearly £2 billion less revenue relative to GNP than they did five years ago.

16. Third, the Government must adopt selective measures to induce manufacturing companies to increase their production and investment. Across-the-board concessions on corporate taxation and the price code have not proved effective in this respect. Future resources should be concentrated on a selective, bargaining approach through the National Enterprise Board and planning agreements, backed up by an investment reserve fund from which finance is released for agreed programmes.

CONCLUSION

17. Rather than deciding now on an emergency package of cuts in public expenditure, the Government should seek lasting assistance from the IMF and other banking institutions subject to an on-going commitment to agree financial and monetary targets with the IMF according to the conventional timetable. This approach will give the Government a strong bargaining position.

18. Public expenditure cuts are not required on general resource grounds and would be the worst method for dealing with specific bottlenecks which may arise.

19. Instead, the Cabinet should as soon as possible adopt measures to counter shortages of industrial capacity and the risk of a large trade deficit which may otherwise prevent sustained economic recovery.

A W B

Department of Energy

2 July 1976

CP(76) 44 COPY NO 29

5 July 1976

CABINET

THE TOP SALARIES REVIEW BODY REPORT NO 8, MINISTERS AND MPs, PART II

Memorandum by the Lord President of the Council

1. The Top Salaries Review Body delivered Part II of its report to the Prime Minister on 14 June 1976 in response to his invitation in January 1975 to review the pay, allowances and pensions of Ministers and MPs and Peers' expenses allowance.

2. The Review Body submitted Part I of its report confined to Members' pay and allowances on 13 June last year. This Part II report (copy attached) deals with Members' pensions, Ministerial salaries and some miscellaneous matters concerning Members' allowances and facilities. A Part III report dealing with Peers' expenses allowance is expected shortly.

3. The recommendations in the report are summarised at Appendices A-C. The main ones are as follows:-

A. Members Allowances and Facilities (see Appendix A)

Payment of a new allowance of £300 over a period of three years to cover office expenses; free travel anywhere in the United Kingdom on Parliamentary business; free postage and telephone facilities to European Economic Community countries, severance payments should be only an alternative to redundancy payments.

B. Members' Pensions (see Appendix B)

The maximum reckonable service prior to October 1964 to be increased from 10 to 15 years; interest on refunded contributions to be increased from 3 to 4 per cent; provision for purchase of added years; provision for retirement on grounds of ill health; improvements in widows' and dependants' pensions; an early retirement option at 62 for Members with 25 years' service; contribution rate to be increased from 5 to 6 per cent.

C. Ministerial Salaries (see Appendix C)

Ministers' salaries were last increased as from 1 April 1972 and the Review Body have now recommended improved rates brought up to date as at June 1975. The existing structure of rates is retained. The Prime Minister's salary would go up by £5,000 to £25,000, which together with his recommended Parliamentary salary of £5,000, would give total emoluments of £30,000. The Lord Chancellor's salary of £20,000 would go up to £27,000. Salaries for other Cabinet Ministers would go up by £5,000. Increases for Ministers of State and Parliamentary Secretaries would be £3,500 and £3,000 respectively. Increases for Office Holders are rather less, ranging from £4,500 for the Leader of the Opposition in the Commons to £2,000 for Whips in the Commons and £1,500 for the Opposition Chief Whip in the Lords. Full details are set out in Appendix C.

4. Approval by the House of the Government's proposal, which I am shortly due to announce, to increase Members' salaries by £6 a week as from 13 June 1976, subject to earnings from all sources not exceeding £8,500, will effectively rule out any action on the recommendations for Members' allowances and pensions at this present time. Improvements in non-wage benefits, including improvements in pension terms, have to be set against the £6 limit, and against the £4 limit under the next stage. This means that new reimbursement allowances and improvements in allowances, other than those attributable to increased costs, must equally reckon against the pay limits.

5. The implementation of the increases recommended in Ministerial salaries is ruled out by the current pay limits. The recommendations cannot rank as a pre-policy commitment as their publication does not pre-date the pay policy; to that extent their standing under the policy is different from the recommendations in respect of Nationalised Board salaries which were published in December 1974. Under the next round, their Parliamentary, rather than their Ministerial, salary would command the first call on any £4 a week increase for Ministers. However, any decisions on changes in Ministerial pay in the next round can only be taken in the light of decisions on higher pay policy generally and other outstanding public sector higher salary problems.

6. Although enabling powers are being sought in the Parliamentary and Other Pensions and Salaries Bill now before Parliament to allow Ministerial pensions to be based on their proper rate rather than their actual rate, action equally cannot be taken to accept and promulgate the recommended Ministerial salaries for pension purposes as they were not put forward and accepted prior to the introduction of the policy as was the case for the rate of £8,000 recommended for MPs.

7. Some of the recommendations listed under Appendices A and B do not in any event call for action at the present time as the Review Body have merely found against certain possibilities such as improving the accrual rate for MPs' pensions and increasing the secretarial allowance specially to provide for occupational pensions for secretaries.

RECOMMENDATION

8. I invite the Cabinet to agree that the report should be printed and presented to Parliament in, say, 14 days' time and that I should make a covering statement to the effect that while we have considered its contents we shall not wish to take any further action on the report until incomes policy permits.

M F

Privy Council Office

5 July 1976

CONFIDENTIAL

REVIEW BODY ON TOP SALARIES

REPORT NO 8

MINISTERS OF THE CROWN AND MEMBERS OF PARLIAMENT, AND THE PEERS' EXPENSES ALLOWANCE: PART II

CHAIRMAN:

THE RT. HON. LORD BOYLE OF HANDSWORTH

Presented to Parliament by the Prime Minister
by Command of Her Majesty
1976

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CONFIDENTIAL

REVIEW BODY ON TOP SALARIES

On 15 January 1975, the Review Body on Top Salaries was invited by the Prime Minister to review and recommend changes:

(i) in the emoluments, allowances and expenses of Ministers of the Crown and Members of the House of Commons including Mr Speaker and other holders of remunerated offices in both Houses of Parliament together with the relevant pension arrangements, and

(ii) in the rates and conditions of payment of the Peers' expenses allowance.

Part of this remit was discharged in Report No 7 which covered the salary of Members of Parliament, the Parliamentary salary of Ministers and paid office holders and the main allowances and facilities available to Members of the House of Commons.

The members of the Review Body are:

The Rt Hon Lord Boyle of Handsworth, Chairman
H W Atcherley[1]
Sir George Coldstream, KCB, KCVO, QC
Lord Hirshfield[2]
A J L Lloyd, QC
Lord Pritchard, DL[2]
Baroness Seear

The Secretariat is provided by the Office of Manpower Economics.

Lord Beeching resigned his membership following completion of his period of appointment in May 1975. Sir Mark Turner resigned his membership on his appointment in December 1975 as Chairman of the Rio Tinto-Zinc Corporation and did not take part in the later stages of this review.

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[1] Also Chairman of the Review Body on Armed Forces Pay.

[2] Lord Hirshfield and Lord Pritchard were appointed to the Review Body by the Prime Minister in November 1975. Lord Pritchard was unable to take part in the later stages of this review.

CONTENTS

MINISTERS OF THE CROWN AND MEMBERS OF PARLIAMENT AND THE PEERS' EXPENSES ALLOWANCE: PART II

CHAPTER 1: INTRODUCTION

The background

1. We were invited by the Prime Minister on 15 January 1975 to review the remuneration and pensions of Ministers of the Crown and Members of Parliament, and the Peers' expenses allowance. Initially we intended to submit our recommendations in a single report but, in view of the extent to which a real financial burden had already fallen on many Members, we decided to deal first with those remuneration problems that we saw as meriting urgent action. Consequently, the first part of our report on this remit, submitted in June 1975 and published in July 1975[1], dealt with the salary of Members, the Parliamentary salary of Ministers and paid office holders, and with the main allowances and facilities. At that time, it was our intention to complete the remainder of our remit in a second report. But as this is the first occasion on which we have reviewed the working of the Peers' expenses allowance, and as that part of our task raises issues that are different in kind from the rest, we have decided to put forward our conclusions and recommendations on the Peers' expenses allowance separately. We will do so shortly. In this report, therefore, we deal with three items: first, certain matters related to Members' allowances and facilities which were held over from Report No 7 for further consideration; second, the Parliamentary pension scheme; and finally, the pay and pensions of Ministers and other paid office holders in both Houses of Parliament.

2. In our Report No 7, we recommended that the pay of Members of Parliament should be increased to £8,000, to bring it up to date since the last review in 1971 and to allow for some necessary revaluation of the job; that the Parliamentary salary of Ministers and paid office holders who are Members of the House of Commons should be increased to £5,000; and that in future salaries should be subject to biennial review. We also recommended that the maximum of the secretarial allowance should be increased to £3,200 a year to provide opportunity for the employment of a full-time secretary where necessary, and that it should be available to provide either secretarial or research assistance or a combination of both; that the additional costs allowance, which helps to defray the cost of living away from home when engaged in Parliamentary duties, should be increased

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[1] Review Body on Top Salaries, Report No 7: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I - Cmnd. 6136, July 1975.

to a maximum of £1,350 a year; that the London supplement, payable to Ministers and paid office holders and to Members whose constituencies are within the Greater London Council area, should be increased to £340 a year; that the car mileage allowance should be increased to 10.2p per mile; and that the maximum number of vouchers available to wives or husbands of Members for travel between Westminster and the constituency or Westminster and home should be increased from 10 to 15 a year. We also recommended that, in future, the maximum of the additional costs allowance, the London supplement and the car mileage allowance should be adjusted automatically in line with changes in relevant civil service rates. In accordance with this recommendation, the maximum of the additional costs allowance has now been increased to £1,814 and the London supplement to £385 (both with effect from 1 July 1975).

3. In putting forward our recommendations, we made clear that we attached the highest importance to their early and full implementation. They were considered by the Government and discussed in the House of Commons. Those that affected allowances and facilities were implemented in full, but the revised salary for Members was restricted to £5,750 against £8,000 recommended, providing an increase of £1,250 over the previous rate of £4,500; the Government proposed, however, and the House of Commons accepted, that Members' pensions should be based on our recommended figure of £8,000 and this decision is in course of being put into effect. The Parliamentary salary has been increased to £3,700 against £5,000 recommended, an increase of £700 over the previous rate of £3,000; Cabinet Ministers, however, did not accept the increase (it had already been announced that they would accept no increase before 1 January 1976) and they continue to receive the £3,000 level that was appropriate in 1972.

4. Our recommendations were designed as a coherent package. We understand the difficulties that arise when Members of Parliament are seen to give themselves substantial increases in pay, especially in times such as the present. But we feel bound to express our concern at the consequences of continuing to undervalue the demands on those elected to govern the country. In particular we are perturbed that, whereas our recommendations for increased allowances have been accepted in full, Members' salaries have been increased by little more than one-third of what we recommended. We consider this imbalance between salaries and allowances to be wrong in principle and unwise in practice. We are also perturbed by the establishment of two different levels of salary for pension purposes and other

purposes. We can sympathise with the reasoning which lay behind this decision, but we nevertheless regard it as anomalous. The only way to avoid these and other difficulties, awkward though it may be, is for Members to vote themselves a realistic salary. If they fail to do so, as they did in 1975 when wages and salaries in the community generally had risen rapidly between 1971 and 1974, they only store up greater difficulties for their successors in the future.

5. We note that, in the Debate[1] which followed publication of our recommendations, Members accepted it as desirable in principle that a permanent link should be created between their pay and a point on the salary scale of the Assistant Secretary grade in the civil service, the minimum of which is higher than the salary which we recommended. We were aware from the evidence submitted to us in the course of the current review that some Members felt strongly on this point. We said in our first review of Members' pay in 1971 that we did not see this as an appropriate solution to the problem: and for our part we do not see it as appropriate now. In our view, the level of remuneration for Members of Parliament should continue to be judged on the demands of the job iteslf and against all the factors relevant to it: Members ought not to be insulated from these factors (or, indeed, from public discussion of their pay) by a link with negotiated pay in a totally different employment situation. We continue to regard the frequency of review as the key to this problem.

<u>The implications of the current pay restraint measures</u>

6. The recommendations in this report have been put forward, of course, against the continuing background of the pay restraint measures that were outlined in the White Paper "The Attack on Inflation" (Cmnd. 6151, July 1975). The White Paper indicated (paragraph 13) that the three independent Review Bodies would be asked to ensure that any recommendations put forward during the period of operation of the restraint measures (which are due to expire at the end of next month) comply with the requirements of the policy. These requirements provide that increases in remuneration are to be restricted on an individual basis to a maximum of £6 a week; that a 12 month interval between major pay increases continues to apply; and that no increase at all may be paid during the currency of the restraint measures to those whose total earnings from all sources exceed £8,500 a year.

7. The issues with which we are concerned in our current remit do not fit conveniently into the circumstances for which the pay restraint measures were

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1 House of Commons Hansard, Volume 896, No 165, 22 July 1975.

directly designed. Nevertheless, it is clear that those measures apply to the outstanding matters in our review of Parliamentary remuneration (including the Peers' expenses allowance, on which we will be putting forward separate recommendations) notwithstanding the fact that all of them are part of an overall review which was begun (and partly completed) before the measures were introduced, and that the salaries with which we are concerned here have remained unchanged since 1 April 1972. The detailed implications for the aspects of our remit dealt with in this report are described in the note that follows this chapter. The current measures expire shortly and new ones will take their place. We have taken the view that, although the greater part of the recommendations that we now submit cannot be implemented immediately, it is right to put them forward in order to complete a further part of the review that we began in early 1975 but had not completed when the current measures were introduced. Furthermore, it will make it possible for future reviews of Parliamentary remuneration to start from a common point of reference. Our present recommendations represent the levels of remuneration which would have been appropriate at 13 June 1975 (the time of our earlier recommendations).

Our inquiries

8. We have referred already, in our Report No 7, to the questionnaire which we sent to each Member of Parliament designed to secure information and views on matters related both to salary and to allowances; the response rate was 70 per cent. A summary of the results of the survey is in Appendix A.

9. We are grateful to all those who have made themselves available for discussions with us in the course of our inquiries and to the many people from whom we have received written evidence. A list of the individual Members of Parliament, Ministers, office holders and others who gave oral evidence is in Appendix B.

IMPLICATIONS OF THE CURRENT PAY RESTRAINT MEASURES FOR THE RECOMMENDATIONS

(Note to Chapter 1)

a. Ministers and paid office holders: any increase under the current measures has to be restricted to a maximum of £6 a week and can be paid only to those whose total earnings (including the increase) would not exceed £8,500 a year. Total earnings for Ministers and office holders who are Members of the House of Commons include the current Parliamentary salary of £3,700 (£3,000 for Cabinet Ministers) and the London supplement of £385. Consequently, all Ministers in the House of Commons currently receive more than £8,500 and none is entitled to an increase at present. Of the paid office holders in the House of Commons, only those currently paid £4,000 a year (some Government and Opposition Whips) are eligible for any increase: the maximum permissible increase of £6 a week could be paid under the present measures following the completion of 12 months from the effective date (13 June 1975) of the increase in the Parliamentary salary which resulted from the restricted implementation of our earlier recommendations. Ministers and office holders in the House of Lords are not eligible for the Parliamentary salary but receive the London supplement of £385 and are now entitled to claim against the Peers' expenses allowance up to a maximum of £700 a year (the first £100 of which is free of taxation). Both of these amounts have to be aggregated with the salary attributable to the office to determine total earnings. Parliamentary Secretaries and Parliamentary Under Secretaries of State, the Chief, Deputy Chief and other Government Whips, the Leader of the Opposition and the Opposition Chief Whip, the Chairman of Committees and the Principal Deputy Chairman of Committees are eligible for an increase under the present measures, and the maximum increase could be paid in each case following the completion of 12 months from the effective date (13 June 1975) of the introduction of limited entitlement to claim against the Peers' expenses allowance.

b. Allowances for Members of Parliament: increases in allowances are subject to the current pay restraint measures, even where they are designed to reimburse actual expenditure within a maximum. The rates (or maxima) of such allowances can be increased without having to count against the £6 a week pay limit, provided that the increases reflect no more than movements in relevant costs. But where the scope of an allowance (including its coverage) is extended, the value of the increase has to be counted against the pay limits in the same way as any new allowance that may be introduced. Thus, the changes recommended in certain of the allowances and facilities could be implemented only following the expiry of 12 months from the effective date (13 June 1975) of the last increase in Members' remuneration. Moreover, only those Members whose total earnings from all sources are less than £8,500 would be eligible for any increase at all under the present arrangements. Total Parliamentary earnings for backbench MPs will be the aggregate of actual salary (£5,750), not the notional salary for pension purposes of £8,000, and the London supplement for those who receive it.

c. The Parliamentary pension scheme: improved provisions in pension schemes generally come within the scope of the current restraint measures. Any additional cost to public funds arising from improvements in the Parliamentary pension scheme would be treated in the same way as an employer's extra contribution and would be costed against the limit if implemented during the currency of the present measures. All the points related to the calculation of the £8,500 total earnings limit (the actual salary of £5,750 may still be used in this context, despite the 'notional' salary of £8,000 for pension purposes) and the 12 month interval principle would apply equally.

CHAPTER 2: ALLOWANCES AND FACILITIES FOR MEMBERS OF PARLIAMENT

10. We indicated in our earlier report that further consideration would be needed of a number of points related to the allowances and facilities that are available to assist Members in meeting the costs incurred in the course of carrying out Parliamentary duties. These points include aspects of the secretarial allowance and of the additional costs allowance; travel facilities; postage and telephone costs; and severance arrangements.

11. We have also given further consideration to the special problems of disabled Members to which we drew attention in that report. The improvements in the allowances and facilities which followed from our recommendations on that occasion will have eased some of their difficulties. Any further improvements in this context would have to be related closely to particular disabilities and their special needs. Consideration of these aspects of the problem is not appropriate to a general review of the total remuneration package, which is our remit; and we have been advised that they can best be considered as and when necessary within the machinery of Parliament itself.

Aspects of the secretarial allowance

12. The maximum of the secretarial allowance is now £3,200 a year following implementation of our previous recommendation, and is available to provide either secretarial or research assistance or a combination of both. This maximum is intended to enable Members to employ a full-time secretary where necessary, and provides for the payment of a full-time salary which has regard to the salary level of a Personal Secretary in the civil service who works in Central London. The maximum of the allowance also recognises the cost incurred by the Member as employer in payment of national insurance contributions. In recommending the new maximum, we indicated that we would give further consideration to the implications of a provision for occupational pension arrangements, and to the treatment of general office expenses.

13. Provision for occupational pension schemes is a major item in employment costs: if a suitable arrangement were to be included within the framework of the secretarial allowance, an increase of some £500 in the maximum of the allowance might be necessary. Provision for an item of this magnitude and importance has to be considered against the background of the widely varying circumstances in which MPs employ secretaries. For example, some MPs share the

services of a secretary; others have access to secretarial assistance in their other capacities; and, although our inquiries have shown an increasing use of secretarial help, many Members need substantially less than full-time assistance.

14. Provision is already made within the maximum of the allowance for the present and planned arrangements for State pensions, through the inclusion of an element to cover the employer's national insurance (including graduated pension) contributions. The present State scheme provides essentially for a flat rate of pension, but the new scheme which will come into operation in April 1978 will lead to an earnings-related pension. A higher level of contribution will then be required of the employer, but the rate currently envisaged would not justify an increase in the present maximum of the allowance; it contains an element of rounding which is sufficient to provide for the planned level of contribution. The position might need to be reviewed if a higher rate of contribution were introduced or if the salary element within the allowance maximum were to be increased.

15. Therefore, although we attach importance to the provision of adequate pension arrangements for Members' secretaries, we do not consider that it would be appropriate at this stage to provide within the allowance for an occupational pension scheme in addition to State pension arrangements. We regard the present maximum of the allowance as the most that can be justified on the present basis of non-accountability, and any further increase in the maximum to provide for improved superannuation arrangements would have to be subject to some suitable accounting procedure. We have taken note of the views expressed by the Select Committee on Assistance to Private Members in their First Report[1] and particularly their concern about the accountability for the public funds from which secretarial support for Members is provided. They said:

> "We are all convinced that it is incumbent upon the House to set standards of accountability in the use of public funds that are above any possible public criticism. We think that arrangements which may have been sufficient when allowances were comparatively low will not be sufficient if the allowances are substantially increased."

The Select Committee recommended optional arrangements under which either secretaries could be employed centrally by the House authorities or claims could continue to be made against the maximum of the secretarial allowance, and said:

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[1] First Report from the Select Committee on Assistance to Private Members - House of Commons Paper 375, Session 1974-75.

"We believe that the same high standards of accountability necessarily apply to claims for the secretarial allowance and that Members should specify the names of those to whom they have made payment for secretarial assistance."

We share the Select Committee's concern about standards of accountability but, since the House has not yet considered the Select Committee's report and recommendations, we make no further observations at this stage.

16. We made clear in our earlier report that the recommended (now current) maximum of the secretarial allowance made no provision for the cost of general office expenses, which had been included within the maximum following our 1971 recommendations. We were aware that expenditure of this kind was not necessarily confined to those Members who employ a secretary, and we decided to consider if a separate allowance were justified. Most Members of Parliament have to maintain an office to deal with correspondence from constituents and from other members of the public. The expenses associated with this part of an MP's work are an inescapable part of our Parliamentary system and can arise whether or not a Member employs his own secretary. Some of the routine but potentially substantial office expenses are already met: for example, postage and inland telephone calls from Westminster are provided free. But at present expenditure on equipment such as typewriters or dictating machines has to be borne by individual Members from their own resources. These costs too can be substantial, particularly on first entering the House. We consider that a separate allowance should be made available to provide for this need which, as we have said, may arise independently of the employment of a secretary, and that a suitable maximum amount would be £300 during any period of three years. Claims within the maximum of the allowance may include the cost of maintaining office equipment and may be made at any time during a three-year period, whether as a single claim or as a series of claims. But we regard it as appropriate that claims against this allowance should be supported by evidence of expenditure on particular items of equipment or on its maintenance. We believe that this requirement will be acceptable to Members.

Recommendation. We recommend that a new allowance be introduced to assist with the initial and maintenance costs of general office equipment. The maximum of the allowance should be £300 during any period of three years and reimbursement of claims should be conditional upon evidence of expenditure.

Aspects of the additional costs allowance

17. The annual maximum of the allowance is derived from a formula that applies an appropriate rate of overnight subsistence allowance for four nights a week over the average duration of the Parliamentary session. We have considered whether the formula provides adequate recognition of the occasional need for individual Members to attend at Westminster on Parliamentary business during a recess. We see two points as relevant. First, the present basis of the allowance maximum, related as it is to a notional full-time attendance at Westminster during the average Parliamentary session, provides sufficient leeway for the great majority of Members to meet the occasional need to attend there during a recess; and second, the arrangements which cover the travel costs incurred by Members are not restricted to the period of a Parliamentary session. Although we did not confine our 1971 recommendation for the introduction of a daily subsistence allowance to the periods when Parliament is in session, we consider that, against the background of the present arrangements, it is not necessary to increase the maximum of the additional costs allowance now on this account. The current maximum of £1,814 a year is in line with the appropriate rate of overnight subsistence in the civil service, and was increased to that amount with effect from 1 July 1975 on the basis recommended in our Report No 7.

Travel facilities

18. Members' travel costs are at present reimbursed for journeys between Westminster, home and constituency; within the constituency; and to central and local Government authorities concerned with the constituency area, but located outside the constituency boundaries. We understand, however, that the meeting of Members' costs for journeys to or from home is a taxable benefit and consequently Members have to pay tax on the value of car mileage allowance claimed for such journeys or, following the 1975 Finance Act, on the value of travel warrants issued for them. The response to our questionnaire indicated a measure of support from Members for the provision of wider facilities for defraying the costs of travel. Many of those who made proposals on this point suggested that all travel within the United Kingdom should qualify for the reimbursement of fares or for car mileage allowance. In our First Report[1] in 1971, we recommended the establishment of two funds to meet the costs of Members' travel where it could be shown to be of assistance to Members in carrying out their duties effectively: one was to provide for travel within the United Kingdom and the other for travel overseas. In the event, the recommendation was accepted in principle by the Government but was not adopted by the House itself.

[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836.

19. Free travel within the country on Parliamentary business is a facility which is commonly available to Parliamentarians in other European and Commonwealth countries. It is, moreover, a normal feature of business and professional life. We see no objection in principle to, and many practical advantages in the provision of a similar facility for Members of Parliament, subject to certain conditions. Clearly, qualifying travel under an arrangement of this kind would have to be restricted to travel undertaken on Parliamentary business. This would include constituency business of a non-political nature but would exclude travel for party political purposes. We recognise that travel on 'political' and on 'Parliamentary' business might overlap on occasion, but we believe that a distinction could be drawn and that it is not impossible for the House to administer such an arrangement. Members are, of course, already provided with travel facilities which are in some ways more generous than those normally available (for example, the cost of their travel between home and work is met, although it is subject to taxation, and limited provision exists for free travel by a wife or husband). But these arrangements stem from the recognised facts of a Member's life and, in particular, from the fact that two separate and equally important places of work are involved. They do not, in our view, detract from the importance of enabling Members to travel within the United Kingdom to inform themselves on subjects that are directly relevant to the work of Parliament and to effective representation of their constituency. Members should not be constrained by financial considerations from undertaking necessary travel for these purposes, and we consider that all United Kingdom travel on Parliamentary business should qualify for reimbursement of costs or for payment of car mileage allowance.

Recommendation. We recommend that the costs of all travel within the United Kingdom on Parliamentary business should be reimbursed or should qualify for payment of the car mileage allowance.

Postage and telephone costs

20. The present arrangements provide Members with free postage from Westminster to destinations within the United Kingdom. The facility is restricted to Parliamentary business and may not be used for circulars to constituents or to other Members. Telephone calls from the House are free on the same basis.

21. The greater part of the evidence put to us on these arrangements has suggested an extension of the facilities to apply to postage and telephone calls made from the homes or constituencies of Members. In general, we consider the

facilities provided for Members at Westminster are adequate and that an extension of free postage or telephone arrangements beyond Westminster would not be appropriate. But one improvement is justified. It has been suggested to us that telephone calls on Parliamentary business from the House to other countries of the European Economic Community should be provided free. We consider it reasonable that both telephone calls and postage facilities should be provided free of charge from Westminster on this basis.

Recommendation. We recommend that the free postage and telephone facilities at Westminster should be extended to apply to communications with other EEC countries on Parliamentary business.

Severance arrangements

22. We made no recommendations last year on the provisions for the payment of a grant under the severance arrangements. These arrangements stem from our 1971 review, when we found that the timing of general elections left Members little time or opportunity for finding alternative employment, because of their pre-occupation with seeking re-election. At that time, a Member ceased to be paid from the date of the dissolution of Parliament, and those who subsequently lost their seats could suddenly find that they had no regular source of income. We made two recommendations to relieve this situation: that salary should continue to be paid through a period of dissolution; and that a severance arrangement should be introduced whereby Members who lost their seat in these circumstances could claim a grant equivalent to three months' salary. At the same time, we suggested that the position of Members under the National Insurance Act should be re-examined, as their classification for national insurance purposes did not entitle them to unemployment benefit or to redundancy payments. The severance payment scheme was implemented and was applied also to Members who lost their seats because of constituency boundary changes. In the February 1974 and October 1974 general elections, 79 of the 81 Members who were defeated claimed the severance payment; all of the 16 Members who lost their seats in February 1974 as a result of constituency boundary changes also claimed.

23. In the course of the current review, changes in the severance arrangements have been suggested to us by many people. About half of the Members who replied to our questionnaire suggested various improvements in the scheme that were fairly evenly divided between suggestions for a higher level of payment (six or twelve months' salary), for a system based on length of service (sometimes subject to minima and maxima), and various general proposals that included age-related

payments and application of the arrangements to cases where a Member voluntarily resigns his seat or is not re-adopted as a candidate.[1]

24. However, we have to consider the severance arrangements now in the light of a new development. Since April 1975, MPs have been re-classified for national insurance purposes and will in due course become eligible for unemployment benefit in the event of losing their seat at a general election, and may become eligible for redundancy payments if a seat disappears as a result of re-organisation of constituencies. We welcome this development as MPs will now become eligible for the type of short-term assistance which we noted was not available when we recommended the introduction of the severance arrangements. We see this as an important supplement to the separate severance arrangements, which in the appropriate situation can be regarded either as an occupational redundancy payment scheme, or as a scheme for payment in lieu of notice. In either case, depending on individual circumstances, the severance arrangements may provide better compensation than the statutory minimum provisions which would otherwise apply (and we understand that the payment of a grant equivalent to three months' salary is likely to have the effect of postponing payment of unemployment benefit for a period of three months). But we also consider that, in the new circumstances, it is not necessary to increase the level of benefit provided by the existing severance arrangements. We therefore make no recommendation other than that, in any circumstances in which a Member would qualify for redundancy payments, the severance arrangements should be available only as an alternative to such payments.

Recommendation. We recommend that the grant under the severance arrangements should be available only as an alternative to redundancy payments in cases where a Member becomes entitled to such payments: otherwise, the severance arrangements should remain unchanged.

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[1] Appendix A, Table 22

CHAPTER 3: THE PARLIAMENTARY PENSION SCHEME

Background

25. The Parliamentary Contributory Pension Scheme for Members was first introduced in 1965 under the provisions of the Ministerial Salaries and Members' Pension Act 1965, following the October 1964 recommendations of the Lawrence Committee[1]. It provided a compulsory pension scheme based on a fund managed by Trustees appointed by the House of Commons, and effective from the date of the October 1964 general election that brought in a new Parliament. Members who had retired before the date of the introduction of the scheme were not covered by it. But those whose service continued into the new Parliament could count up to 10 years of service prior to October 1964 as reckonable for pension purposes; this also applied to Members who lost their seats in October 1964 or earlier and who were returned subsequently to Parliament. The scheme required equal contributions in respect of current service from Members and from public funds, and pension benefits accrued at one rate for the first 15 years of service and at a lower rate for a further 30 years, providing a maximum pension of 60 per cent of final salary after 45 years' service. The normal retirement age was 65 and pension was not payable before that age. Other benefits were provided, including pensions for widows and dependent children, and refund of contributions (in certain circumstances) or transfer of pension rights.

26. Prior to the introduction of the scheme, the only form of financial assistance available to former Members was provided through the House of Commons Members' Fund which had been established by Act of Parliament in 1939 to make grants (based on an assessment of need) to former Members and to their widows and dependent children. An amending Act of 1948 extended the provision of grants to widowers. The Members' Fund is still in being and continues to provide for any former Member who may be in financial need, including a Member who may have retired under the current pension scheme with an inadequate pension and without other resources. From the outset, the Fund has been financed by an annual levy of £24 on all serving Members, a maximum annual contribution from public funds of £22,000, and dividends and interest from investments. Like the Parliamentary Contributory Pension Fund, the Members' Fund is administered by Trustees appointed by the House of Commons.

[1] Report of the Committee on the Remuneration of Ministers and Members of Parliament - Cmnd. 2516: Chairman, Sir Geoffrey Lawrence.

27. We reviewed the working of the pension arrangements in 1971, and we made a number of recommendations in our First Report which were implemented with effect from 1 January 1972, and which provided substantial improvements in the benefits available under the pension scheme. The scheme continues to be compulsory, and now provides for an even rate of accrual of pension entitlement of 1/60th of final salary for each year of service up to a maximum of 40 years' service,[1] giving a maximum pension of two-thirds of final salary. The normal retirement age for the purpose of the scheme remains 65. Other benefits include a death-in-service gratuity equivalent to 12 months' salary; an option for early retirement at age 60 or later on immediate payment of an actuarially reduced pension; pensions for widows and dependents; and an option to commute pension entitlement to yield a lump sum of up to 3/80ths of final salary for each year of service (which provides a maximum lump sum payment of $1\frac{1}{2}$ times final salary together with a maximum pension approximately equal to one-half of final salary). We also recommended that the rate of contribution required of a Member should be 5 per cent of salary. This rate met approximately 3/8ths of the total current cost of the scheme at that time; in practice, current costs have risen to about 15 per cent of salary and the Member's contribution has remained 5 per cent.

28. Two main developments have affected Members' pensions since our 1971 recommendations were implemented. The first is that they have been brought within the scope of the Pensions (Increase) Act 1971 and, consequently, retired Members' pensions are increased in line with movements in the cost of living. We note in passing that, because of the infrequency with which Members' salary is reviewed, this provision has had the effect of requiring special administrative arrangements to ensure that those Members who retired later on the same final salary as those who had retired earlier did not in practice receive a lower pension than their predecessors whose pensions had been increased in the interval.

29. The second development results from our recommendation last year of a salary level of £8,000 for Members of Parliament. As we have noted (paragraph 3) this salary was accepted by Parliament[2] as the appropriate rate for the job but was not fully implemented: it was decided, however, that it would be used as a notional salary for pension purposes, and this decision will be given legislative effect by the provisions of the Parliamentary and other Pensions and Salaries Bill, currently before Parliament. Members are required to pay a pensions contribution of 5 per cent of their pensionable salary, and they now receive additional emoluments of

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[1] In practice, we understand that the legislation which governs the scheme needs to be clarified on this point.

[2] By a resolution of the House of Commons accepted in the Debate following publication of our Report No 7 (House of Commons Hansard, Volume 896, No 165, 22 July 1975).

£112.50 a year to provide for the contribution required on the difference between the pensionable salary of £8,000 and the actual salary of £5,750. We point this out as one more manifestation of the disadvantages of not paying the proper level of salary for the job.

30. We now discuss the issues that arise on Members' pensions. Ministers and other paid office holders are eligible to participate in a supplementary scheme that we recommended in 1971 and that is designed to give pension entitlement in respect of the additional element of pay attached to Ministerial or other office. We deal with the pensions of Ministers and other office holders, including the statutory pensions attached to certain offices, in Chapter 4.

Service prior to October 1964

31. Two distinct but related points arise in relation to the effective date of the present form of contributory pension scheme for Members of Parliament. The first is whether those Members who retired before October 1964 and who have no subsequent service in the House of Commons should be entitled to any benefits under the Parliamentary Contributory Pension Fund; and the second is the amount of service prior to October 1964 that qualifies as reckonable towards the pension entitlement of those who have been Members of the House of Commons since that date.

32. We have received a substantial amount of evidence on the first point and we have noted that it has been the subject of continuing Parliamentary concern. In recommending the introduction of the present form of pension scheme, the Lawrence Committee expressed the view unequivocally that the principle of applying a pension scheme to those who had no service after the date when the scheme began was not acceptable[1]. The issue was re-examined in our First Report[2] when we found ourselves unable to modify the conclusion of the Lawrence Committee on this point of pensions principle and practice. We took the view that it remained appropriate for cases of financial hardship among former Members who had retired before October 1964 to be met by the Members' Fund.

33. We have again reviewed the evidence carefully. We recognise that only a small, and indeed dwindling, number of Members would be involved and that the cost of extending pension arrangements to cover them might not be prohibitive.

[1] Report of the Committee on the Remuneration of Ministers and Members of Parliament - Cmnd. 2516 (paragraph 76).

[2] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraphs 69 and 70).

Nevertheless, there is the point of principle here, and it cannot simply be dismissed in the wider context of pension provisions as a whole. The position of this small number of former Members is by no means unique: for example, we have been told that over the years up to 1964, and indeed right up until 1973[1], there will have been hundreds of thousands in the public sector who retired with no pension entitlement and are therefore in the same position; there are also many other, if smaller-scale, instances in the private sector. After much thought, we remain ourselves unable to recommend that former Members who have no service after the introduction of the Parliamentary pension scheme should be entitled to benefit from that scheme. The Members' Fund continues in being and, while we recognise that it cannot provide an as-of-right pension, we consider that it remains the appropriate channel through which to provide for the needs of former Members (and of their dependents), including those who retired before October 1964.

34. However, we offer one further comment. If it were the desire of Parliament as a whole that some additional provision should be made for those Members who had retired before the introduction of the present pension scheme, it might be appropriate to give consideration to an arrangement in parallel to the State pension arrangements for the over-80's, whereby some limited benefit would be made available as of right for such Members at age 80. Clearly, this would be a matter for Parliament to consider and we ourselves make no formal recommendation on this matter.

35. The Parliamentary scheme provides for a maximum of 10 years of service prior to October 1964 to be counted by serving Members as reckonable for pension purposes, as recommended by the Lawrance Committee in 1964. The cost is met by a deficiency contribution from public funds. We did not recommend change in this provision in our First Report: the other improvements recommended then greatly enhanced the pensions payable to Members who had service prior to October 1964, and we took the view that this was as far as we should go at that time[2]. We have examined the position again in the course of our current review, when it has been suggested to us, as indeed it was in 1971, that all such service should be reckonable for pension purposes. We do not regard this as appropriate, but we consider that a limited improvement is justified and would be acceptable against the background of our conclusions on the pensions arrangements as a whole. We therefore propose that the maximum amount of reckonable service prior to October 1964 should be increased by 5 years. The benefit from this improvement should be restricted to those Members who have service in the House of Commons after its introduction and, as at present, the cost of reckonable past service should be

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[1] It was not until 1973 that pension cover extended to all employees throughout the whole of the public service field.

[2] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 69).

met from public funds. We estimate the capital cost of this improvement to be £200,000 (including provision for those with qualifying service of more than 10 years who are not Members at present but who may be returned to the House of Commons in the future).

Recommendation. We recommend that the maximum amount of service prior to October 1964 that may be treated as reckonable service for pension purposes should be increased from 10 years to 15 years. This improvement should apply only to Members who are in service in the House of Commons at the time of its implementation (or who subsequently return to such service). The full cost of this recommendation should be met from public funds.

Rate of accrual

36. During our current review, we have received a number of representations about the rate at which pension entitlement is accrued under the Parliamentary scheme. Some 72 per cent of the Members who replied to our questionnaire said that they favoured a faster rate of accrual: and the respondents who specified a particular rate of accrual were evenly divided between those who advocated a rate of 1/40th of final salary a year and those who advocated other rates[1]. A wide range of rates of accrual was also suggested to us in other evidence.

37. The point most often put forward in support of a faster rate of accrual is that it is rare for an MP to be able to serve in the House of Commons for the 40 years necessary under the present arrangements to qualify for full pension entitlement. We have been told that the average length of service as an MP is 17-20 years. Nevertheless, certain other points also have to be taken into consideration. A career in Parliament is not unique in being a late-entry career, and a 40-year accrual period is standard elsewhere in the public services (with one or two exceptions that are mainly related to particularly hazardous and physically demanding jobs - for example, in the police and fire services - and the judiciary where it is unusual for a judge to be appointed under age 50). Moreover, it is becoming increasingly common for pension entitlement to be preserved or transferred from one scheme to another and MPs may benefit from this in the same way as other people. Finally, the cost of a faster rate of accrual could be high, particularly if Members had to bear the whole cost themselves.

38. The recommendations that we make in this chapter will achieve some of the objectives of a faster rate of accrual and will, we believe, prove more beneficial

[1] Appendix A, Tables 23 and 24.

to Members as a whole. We consider that the rate of accrual under the Parliamentary scheme should not be changed.

Interest on refunded contributions

39. It has been suggested to us that the rate of interest paid on the contributions refunded to a Member who leaves the Parliamentary pension scheme before completing the four-year period of service necessary to qualify for pension entitlement should be increased. The present rate of interest of 3 per cent has applied since the scheme was introduced.

40. Clearly, the rate is low by comparison with current interest rates generally and, indeed, it is well below the current rate of yield on the Pension Fund's investments. We have been told that the rate of interest for refunds has to have regard to the trend of interest rates over a long-term period and obviously this provides stability (which we see as important). It is even more important to bear in mind that contributions to a pension scheme are deducted from income before that income is assessed for tax: consequently a refund of contributions is subject to income tax. But in these circumstances, subject to the approval of the Inland Revenue, the tax is levied at a concessionary rate of 10 per cent. Clearly, this concession itself compensates to some extent for the interest that might otherwise have been earned on the money.

41. Against this background, we do not consider that a case for an increase in the rate of interest on returned contributions to the level of current interest rates generally can be sustained. We consider that a limited increase is justified and we propose that the rate should be improved from 3 per cent to 4 per cent in respect of contributions made from a current date.

Recommendation. We recommend that the rate of interest paid on returned contributions to the Parliamentary Contributory Pension Scheme should be increased from 3 per cent to 4 per cent. The higher rate should apply only to the refund of those contributions made after the effective date of implementation of this recommendation.

Added years

42. The introduction into the Parliamentary pension scheme of a facility for the optional purchase of added years of reckonable service has been widely

advocated during the current review. Some three-quarters of the respondents to our questionnaire indicated support for it[1] and it was also mentioned frequently in other evidence. We see this issue as in some ways related to the question of a faster rate of accrual of pension entitlement (paragraphs 36-38) in the sense that it is an alternative which provides the essence of the benefit aimed at. We have concluded that an added years scheme would be an appropriate addition to the existing provisions under the Parliamentary pension scheme.

43. We propose that an added years arrangement should be introduced on the following basis. It should be optional and the full cost should be borne by the individual Member. It will apply only to those who are Members of Parliament at the time of its introduction and to those who enter, or re-enter, the House of Commons subsequently. The normal Inland Revenue requirements on total contribution and maximum reckonable service will apply. We understand that purchase of added years may normally be either by a single lump sum payment within a period of 12 months of entry or by periodical contributions from salary to the date of retirement.

44. We also propose that the added years which have actually been purchased by the time of cessation of service as a Member should count towards the four-year period of service necessary to qualify for pension entitlement. When the cause of cessation of service is either death or early retirement because of ill-health, the total number of added years of service that the Member has contracted to purchase (as distinct from the number actually purchased at that time) should be counted for pension purposes and the rates of contribution should be calculated on a basis that will allow for this. We consider that the special circumstances of a Parliamentary career justify this. On the same grounds, in cases where a Member contracts to purchase added years by periodical contribution and resumes a Parliamentary career after a break in service, resumption of the purchase of added years should be at the rate that applied previously.

45. The details of the arrangement will need to be worked out, and a range of contribution rates by both methods of contribution will need to be calculated in consultation with the Government Actuary's Department. For contribution by single lump sum payment, we have been advised that the actuarially calculated payment factors based on the Parliamentary scheme alone are sufficiently close to the factors that are derived from the Public Service Transfer Value tables as to allow these factors to be used. We take the view that this should be done.

[1] Appendix A, Table 23.

46. We do not consider it appropriate to extend the added years option to the supplementary pension scheme for Ministers and other paid office holders. We discuss this point more fully in Chapter 4, where we make certain proposals to take account of the position of Ministers and paid office holders who are Members of the House of Lords.

Recommendation. We recommend that the Parliamentary Contributory Pension Scheme should include provision for the optional purchase by Members of Parliament of added years of service that may be counted as reckonable for pension purposes. This arrangement should apply only to those who are Members of Parliament at the time of its introduction and to those who enter, or re-enter, the House of Commons subsequently. The detailed arrangements should be based on the guidelines that we have indicated.

Ill-health retirement

47. We consider that provision for early retirement on grounds of ill-health should be introduced into the Parliamentary pension scheme, to enable a Member to retire with immediate payment of pension in these circumstances. The circumstances of an MP's 'employment' are, however, unusual. A Member of Parliament is not an 'employee' in the standard sense, and it may be that attention will need to be given to this point in working out the details of the arrangement that we propose. Apart from stipulating the obvious requirement that early retirement on ill-health grounds would have to be supported by independent medical evidence, we regard it as appropriate to leave the details of definition and conditions to be worked out by those who are responsible for the administration of the scheme.

48. The scheme should provide for appropriate enhancements to the amount of service that is reckonable for pension entitlement when a Member retires early on grounds of ill-health[1]. In all cases, the enhancements should apply only to the extent that they do not provide reckonable service in excess of the amount that would have been reckonable if the Member had continued to serve to age 65. A similar arrangement should be available to former Members who have left the House of Commons but who have a pension entitlement under the Parliamentary scheme which would normally become payable at age 65: if such former Members should have to retire from their present employment through ill-health before reaching age 65, they should receive immediate payment of their 'frozen' pension

[1] The enhancements might be modelled on the arrangements that apply in other parts of the public services, modified where necessary to be compatible with the circumstances of Parliamentary service.

entitlement, provided that the ill-health requirements of the Parliamentary scheme are met. It would not be appropriate, however, for the enhancement arrangements for serving Members to be applied in these cases: the responsibility for a facility of this kind would continue to lie with the pension arrangements in the individual's current employment.

49. We estimate the approximate capital cost of providing an ill-health retirement arrangement on these lines to be about £400,000. We discuss later (Chapter 4) the implications of extending a similar arrangement to the supplementary pension scheme for Ministers and other office holders.

Recommendation. We recommend that provision should be made in the Parliamentary Contributory Pension Scheme for early retirement on grounds of ill-health with immediate payment of a pension based on reckonable service to date, enhanced where appropriate. The provision should be based on the guidelines that we have indicated, including the counting in full towards reckonable service of any added years a Member may have contracted to purchase (paragraph 44). Former Members who are no longer in the House of Commons, but who have a 'frozen' pension entitlement under the Parliamentary scheme, should be entitled to immediate payment of their accrued pension (without enhancement) if they have to retire from subsequent employment on grounds of ill-health before age 65.

Widows' and dependents' pensions

50. We have examined the provisions of the Parliamentary scheme for the payment of pensions to widows and dependent children. The present arrangements provide a widow's pension of half the pension entitlement of her husband and an additional 1/8th of that entitlement in respect of each dependent child under age 16. A lump sum gratuity equivalent to one year's salary is also paid to the widow of a Member who dies in service.

51. We suggest a number of improvements in the widows' pension arrangements. First, we consider that the basic pension entitlement should be increased in cases where a Member dies in service. Our recommendation for enhancement of pension entitlement in cases of early retirement through ill-health (paragraph 49) should be applied for the purposes of calculating the amount of service reckonable for the payment of pension to the widow of a Member who dies in service (again subject to a maximum equal to the amount of service that would have been reckonable if the Member had continued to serve to age 65). This use of enhancement is

common in other schemes that provide an arrangement for retirement on ill-health grounds and we consider it appropriate to extend the arrangement to the Parliamentary scheme. We estimate the capital cost of this provision to be some £375,000.

52. Second, we consider that the arrangements for short-term financial assistance in the early months of widowhood should be improved, to include certain new facilities in addition to the gratuity payable to the widow of a Member who dies in service. In these circumstances, where the Member who dies in service had the necessary amount of service to qualify for a pension, his widow should continue to receive his full salary for a period of 3 months, at the end of which the widow's pension and, where appropriate, the pension for dependent children will become payable. A parallel arrangement should apply in cases of death in service where the Member had insufficient service to qualify for a pension: in these cases, the widow should receive the Member's full salary for 3 months if she has no dependent children (as defined under the Parliamentary scheme), for 4½ months if she has one dependent child, and for 6 months if she has two or more dependent children. Where a Member dies after retirement, his widow should continue to receive the full amount of his pension for a period of 3 months. We also propose that these arrangements should apply equally in the case of a woman Member who dies leaving a dependent widower. We estimate the capital cost of this provision to be approximately £150,000.

53. We have been told that clarification is needed of the pension position of the widow of a Member who dies after retiring between age 60 and age 65 with an actuarially reduced pension under the existing early retirement option. The normal choices in such cases are that where the husband takes an early pension with the appropriate actuarial reduction, on his death the widow subsequently receives half of the reduced pension; alternatively, a greater actuarial reduction may be applied to the husband's pension in order to allow the subsequent payment of an unreduced widow's pension (that is, based on the pension that the husband would have received if he had 'frozen' his pension entitlement instead of opting for the actuarial reduction). We have been told that the legislation which governs the Parliamentary scheme does not make clear which of these alternatives is intended to be applied. But we also understand that the actuarial reductions applied to the pensions of Members who opt for early retirement are based on the assumption that the widow's pension will not be reduced. We consider the second approach preferable and we suggest that an early opportunity should be taken to clarify the governing legislation accordingly. No additional cost will arise.

54. Finally, two other improvements in the death-in-service provisions are justified. First, the present requirement of 12 months' service as a Member to qualify for the death-in-service gratuity should be abolished as it has been in other pension schemes throughout the public services. No significant additional cost will arise from this. Second, we consider that the administrative arrangements relating to the death-in-service gratuity should be simplified by allowing a Member to nominate wife or husband as next-of-kin in order to facilitate payment of the gratuity to a Member's widow or widower before grant of probate.

55. We propose no further changes in the pension provisions for widows and dependent children. The suggestion has been made to us that the proportions of a Member's pension payable in respect both of widows and of dependent children should be increased. But we are satisfied that with the improvements that we recommend, the Parliamentary scheme will provide a satisfactory level of pension for widows and dependent children. We should add that our references to the provisions of other public service pension schemes do not imply that these schemes should provide a rigid measure of the pension benefits that should apply to Members of Parliament; this would clearly not be appropriate in relation to particular features of the job. Nor do we imply that the provisions of pension schemes in the private sector in general are irrelevant. But we have considered it as right and proper to have general regard to the provisions for pensions in other parts of the public service as a broad check on the arrangements for Members of Parliament.

Recommendations. We recommend that the enhancement arrangements proposed for the calculation of reckonable service in cases of retirement through ill-health should be applied to the basis of calculation of the pension payable to the widow of a Member who dies in service. The calculation of the amount of reckonable service in such cases should include in full any added years that the Member may have contracted to purchase. We also recommend that arrangements for financial assistance to widows in the early months of widowhood should be introduced as specified (paragraph 52); that the legislation governing the Parliamentary scheme should be clarified to ensure that the pension of the widow of a Member who was in receipt of an actuarially reduced pension following early retirement under the existing arrangements is based on the pension that her husband would have received but for the actuarial reduction (paragraph 53); and that the requirement of 12 months' service to qualify for payment of the death-in-service gratuity should be abolished. As a matter of simplification and convenience, we further recommend that a Member should be able to nominate wife or husband as next-of-kin for the purpose of payment of the death-in-service gratuity.

Early retirement

56. The present arrangements for voluntary early retirement, which we recommended in 1971, require a Member who takes advantage of them to accept an actuarially reduced pension. The penalty imposed by this reduction is heavy: for example, a Member with 20 years' service in the House of Commons who opts for this arrangement at age 60 would receive a pension of £1,707 a year, compared with £2,667 a year which would be received if the pension entitlement were 'frozen' until age 65 (both amounts are based on the recommended salary of £8,000).

57. We have considered whether the normal retirement age of an MP should be reduced - perhaps to 60 - to improve the position. But without a faster rate of accrual of pension entitlement (which, as we have explained in paragraphs 36-38, we do not see as appropriate) the net result is likely to be that fewer Members would be able to serve for long enough to qualify for the full pension entitlement by the normal age of retirement. In these circumstances, and against the general background of the nature and pattern of a Parliamentary career, we do not consider that it would be right to reduce the normal retirement age at this time. However, we consider that a new early retirement option should be introduced. We have noted that some other pension schemes with a similar normal retirement age have provision for early retirement on immediate payment of the full pension accrued to the date of retirement (ie without an actuarial reduction) subject to completion of a minimum period of service (commonly, 25 years). We understand that one result of incorporating an open option of this kind into the Parliamentary scheme would effectively be to reduce, in certain circumstances, the normal retirement age of 65; these circumstances would include the payment of preserved pension entitlement and the calculation of the maximum pension allowable under the ill-health retirement arrangements that we recommend. We see both these consequences - but particularly the one relating to retirement on ill-health grounds - as undesirable and, instead, we propose that an option should be introduced into the Parliamentary scheme, which could be exercised at the end of a Parliament if a Member were age 62 or over <u>and</u> had completed 25 years' service as a Member; the exercise of the option in individual cases would be subject to the approval of the Trustees of the Parliamentary Contributory Pension Fund. The existing early retirement option should continue in being to provide for those Members who want to retire early but who do not qualify under the new arrangement. We estimate the capital cost of this provision in practice to be not much above £50,000.

Recommendation. We recommend that an additional early retirement option to be exercised at the end of a Parliament should be introduced, under which any Member who has reached the age of 62 and has completed 25 years' service in the House of Commons would be able to retire, subject to the approval of the Trustees of the Parliamentary Contributory Pension Fund, with immediate payment of the pension entitlement accrued to the date of retirement.

Rates of contribution

58. The implementation of our recommendations for improvements to the Parliamentary pension scheme will give rise to a total capital cost of some £1½ million (excluding the scheme for the optional purchase of added years of reckonable service, the cost of which will be borne entirely by the individual Member). This will require an increase of rather more than 1¾ per cent in the total contribution under the scheme, and will raise it from 23½ per cent to nearly 25½ per cent of the Member's pensionable salary. (The total contribution includes both the current contribution from Members and from public funds - which together amount currently to 15 per cent of pensionable salary - and the deficiency payments met entirely from public funds).

59. We have considered how the additional cost should be met. Clearly, Members will receive substantial benefits from the improvements that we have recommended, and they should therefore bear some part of the cost. On the other hand, some 1 per cent of the additional contribution will be required to fund the improvements in respect of the past service of serving Members (including the cost of the additional years of reckonable service prior to October 1964 which we have recommended should be met entirely from public funds). We propose that this part of the additional contribution should be met from public funds, and that the balance should be met by increasing the contribution required of Members.

60. We have said that we do not regard the provisions of other public service pension schemes as an absolute standard for the Parliamentary scheme. Nevertheless, the improvements which we have recommended will bring the benefits of the Parliamentary scheme close to those provided in public service schemes generally; where those schemes are contributory, a standard rate of employee's contribution of 6 per cent of pensionable salary is applied. In these circumstances, we consider it appropriate that the Members' contribution rate should be increased to 6 per cent of pensionable salary. This will restore the proportion of the current cost of the scheme borne by Members to approximately ⅖ths of the total.

Recommendation. We recommend that the cost of implementing the recommended improvements in the Parliamentary pension scheme should be met in part by increasing the contribution required of Members from 5 per cent to 6 per cent of pensionable salary. The balance of the cost should be met from public funds.

CHAPTER 4: THE REMUNERATION OF MINISTERS AND OTHER OFFICE HOLDERS

Background

61. We now consider the issues that arise on the Ministerial pay structure, including the position of Ministers and other office holders who are Members of the House of Lords; the salary levels appropriate to the range of appointments covered by our remit; and Ministerial pensions (including the statutory pensions attached to the offices of the Prime Minister, Mr Speaker and the Lord Chancellor). A list of the Ministerial and other appointments with which we are concerned, and the current salaries, is in Appendix C.

62. These salaries have been in force since 1 April 1972 when, following the introduction of the necessary legislation, the recommendations in our First Report in November 1971 were implemented[1]. In addition to the salary attached to the particular appointment, Ministers and office holders who are Members of the House of Commons are eligible, with certain modifications, for the allowances available to MPs and are paid both the London supplement and the Parliamentary salary. In our Report No 7, we recommended that the Parliamentary salary should be increased from £3,000 to £5,000. This recommendation has not yet been implemented in full: Cabinet Ministers have elected to continue to be paid the 1972 Parliamentary salary of £3,000 and other Ministers and office holders are currently paid £3,700.

63. Ministers and other office holders who are Members of the House of Lords are not eligible for the Parliamentary salary or for the allowances (other than the London Supplement) available to those in the House of Commons. However, by resolution of both Houses of Parliament, since 13 June 1975 they have been entitled to claim against the Peers' expenses allowance up to a maximum of £700 a year: the first £100 a year of these claims is allowed free of tax.

Our approach

64. Before dealing in detail with the salary levels of Ministers and other office holders, we describe the general considerations that we have taken into account in arriving at our conclusions.

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1 The office of Principal Deputy Chairman of Committees in the House of Lords has been created since our last review and with effect from 10 April 1974. The current salary of £5,500 a year corresponds to the current (1 April 1972) salary of the Deputy Chairman of Ways and Means.

65. We have already said (paragraph 7) that the salary levels which we now recommend are those that were appropriate at 13 June 1975, the date on which we submitted our earlier recommendations. At that time, the current salary levels for Ministers and other office holders had been in force unchanged for a little over three years - a period during which the general index of retail prices rose by some 63 per cent, average salaries by some 64 per cent and average earnings by some 74 per cent[1]. Obviously, these price and wage movements cannot be considered in isolation, but they are indicators of the extent to which the value of the pay of Ministers and office holders has been eroded during a period of rapid inflation in which there has been no review of their salaries. Judged against the intervening increase in retail prices, for example, the Cabinet Minister's April 1972 salary of £13,000 was worth some £7,975 in June 1975 (and some £6,890 today). Clearly, some account of this has to be taken in our recommendations.

66. Other factors also have to be taken into account against this general background. The salary that we recommended for Members of Parliament included an element of revaluation of the job which our inquiries showed to be justified. It is clear that the demands of Ministerial office are heavy, but this has long been so and the evidence suggests that, in general, the weight of responsibility has not changed across the whole field of Ministerial and other appointments[2] since our last review to an extent which would justify an overall revaluation of the appointments with which we are concerned. Our general approach is, therefore, to bring the salaries up to date. Nevertheless, a measure of revaluation is appropriate for certain posts and levels of appointment either because of changes in the nature or circumstances of the job, or because experience has indicated that the level of salary that we recommended in 1971 did not fully reflect the position at that time. In recommending revised levels of salary for Ministers and office holders, we have to bear in mind our earlier recommendations for MPs' pay and for the Parliamentary salary as well as the salaries recommended in our Report No 6[3] for senior appointments in

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1 The movement in average salaries is based on the index of average salaries to April 1975 and projected to June 1975 by the index of average earnings. Because of the significant increase in the index of average earnings between June and July 1975, which arose in part from agreements with retrospective effect to mid-June or earlier, an average of the May and July indices has been used in place of the June index.

2 Although there may have been individual exceptions, most notably in the case of the Secretary of State for Northern Ireland - an appointment which did not exist at the time of our last review.

3 Review Body on Top Salaries, Report No 6: Report on Top Salaries - Cmnd. 5846, December 1974.

other parts of the public services. The level of earnings outside Parliament are also relevant both in particular cases (for example, judicial salaries to the salary of Lord Chancellor, and professional earnings to the salaries of the Law Officers) and overall: it is clear that in general salaries equivalent to levels at the upper end of the appointments with which we are concerned here have increased significantly more slowly between 1972 and 1975 than has the level of average salaries (which was approximately £2,250 in April 1972 and estimated at a little over £3,700 in June 1975). Evidence of this is also provided in the Report on Higher Incomes from Employment[1] of the Royal Commission on the Distribution of Income and Wealth. We take full account of this factor in our recommendations.

67. Finally, as we recognised in our First Report[2], some account has to be taken of the 'total salary' of Ministers and office holders which, for those who are Members of the House of Commons, includes the Parliamentary salary which we have recommended should be £5,000 a year. In the course of this review, we have received representations about the position of Ministers and office holders in the House of Lords. Most of those who have raised this matter with us have been concerned at the difference in total remuneration between an appointment in the House of Lords and another at the same level in the House of Commons. There are two separate but related aspects to this problem. The first is that Ministerial salaries in general are now more than four years out of date so that, for example, a Parliamentary Secretary or Under Secretary in the House of Lords currently receives a lower salary (£5,500) than a backbench MP (£5,750 following the restricted implementation of the recommended salary of £8,000 in our Report No 7). The second is the difference in total remuneration that stems from the fact that Ministers and office holders in the House of Commons receive the salary attached to the office and in addition the Parliamentary salary, whereas Ministers and office holders in the House of Lords receive only the salary attached to the office and the London supplement (for which all Ministers and office holders are eligible) and have their limited entitlement to claim against the Peers' expenses allowance.

68. The Parliamentary salary and the allowances available to Ministers and office holders in the House of Commons recognise the additional burden of constituency duties and responsibilities which they continue to carry and which Members of the House of Lords do not have. Moreover, since our 1971 review,

1 Royal Commission on the Distribution of Income and Wealth, Report No 3: Higher Incomes from Employment - Cmnd. 6383, January 1976: Chairman, Lord Diamond.

2 Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 91).

the Parliamentary salary has been recognised as providing an element of remuneration for the work of representing a constituency whereas, previously, it had been related notionally to the average amount of expenses incurred in carrying out Parliamentary duties. However, the relationship of the Parliamentary salary both to the full Member's salary and to the salaries of Ministers and other office holders will need to be re-examined at the time of the next review of Parliamentary remuneration and in the light of the circumstances at that time.

69. It has also been suggested to us that, because of the differences in total remuneration, a higher salary should be paid to Ministers and office holders in the House of Lords than to the equivalent appointments in the House of Commons. But a differential salary structure of this nature could be justified only if the workload or level of responsibility (or both) of Ministers and office holders in the House of Lords were generally greater than for the equivalent appointments in the House of Commons. We have found no evidence to support this and we do not recommend such a differential in Ministerial salaries.

70. In the following paragraphs we discuss the detailed issues and put forward recommendations for the Ministerial and other offices with which we are concerned. We have also shown separately (paragraph 104) our recommended salaries in net-of-tax terms, based on the June 1975 tax position of a married man with no dependent children and with no other allowances. Levels of taxation have not in any way influenced the level of salaries we have recommended and will vary, of course, for individuals depending on their own tax situation and on the level of taxation at any particular time. Nevertheless, our recommendations will inevitably be the subject of much public comment, and it is right - in our view - that such comment should be made in the light of knowledge of the likely effects of taxation on the salary levels that we recommend.

<u>Ministerial pay structure</u>

71. Prior to our 1971 review, four levels of salary existed for Ministerial appointments: Cabinet Ministers (together with certain senior Ministers outside the Cabinet and certain Ministers of State); other senior Ministers (including some Ministers of State); other Ministers of State; and Junior Ministers (Parliamentary Secretaries and Under Secretaries of State). As a result of that review we concluded[1] that Cabinet Ministers and Junior Ministers were well-defined classes of Ministerial appointment for which fixed salary levels

[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 97).

continued to be appropriate. But we found that the intermediate levels of appointment formed a less well-defined group covering a wide range of responsibilities. We recommended for this group a broad salary range of £7,500 to £9,500. These limits were intended to correspond to the higher and lower levels of intermediate responsibility, and the range was intended to provide a measure of flexibility in relation to the salary levels appropriate for individual appointments within the group.

72. Our recommendation was implemented but, in practice, the Ministers covered by it have since been paid at one or the other limit of the range. For our part, we would still consider it appropriate for the system of a salary range for this group of Ministers to be implemented. It is not, of course, for us to suggest which individual Ministerial appointments should be paid at particular levels within the range. Nevertheless, it may be helpful to give some indication of the approach underlying our recommendation. We envisage as a general guideline that the upper limit of the range should be reserved for senior Ministers outside the Cabinet: that is, senior Ministers who hold responsibility for specific areas of work within a Department of State or who hold appointments that carry the same status. We also consider that a somewhat narrower salary range would be more appropriate than a simple up-dating of our 1971 recommendations would provide. We have allowed for this in our recommendations.

Ministers

73. We are satisfied that a three-tier pay structure for Ministers continues to be appropriate (paragraphs 71-72). At the upper end of the structure, we consider that the salary of Cabinet Ministers ought to be brought up to date, but that revaluation by reference to changes in the weight of responsibility is not called for at this stage: after taking account of the other considerations that we have described, we conclude that a salary of £18,000 a year is appropriate in June 1975 terms. On the assumption that our earlier recommendation of a Parliamentary salary of £5,000 is implemented, this would provide a recommended total salary of £23,000.

74. At the lower end of the Ministerial structure, we do not consider that major revaluation is necessary for Junior Ministers, but we consider it important to establish a proper relationship with the salary (£8,000) that

we recommended for MPs in our earlier report. It is clearly right for Junior Ministers to have a salary lead over the remuneration of back-bench MPs and this applies equally to Junior Ministers in the House of Lords who do not receive the Parliamentary salary. Furthermore, insofar as the movement in outside earnings at comparable levels of salary between April 1972 and June 1975 is one indicator to which we have some regard, it clearly supports a relatively greater increase than would be appropriate at higher levels of salary. In the light of these considerations, we see a salary of £8,500 a year as appropriate for Junior Ministers; this provides a recommended total salary for Junior Ministers in the House of Commons of £13,500 – again assuming implementation of our recommended Parliamentary salary of £5,000.

75. The salaries for Ministerial appointments in the middle group of the structure should continue to be derived from within a range, and we have indicated our own view on the type of appointment for which the maximum of the salary range would be appropriate (paragraph 72). We consider that the range should be £11,000–£13,000 a year, which would produce recommended total salaries ranging from £16,000 to £18,000 a year.

Recommendation. We recommend the following annual salaries as appropriate to Ministers of the Crown, in June 1975 terms:

		Ministerial salary	Total salary[a]
		£	£
Cabinet Ministers		18,000	23,000
Senior Ministers not in the Cabinet/ Ministers of State	maximum	13,000	18,000
	minimum	11,000	16,000
Parliamentary Secretaries and Under Secretaries of State		8,500	13,500

Note: (a) Including the Parliamentary salary recommended in our Report No 7 for Ministers who are Members of the House of Commons.

Prime Minister

76. The present salary of the Prime Minister is £20,000 (of which £5,000 is free of tax) and the Parliamentary salary is £3,000, giving a current total salary of £23,000. No revaluation is called for on this occasion and we consider that the appropriate salary for the office of Prime Minister is £25,000. Together with our recommended Parliamentary salary of £5,000, this will give a total salary of £30,000.

77. The tax-free element in the Prime Minister's salary recognises the special expenses, not defrayed out of Votes, which necessarily accompany this unique office. Measured against the rise in costs and prices since April 1972, the tax-free element of £5,000 which was accepted as right then is no longer adequate, and we consider that it should now be increased to £6,000.

Recommendation. We recommend that the annual salary of the Prime Minister should be £25,000 (providing a total salary of £30,000), of which £6,000 should be free of tax in recognition of the special expenses of the office.

Mr Speaker

78. The salary of the Speaker of the House of Commons is currently the same as the salary of a Cabinet Minister (£13,000 plus the Parliamentary salary). We endorsed this as an appropriate relationship in our 1971 review[1], and we take the same view now.

79. The salary of Mr Speaker, like that of the Prime Minister, contains a tax-free element in recognition of the special expenses, not defrayed out of Votes, of the office. The current tax-free element is £4,000. We consider it appropriate for the tax-free element to be increased to £5,000.

Recommendation. We recommend that the annual salary of Mr Speaker should be £18,000 (providing a total salary of £23,000), of which £5,000 should be free of tax in recognition of the special expenses of the office.

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[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 109).

Lord Chancellor

80. The salary of the Lord Chancellor is currently £20,000 a year, of which £2,500 recognises his function as Speaker of the House of Lords.

81. In our 1971 review, we noted that the office of Lord Chancellor is unique in that it combines the function of Head of the Judiciary with the Ministerial duties of a Cabinet Minister[1]. This continues to be so. We recognised in 1971 that, in judging the appropriate level of salary, account had to be taken of both judicial and ministerial salaries, but we were of the opinion that the burden of the Lord Chancellor's functions had become increasingly Ministerial in nature.

82. We returned to this issue in our Report on Top Salaries[2] following our review of the pay in the four areas of the public services that are within our standing terms of reference. In considering the pay of the most senior levels of the higher judiciary, naturally we had to have regard to the position of the Lord Chancellor as overall head of the judiciary and, while we confirmed that the level of Ministerial salaries must have a bearing on the salary of the Lord Chancellor, we recognised that it would be wrong for the largely political constraints on the level of Ministerial salaries to act as an artificial restraint to a sensible judicial salary structure. Our recommendations for the salaries of High Court Judges and more senior judicial appointments (some 100 appointments in all) consequently exceeded the salary of £20,000 then (and now) paid to the Lord Chancellor; however, the staging of the implementation of our recommendations has meant that 14 only of those appointments are as yet paid more than the Lord Chancellor. We noted also that it would be necessary for this issue to be considered in the next review of Ministerial pay.

83. We have found this to be one of the more difficult issues with which we have had to deal in our consideration of Ministers' salaries. Clearly, as the Lord Chancellor has a dual role, both Ministerial and judicial pay levels must continue to be taken into account in assessing the salary of the office. But we have given further consideration to the relative importance of Ministerial and judicial functions in the light of the evidence given to us both in the course of the review of judicial salaries and in relation to our present remit;

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[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 99).

[2] Review Body on Top Salaries, Report No 6: Report on Top Salaries - Cmnd. 5846 (paragraphs 89-90).

and, we have concluded that the constitutional position of the Lord Chancellor as Head of the Judiciary is of prime importance. In this capacity, the Lord Chancellor has the sensitive role of providing a link between the independent judiciary and Government and as such his judicial function must influence his function as a Cabinet Minister. It is right therefore that, while the Lord Chancellor's salary should not be determined in isolation from Ministerial salaries in general, it should be pitched at a level relative to the judicial pay structure that confirms the position of the office vis-a-vis the judiciary.

84. We consider that the appropriate salary for the Lord Chancellor in June 1975 terms is £27,000. This provides parity with the salary recommended in our Report on Top Salaries for the Lord Chief Justice (whose current salary is £23,050 because of the staged implementation of our recommendations).

85. We have again considered the element in the Lord Chancellor's salary that should be attributed to his function as Speaker of the House of Lords. Our 1971 recommendations changed the balance of the two elements from £4,000 out of £14,500 to the present £2,500 out of £20,000. We conclude that the present apportionment of the salary between the two functions remains broadly right and that the element that recognises the Lord Chancellor's function as Speaker of the House of Lords should now be £3,500.

Recommendation. We recommend that the annual salary of the Lord Chancellor should be £27,000, including £3,500 to be paid in recognition of his function as Speaker of the House of Lords.

Law Officers

86. A comparable problem arises over the salaries of the four Law Officers. They, too, have a dual function, but to a lesser extent than in the case of the Lord Chancellor. Nevertheless, it remains important to assess the Law Officers' salaries in relation both to Ministerial pay and to professional earnings at the Bars in England and Wales and in Scotland. In our 1971 review we accepted that the salaries should be such as to emphasise the importance of the offices in the eyes of the legal profession in each country and thus to attract lawyers of the right quality to Parliament, and that the salaries therefore should not be too far out of line with current professional earnings[1]. It was also clear

[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraphs 101-102).

to us, however, that a satisfactory relationship with Ministerial salaries had to be established, and our recommendations at that time narrowed the differential between the salaries of the Attorney General and of Cabinet Ministers.

87. The general principles that we established in 1971 remain valid now. But we consider it right to narrow still further the differential between the salaries of the Attorney General and of Cabinet Ministers. We regard a salary of £19,000 as appropriate for the Attorney General against the recommended salary of £18,000 for Cabinet Ministers. With the recommended Parliamentary salary of £5,000, this provides a total salary of £24,000 for the Attorney General, which in turn provides an appropriate relationship to current professional earnings.

88. The salaries of the Solicitor General and the Lord Advocate are currently the same and, at £11,000, lie between the top of the range for the middle group of Ministers and the salary of Cabinet Ministers. We consider that these two offices should continue to be paid equally, and that the same broad relationship to other Ministerial salary levels should be maintained. Against £19,000 recommended for the Attorney General, we consider £15,000 to be appropriate for both the Solicitor General and the Lord Advocate: with the addition of the recommended Parliamentary salary, this will provide realistic total salaries when measured against current professional earnings.

89. The current salary of the Solicitor General for Scotland is £7,750. It has been represented strongly to us that this is an inadequate reflection of the responsibilities and status of the job. We agree with this view. When we recommended the present salary in 1971, the information then available to us on current professional earnings pointed to £7,750 as an appropriate salary level. We have since learned that earnings at the Scottish Bar increased substantially shortly thereafter, as the fees in operation at that time had been unchanged for up to ten years. In practice, we have been told that they were increased by 68 per cent overall shortly after the end of 1971 and by a further 28 per cent in 1974, with consequent effects upon the levels of professional earnings. Our attention has also been drawn to the fact that the salary of Advocate-Deputes, who are responsible to the Solicitor General for Scotland, is £9,000 for a part-time commitment to public office which does not prevent them from undertaking private practice. Furthermore, it seems to have become established practice that the Solicitor General for Scotland is not a Member of Parliament and, in consequence, he does not receive the Parliamentary salary (neither, of course, does he have the constituency duties

that the Parliamentary salary recognises). We understand that one effect of the absence of constituency duties is that additional work and responsibility of a Ministerial character tends to fall on the Solicitor General for Scotland.

90. The evidence put to us clearly indicates that the current salary of £7,750 seriously undervalues the office and, in retrospect, we take the view that our 1971 recommendation of that salary was - even at that time - pitched too low. In the light of all the circumstances, we consider that the salary of the Solicitor General for Scotland should be increased to £13,000.

Recommendation. We recommend that the salaries of the Law Officers should be:

	Salary	Total salary[a]
	£	£
Attorney General	19,000	24,000
Solicitor General	15,000	20,000
Lord Advocate	15,000	20,000
Solicitor General for Scotland	13,000	13,000[b]

Notes: (a) Including the Parliamentary salary recommended in our Report No 7 for Ministers and other paid office holders who are Members of the House of Commons.

(b) The present Solicitor General for Scotland, like a number of his predecessors, is not a Member of Parliament.

Other office holders

91. Certain other paid offices in both the House of Lords and the House of Commons fall within our remit. They range from the Leader of the Opposition in both Houses to Opposition Whips in the House of Commons. Before we consider the paid offices in detail, we make three general points. First, we do not consider that there is a case for a general revaluation of the offices concerned although some revaluation of individual offices is necessary. In general therefore, we have aimed to bring salaries up to date against the same criteria as we have applied to Ministerial salaries (paragraphs 64-66). Second, the issue of different total salaries for office holders who are Members of the House of Commons and those who are Members of the House of Lords again arises: we have already made clear our views on this problem (paragraphs 67-69). Finally,

we have considered the number of paid offices. Representations have been made to us that it should be increased: some 23 per cent of the Members of Parliament who responded to our questionnaire suggested that certain additional offices should be paid: these include additional Opposition Whips, Opposition spokesmen and Chairmen or members of Select Committees or Standing Committees[1]. We take the view, however, that the present range of paid offices meets the needs of Parliament and that it should not be extended at this time: indeed, we take the view that it should be reduced in one instance. We have also given careful consideration to the suggestions that were put to us for paying the leaders of other opposition parties in Parliament. But we continue to see, at any rate for the present, a clear distinction in Parliamentary terms between the Leader of the Opposition, as the leader most likely to be called upon to provide an alternative Government, and the leaders of minority opposition parties. We have also taken into account the fact that, since 1 January 1975, provision has been made from public funds for financial assistance to opposition parties on the basis of a formula related to the number of seats held and the number of votes received: this arrangement will have helped the position of leaders of minority parties to some extent.

The Leader of the Opposition in the House of Commons

92. We have given consideration to the office of the Leader of the Opposition: the current salary of £9,500 equates to the maximum of the current salary range for the middle group of Ministers. Maintenance of that parity in our present recommendations would provide a salary of £13,000. In our view the time has come when it would be more appropriate to pay the Leader of the Opposition, as the most likely alternative Prime Minister, a salary somewhat above the top of the range for the middle group of Ministers, but below the salary of a Cabinet Minister. We propose an annual salary of £14,000 for the Leader of the Opposition.

Opposition Whips

93. We propose one change from the recommendation that we made in 1971 for the payment of two Opposition Whips in addition to the Opposition Chief Whip. Both the Opposition Chief Whip and the Deputy Opposition Chief Whip serve not only their party but the House of Commons as a whole; we are clear that these offices should continue to be paid. But further evidence has caused us to

[1] Appendix A, Table 21.

reconsider our previous proposal for the payment of a third Opposition Whip, and we now suggest that this should cease to be a paid office from the end of the present Parliament; meanwhile the rate of payment for the additional Whip should remain unaltered.

Recommendation. We recommend that the annual salaries of office holders in the House of Commons should be:

	Salary	Total salary[(a)]
	£	£
Leader of the Opposition	14,000	19,000
Chief Whip	13,000	18,000
Opposition Chief Whip	9,500	14,500
Chairman, Ways and Means	9,500	14,500
Deputy Chairman, Ways and Means	8,500	13,500
Deputy Chief Whip	*7,500*	*12,500*
Government Whips	6,000	11,000
Opposition Deputy Chief Whip	6,000	11,000

Note: (a) Including the Parliamentary salary recommended in our Report No 7 for Ministers and other paid office holders who are Members of the House of Commons.

We further recommend that the additional Opposition Whip post should cease to be a paid office from the end of the present Parliament; until then the current salary should remain in payment.

Office holders in the House of Lords

94. We have examined the office of Leader of the Opposition in the House of Lords and have concluded that a salary of £6,000 would be appropriate in June 1975 terms. For the remaining paid offices in the House of Lords only a general up-dating of salaries is called for.

Recommendation. We recommend that the annual salaries of other office holders in the House of Lords should be:

	Salary £
Chairman of Committees	9,500
Chief Whip	9,500
Principal Deputy Chairman of Committees	8,500
Deputy Chief Whip	7,500
Government Whips	7,000
Leader of the Opposition	6,000
Opposition Chief Whip	4,000

Ministers' pensions

95. Two aspects of the pensions of Ministers and other paid office holders need to be considered: the optional supplementary pension scheme for Ministers and office holders which was introduced following our recommendations in 1971; and the statutory pensions attached to the offices of Prime Minister, Mr Speaker and the Lord Chancellor.

96. On appointment as a Minister or other paid office holder in the House of Commons, Members of Parliament continue to participate in the pension arrangements under the Parliamentary Contributory Pension Scheme, but they are also eligible to opt to pay additional contributions towards a supplementary pension entitlement in respect of their Ministerial service and salary. Under this arrangement, they become entitled to pension in respect of their additional salary over and above the pensionable salary of a backbench MP[1].

97. One or two points on the working of the optional supplementary scheme have been brought to our attention. The present provisions allow newly-appointed Ministers or office holders 3 months in which to decide whether or not to participate in the scheme. It has been suggested that this time limit is too restrictive and that a longer period for decision is desirable (subject to the deduction of the additional contributions automatically until the decision is taken, when they could be refunded in full for individuals who opt out of the supplementary scheme). We have not inquired closely into the detail of an arrangement of this kind, as it seems to us to be largely a matter of the administration of the existing arrangements that does not call for a specific recommendation from us. Nevertheless, the proposal seems both sensible and practical, and we suggest that it should be examined further.

[1] The Government's acceptance last year of our recommended salary for an MP (£8,000) as a notional salary for pension purposes could produce the situation that Opposition Whips and Government Whips in the House of Commons would derive no net benefit from the supplementary scheme as their current total salary of £7,700 is lower than the £8,000 pensionable salary for a backbench MP. This is a problem of limited effect and temporary nature.

98. The position under the supplementary scheme of Ministers and other paid office holders in the House of Lords has also given rise to some difficulty. It is a requirement of the basic Parliamentary pension scheme that members must serve a period of four years before they have any entitlement to a pension. A period of qualifying service is a basic requirement in all pension schemes. The same limitation applies to the supplementary scheme, but Ministers and office holders who are (or have been) Members of Parliament can reckon their previous service in the House of Commons towards the qualifying period of four years. Those who have no such service consequently have to serve as a Minister or office holder for the full four years before they become entitled to a pension, although their contributions may be refunded if they cease to participate in the supplementary scheme before completion of the qualifying period. It has been suggested to us that four years is an unduly long qualifying period in the context of Ministerial or other appointment, and that a shorter period should be applied to Ministers and office holders to allow for the position of those who are Members of the House of Lords.

99. We have some sympathy for this point of view. We have already indicated (paragraph 46) that we do not consider it appropriate to extend to the supplementary scheme the provisions for the optional purchase of added years that we have recommended for introduction into the basic scheme for Members of Parliament. Such an extension would give those Ministers and office holders who are Members of the House of Commons the opportunity to purchase added years in respect of both their jobs. In our view, this would not be proper. But we have considered whether it would possible to provide for the position of Ministers and office holders who are Members of the House of Lords by recommending a shorter period of qualifying service for pension entitlement in relation to the supplementary scheme than the 4 years that currently applies. Such an arrangement would make little or no difference to Ministers and office holders who are Members of the House of Commons as, in the great majority of cases, their previous service as MPs would count for this purpose. But it could be of advantage to those in the House of Lords. We recognise the difficulties inherent in this course: the basic qualifying period of 4 years in recognition of the peculiar nature of Parliamentary employment, is in itself more favourable than applies generally. But we believe that for this purpose, a qualifying period of 3 years would be acceptable. We make no specific recommendation at this time, but we suggest that the possibility of introducing such an arrangement should be examined further.

100. We have considered whether the ill-health retirement arrangements that we have recommended for Members of Parliament (paragraph 49) should also be applied to the supplementary scheme for Ministers and office holders. We have concluded that the service enhancement arrangements would not be appropriate for the same reason as we have not recommended an extension of the added years provisions (paragraph 99). But it would be right for a limited benefit to apply, and we propose that, subject to satisfying the requirements of the ill-health arrangements recommended for Members, participants in the supplementary scheme should be entitled to immediate payment of their pension entitlement accrued to date as Ministers or office holders.

Recommendation. We recommend that Ministers or office holders who are obliged to retire early on grounds of ill-health should receive immediate payment of the pension entitlement accrued to date under the supplementary scheme, subject to the other requirements of the ill-health retirement arrangements for Members of Parliament being met. This arrangement will also apply to former Ministers or office holders who are no longer in office but who have a pension entitlement under the supplementary scheme.

101. Statutory pensions are attached to the offices of the Prime Minister, Mr Speaker and the Lord Chancellor. The current levels of pensions, following our 1971 recommendations, are:

Prime Minister	£7,500
Mr Speaker	£6,500
Lord Chancellor	£8,500

We suggested in our First Report[1] that consideration should be given in the future to fixing each statutory pension as a percentage of the salary of the office, thereby removing the need to reconsider the amount each time the salary is revised. The Parliamentary and other Pensions Act 1972 (section 29) puts this recommendation into effect. The Parliamentary and other Pensions and Salaries Bill currently before the House of Commons further provides that the statutory pensions could also be paid in relation to a notional salary for pension purposes, as for MPs' and Ministers' pensions.

102. The statutory pensions are very different in concept from normal pension arrangements. They are payable on leaving the relevant office, irrespective of the length of service in it. On the other hand, holders of the three offices lose entitlement to participate in the normal Parliamentary scheme (our 1971

[1] Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 118).

recommendation[1] that, where appropriate, they should be allowed to continue participation in the basic Parliamentary scheme was not put into effect). Furthermore, by well-established convention, former Lord Chancellors do not return to practice at the Bar and, by custom, former Speakers of the House of Commons do not return to the backbenches for more than a minimal period. Former Prime Ministers may return to the backbenches but, if they accept the statutory pension when they leave office, they are entitled only to the Parliamentary salary of a Minister and not to the full salary of a Member of Parliament.

103. The existing arrangements applied to the salary recommendations that we put forward will provide the following statutory pensions:

Prime Minister	£ 9,375
Mr Speaker	£ 9,000
Lord Chancellor	£11,475

We consider that these levels of statutory pension are reasonable and that no further recommendation on our part is necessary at this stage.

The effects of taxation

104. We have already explained (paragraph 70) our purpose in referring to our salary recommendations in net-of-tax terms. We think it right that the recommended salaries should not be judged entirely in isolation from the effects of taxation, although the assumptions we have made in arriving at post-tax figures are perforce arbitrary and individual tax positions may, of course, vary quite widely. Nevertheless, our figures provide some indication of the likely impact of taxation. On this basis, the salaries that we now recommend will produce the following levels of net annual salary:

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1 Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836 (paragraph 119).

Office		Recommended salary	Recommended total salary(a)	Recommended total salary net of tax (b)
		£	£	£
Prime Minister		25,000(c)	30,000(c)	15,848(c)
Lord Chancellor		27,000(d)	27,000(d)	10,358
Mr Speaker		16,000(e)	23,000(e)	13,591(e)
Cabinet Ministers		18,000	23,000	9,678
Senior Ministers not in the Cabinet/Ministers of State	max	13,000	18,000	8,591
	min	11,000	16,000	8,091
Parliamentary Secretaries and Under Secretaries of State		8,500	13,500	7,344
Attorney General		19,000	24,000	9,848
Solicitor General		15,000	20,000	9,091
Lord Advocate		15,000	20,000	9,091
Solicitor General for Scotland		13,000	13,000	7,194
(House of Commons):				
Leader of the Opposition		14,000	19,000	8,841
Chief Whip		13,000	18,000	8,591
Opposition Chief Whip		9,500	14,500	7,644
Chairman, Ways and Means		9,500	14,500	7,644
Deputy Chairman, Ways and Means		8,500	13,500	7,344
Deputy Chief Whip		7,500	12,500	7,021
Government Whips		6,000	11,000	6,496
Opposition Deputy Chief Whip		6,000	11,000	6,496
(House of Lords):				
Chairman of Committees		9,500	9,500	5,898
Chief Whip		9,500	9,500	5,898
Principal Deputy Chairman of Committees		8,500	8,500	5,475
Deputy Chief Whip		7,500	7,500	5,002
Government Whips		7,000	7,000	4,752
Leader of the Opposition		6,000	6,000	4,205
Opposition Chief Whip		4,000	4,000	2,934

Notes: (a) Including, for those Ministers and office holders who are Members of the House of Commons, the Parliamentary salary of £5,000 recommended in our Report No 7.

(b) Assuming the June 1975 tax position of a married man with no dependent children and no other allowances.

(c) Including £6,000 free of tax in recognition of the special expenses of the office.

(d) Including £3,500 to be paid in recognition of the Lord Chancellor's function as Speaker of the House of Lords.

(e) Including £5,000 free of tax in recognition of the special expenses of the office.

CHAPTER 5: SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

105. We have dealt with a number of questions that relate to the allowances and facilities for Members of Parliament and that were left over from our Report No 7; with the Parliamentary pension scheme; and with the pay and pensions of Ministers and paid office holders in both Houses of Parliament. We shall be putting forward our recommendations on the Peers' expenses allowance separately.

106. Chapter 2 of this report deals with the remaining issues on the allowances and facilities available to Members of Parliament. The recommendations on allowances and facilities in our Report No 7 have been implemented in full, and we have now considered whether the maximum of the secretarial allowance should be further increased to provide for occupational pension arrangements and for general office expenses. We have concluded that, in present circumstances, a higher maximum should not be introduced for these purposes: the present maximum makes provision for a Member's contribution as an employer to the State pension scheme (paragraph 15). Nor do we regard it as appropriate to increase the maximum of the allowance to provide for general office expenses. Such expenses are an inescapable part of our Parliamentary system, and can arise whether or not a Member employs a secretary. We have concluded that separate provision for them should be made and we have recommended a new allowance to assist with the initial and maintenance costs of general office equipment, with a maximum of £300 during any period of 3 years, the payment of claims to be conditional upon evidence of expenditure (paragraph 16).

107. The present maximum of the additional costs allowance remains adequate, in our view, to meet the occasional need for a Member to attend at Westminster on Parliamentary business during a Parliamentary recess (paragraph 17). But we have recommended an extension of the travel arrangements for Members so that the cost of all travel within the United Kingdom on Parliamentary business will be reimbursed or will qualify for payment of the car mileage allowance (paragraph 19). We have also recommended that the free telephone and postage facilities at Westminster should be extended to apply to communications on Parliamentary business with other countries of the European Economic Community (paragraph 21).

108. We have examined the arrangements for payment of a grant equivalent to 3 months' salary to Members who lose their seat at a general election or because of constituency boundary changes. Against the background that Members are now

becoming eligible for the standard forms of short-term assistance in such circumstances, we consider that the existing severance arrangements remain adequate, although we recommend that a grant under these arrangements should be available only as an alternative to redundancy payments in any circumstances where a Member becomes eligible for such payments (paragraph 24).

109. In Chapter 3 we discuss the existing provisions for the pensions payable to Members of Parliament. We have again reviewed carefully the position of Members who retired prior to the introduction of the present form of pension scheme in October 1964. But we have felt unable ourselves to recommend that these Members should be entitled to any benefit under the Parliamentary pension scheme (paragraph 33). We suggest, however, that the possibility of a limited provision for such Members at age 80 might be given further consideration (paragraph 34). We recommend that the maximum amount of service prior to October 1964 that may be treated as reckonable for pension purposes by serving Members should be extended from 10 to 15 years (paragraph 35): this extension should apply only to Members who have service in the House of Commons after the effective date of implementation of our recommendation.

110. We do not accept the argument for a faster rate of accrual of pension entitlement for Members (paragraph 38), but we recommend a number of changes in the Parliamentary pension scheme that together will provide a substantial improvement in the pensions arrangements for Members. We recommend an increase to 4 per cent in the rate of interest payable on returned contributions (paragraph 41); the introduction of an arrangement for the optional purchase by Members of added years of reckonable service (paragraph 46); the introduction of a facility for early retirement on grounds of ill-health (subject to medical evidence) with immediate payment of pension accrued to date and enhanced in certain cases (paragraph 49); a similar arrangement, but without enhancement of pension entitlement, should apply to former Members who have a 'frozen' pension entitlement that would not normally be payable until age 65 (paragraph 49). We also recommend improvements in widows' pensions (paragraph 55) so that the enhancement arrangements recommended for ill-health retirements will also apply to the pension of the widow of a Member who dies in service; the short-term arrangement for financial assistance in the early months of widowhood will be improved considerably; clarification of the governing legislation so that the pension of the widow of a retired Member who opted for early retirement on an actuarially-reduced pension will be based on the Member's full pension; and improvements in the arrangements for payment of the death-in-service gratuity.

111. We do not consider that the present normal retirement age of 65 should be reduced (paragraph 57), but we have examined the existing provisions for early retirement on immediate payment of pension. The present arrangement which requires an actuarial reduction of pension entitlement should continue and, in addition, we recommend the introduction of an additional early retirement option under which the pension entitlement accrued to date may be paid without actuarial reduction for Members who retire at age 62 or over at the end of a Parliament and subject to the completion of 25 years' service as a Member (paragraph 57).

112. We estimate that the cost of our recommended improvements in Members' pension arrangements will necessitate an increase in the total contribution payable into the Pension Fund of rather more than $1\frac{3}{4}$ per cent of the pensionable salary of a Member. Some 1 per cent will be needed to fund the improvements in respect of the past service of serving Members and we recommend that this part of the cost should be met from public funds. The balance in respect of 'current' costs should be met by an increase in the contribution of each Member. We consider that these costings and the improvements in the scheme bring the Parliamentary pension arrangements sufficiently close to contributory schemes elsewhere in the public services as to justify an increase in the Members' contribution to 6 per cent of pensionable salary (paragraphs 56-60).

113. In Chapter 4 we consider the salaries and pension arrangements applicable to Ministers and other paid office holders in both Houses of Parliament. We detail the general background factors that we have borne in mind in arriving at our salary recommendations (paragraphs 64-66), and we conclude that a differential between the salaries attached to the offices of Ministers and other office holders who are Members of the House of Commons and those who are Members of the House of Lords is not justified and cannot be recommended (paragraphs 67-69).

114. We consider that a three-tier pay structure for Ministerial appointments remains appropriate, with a continuation of a flexible salary range for the group of Ministers at the intermediate level (paragraphs 71-72). Our salary recommendations for Ministers are in paragraph 75.

115. We recommend an increase in the salary of the Prime Minister and in the amount of his salary that is paid free of tax in recognition of the special expenses of the office (paragraph 77). We also recommend an increase in the salary of Mr Speaker, and in the tax-free element within that salary (paragraph 79).

116. We have found the considerations affecting the salary of the Lord Chancellor to be among the more difficult that we have had to deal with in the course of this review. We have concluded that, while the Lord Chancellor's salary should not be determined in isolation from Ministerial salaries in general, it should be pitched at a level relative to the judicial pay structure that confirms the position and dignity of the office vis-a-vis the judiciary (paragraph 83). We recommend the appropriate salary and the amount within it to be paid in recognition of the Lord Chancellor's function as Speaker of the House of Lords (paragraph 85).

117. We recommend salaries for the four Law Officers that narrow further the salary differential between the Attorney General and Cabinet Ministers, that retain equal salaries for the Solicitor General and the Lord Advocate, and that reflect a correction of the substantial undervaluation of the office of Solicitor General for Scotland (paragraph 90).

118. Revised salaries for other paid office holders in both Houses of Parliament are recommended (paragraphs 93-94). The recommendations include a measure of revaluation of the offices of Leader of the Opposition in both Houses (paragraphs 92 and 94), and the discontinuation from the end of the current Parliament of the present salary for a third Opposition Whip in the House of Commons; the Opposition Chief Whip and the Opposition Deputy Chief Whip continue to be paid offices (paragraph 93).

119. We have considered the working of the supplementary pension scheme for Ministers and paid office holders. We suggest further examination of the time limit of 3 months for a Minister or office holder to decide whether or not to participate in the supplementary scheme (paragraph 97). We do not consider it appropriate to extend the added years arrangement to the supplementary scheme for Ministers and office holders, but we suggest for further examination the possibility of a shorter basic qualifying period of service for that scheme (paragraph 99). We recommend a more limited ill-health retirement benefit for application to the supplementary scheme (paragraph 100).

120. We have considered the statutory pensions attached to the offices of the Prime Minister, Mr Speaker and the Lord Chancellor. The statutory arrangements now provide for each pension to be fixed as a percentage of the salary of the office. The levels of pensions thus produced from our salary recommendations for the three offices are adequate and no separate recommendation is needed (paragraphs 101-103).

121. We have explained (paragraphs 6-7) that the recommendations which we now put forward will be affected to varying degrees by the current pay restraint measures and they will also be affected by the pay policy arrangements under the recently published guidelines that are intended to operate from August of this year.

122. Finally, we should like to emphasise one or two of the points that we have made elsewhere in this report. We recognise that the levels of salary which we recommend will be the subject of widespread public comment. The pay of Ministers and Members of Parliament does not form part of our standing terms of reference, but there are good reasons for referring the issue to an independent body. Ministers and Members occupy positions of great responsibility and influence in the conduct of our national business. They, like those who are within our standing terms of reference and those who are within the fields of the other two independent Review Bodies, form a group to which the process of pay negotiation does not apply. In our view, the salary levels appropriate in this situation should continue to be judged against all the relevant circumstances, both in relation to the jobs themselves and in relation to external factors, by an independent body such as we are, responsible direct to the Prime Minister. We think it timely, in the light of recent comments on the nature of the commitment to accept our recommendations, to repeat that, on our appointment in 1971 as one of three Review Bodies, we were given an assurance that our recommendations would be accepted by the Government unless there were clear and compelling reasons for their not doing so. This assurance was repeated in 1974.

123. The increases that we now recommend are broadly consistent with the scale of increases in salaries generally, at comparable levels of income, over the period in question. That period is the key: the increases now appropriate (and, we repeat, the salaries that we recommend are those that were appropriate as at 13 June 1975) appear to be large because of the long interval since the last review of Parliamentary and Ministerial remuneration in 1971-72. We take the opportunity to reiterate the recommendation on this point that we made in Report No 7[†]: that

[†] Review Body on Top Salaries, Report No 7: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I - Cmnd. 6136 (paragraph 27).

the remuneration of Members of Parliament and of Ministers and paid office holders should be subject to biennial review by an independent body.

BOYLE OF HANDSWORTH

HAROLD ATCHERLEY

GEORGE COLDSTREAM

HIRSHFIELD

ANTHONY LLOYD

SEEAR

OFFICE OF MANPOWER ECONOMICS

14 June 1976

APPENDIX A

SURVEY OF THE CIRCUMSTANCES OF MEMBERS OF PARLIAMENT AND OF THEIR VIEWS ON THEIR REMUNERATION

(Carried out by the Office of Manpower Economics on behalf of the Review Body on Top Salaries)

CONTENTS

SURVEY OF THE CIRCUMSTANCES OF MEMBERS OF PARLIAMENT AND OF THEIR VIEWS ON THEIR REMUNERATION

Introduction

1. Questionnaires were sent to all 635 Members of Parliament on 7 March 1975 for return by 1 April 1975, and 445 Members responded. The response rate was high (70 per cent) but not as high as in the 1971 survey[1] when it was 84 per cent. The response from office holders was very much lower than in 1971, but the decline in the number of replies from other Members was less.

2. The questionnaires returned were in general adequately completed but difficulty arose in interpreting the period to be covered for certain expenditure in relation to the October 1974 election. The questionnaire asked that only expenditure during the current Parliament (from October 1974) to the end of February 1975 should be included, but it was apparent that many MPs had included a full year's expenditure. Various sources of information were used to put the results as far as possible on to a consistent basis of an expected annual rate of expenditure based on actual days of attendance at the House. There were also differences in treatment of hours spent on departmental work between different office holders (see footnote (b) to Table 15).

3. The questionnaire itself is not reproduced in this Appendix but the order and wording of the tables closely reflects it. There were variations in the response rate to different questions: these are shown in the tables. Inevitably, the replies were influenced to some extent by the nature of the questions and must be interpreted accordingly. For example, Table 23 shows the response to three specific questions about the pensions scheme; the modifications mentioned in this question inevitably attracted much more support than was given to any of the other suggestions for improvement to the pension scheme that were offered in response to a general question (Table 24). Similarly many more Members made proposals in answer to the question about the intervals between adjustments and review of MPs'

[1] All references to 1971 in this Appendix relate to the survey of MPs' circumstances and views on their remuneration carried out in 1971 by the Office of Manpower Economics on behalf of the Review Body on Top Salaries. The results were summarised in the Review Body's First Report, Appendix A (Review Body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament - Cmnd. 4836, December 1971).

remuneration (Table 25) than volunteered additional comments or proposals in response to a final general question (Table 27).

4. The response to the invitation to put forward comments or proposals also varied: some MPs did not reply, but others made more than one comment or proposal and these are analysed separately within the same table where appropriate. Where necessary, replies have been transferred to a more appropriate question (for example, particular proposals from a general question to the appropriate specific one).

5. Between February and October 1974 the Government had no overall Parliamentary majority and only a small one at the time of survey in 1975, whereas the majority in 1971 was larger. The hours of work and perhaps the levels of expenditure in the 1975 survey by comparison with those in the 1971 survey may have been affected (although the extent cannot be measured) by the different Parliamentary situations and pressures on attendance in those two years.

6. Account was taken of the results of the survey in considering the recommendations on pay, allowances and facilities put forward in the first part of this Report in June 1975, which have since been implemented on the basis described in Chapter 1 above.

7. Totals may not precisely equal the sum of the components where figures have been rounded. The following symbols are used in the tables:

- – Nil
- 0 Less than half the final digit shown
- .. Not available

TABLE 1

All Members of Parliament: Response to questionnaire

	Total number at 1 March 1975	Number returning questionnaire	Response rate	
			1975	1971
	Number	Number	%	%
Office holders				
Minister	46	25	54.3	82.4
Parliamentary Secretary or Under Secretary	32	24	75.0	100.0
Holder of other remunerated office	20	10	50.0	100.0
Total office holders	98	59	60.2	91.7
Other Members				
Former office holders:				
Minister	..	45	..	..
Parliamentary Secretary or Under Secretary	..	38	..	..
Holder of other remunerated office	..	14	..	..
Total former office holders	127	97	76.4	87.8
Not former office holders	410	289	70.5	81.1
Total other Members	537	386	71.9	82.7
All	635	445	70.1	83.7

All Members of Parliament: Percentage distributions of age and length of service

	Age					Years of service							All ranges (100%)	Average length of service
	Under 40	40-49	50-59	60-64	65 or over	Under 2	2-5	6-10	11-15	16-20	21-25	26 or over		
	%	%	%	%	%	%	%	%	%	%	%	%	Number	Years
Minister	4	36	52	8	-	-	8	44	24	8	12	4	25	13.2
Parliamentary Secretary or Under Secretary	29	50	13	4	4	-	38	62	-	-	-	-	24	7.5
Other office holder	-	50	30	10	10	-	30	40	20	-	-	10	10	9.8
Other Members	24	35	25	10	6	27	24	18	12	6	8	5	386	8.6
All: 1975	22	36	26	9	6	24	24	22	13	6	8	4	445	8.8
(1971)	(17)	(33)	(31)	(19)		(34)		(24)	(14)	(11)	(8)	(8)	(524)	..

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TABLE 3

Members of Parliament with service before October 1964: Percentage distribution of length of service before October 1964

	Years of service before October 1964					Percentage of all MPs	Average length of service before October 1964[a]
	1-9	10-14	15-19	20 or over	All ranges (100%)		
	%	%	%	%	Number	%	Years
Office holders	62	15	15	8	13	22	8.5
Other Members	58	21	16	4	122	32	8.1
All	59	21	16	4	135	30	8.1

(a) Based only on those with service before October 1964.

TABLE 4

All Members of Parliament: Percentages with constituency in London and elsewhere

	Constituency		All MPs (100%)
	London[a]	Elsewhere	
	%	%	Number
Office holders	20	80	59
Other Members	15	85	386
All	16	84	445

(a) Wholly or partly within the GLC area.

TABLE 5

Members of Parliament who are neither office holders nor paid the London supplement[(a)]: Distribution in ranges of annual subsistence costs, and average amounts

	Annual costs for subsistence									All ranges		Number and average cost by main home (London, constituency or neither)				Claims made but costs not shown
	Less than £251	£251-£500	£501-£1000	£1001-£1500	£1501-£2000	£2001-£2500	£2501-£3500	£3501-£4500	Over £4500	Total	Average cost	No.	Average	No.	Average	
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	£		£		£	No.
Subsistence in London (b)												Constituency		Neither		
Accommodation	1	6	20	38	21	11	1	5	-	103	1,529	76	1,536	27	1,509	12
Hotel, etc.(c)	2	1	5	6	7	7	2	3	-	33	1,767	18	1,642	15	1,918	9
Total	3	7	25	44	28	18	3	8	-	136	1,587	94	1,557	42	1,655	21
Subsistence in constituency												London		Neither		
Accommodation	1	4	14	21	14	3	3	2	2	64	1,611	36	1,532	28	1,713	8
Hotel, etc.(c)	4	3	7	7	5	-	5	1	1	33	1,396	16	969	17	1,798	5
Total	5	7	21	28	19	3	8	3	3	97	1,538	52	1,359	45	1,745	13
All subsistence:	8	14	46	72	47	21	11	11	3	233	1,567	146	1,486	87	1,702	34
(%)	(3)	(6)	(20)	(31)	(20)	(9)	(5)	(5)	(1)	(100)						

(a) Forty-four Members to whom the question was applicable did not reply and a further 41 said that they did not make claims against the additional costs allowance.

(b) Includes expenditure incurred for overnight accommodation in constituency where applicable. Eight MPs reported such costs and 23 did not reply to this part of the question.

(c) Replies for the period of the present Parliament (to the end of February 1975) have been grossed to annual rates.

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Members of Parliament entitled to the additional costs allowance: Percentage considering the additional costs allowance inadequate and number suggesting improvements

			MPs entitled to the additional costs allowance
Adequacy of the additional costs allowance:	Replies to question	(number)	377
	Percentage of returns from those entitled to the allowance	(%)	95
Percentage of replies saying not adequate		(%)	79
Suggested improvements			Number
Proposed maximum (a)			
Less than £1,300			8
£1,300 - £1,399			15
£1,400 - £1,499			3
£1,500 - £1,599			44
£1,600 - £1,999			13
£2,000 - £2,499			24
£2,500 - £2,999			3
£3,000 - £3,999			3
£4,000 and over			2
£8 per day			1
£10 per day			3
£12 per day			1
£20 per day			2
Other			
Cover full cost			50
Keep pace with rising costs			50
Provide accommodation or government hotel			5
Other improvements (mainly unspecified)			28
Total number of suggestions			255
Number of Members making suggestions			244

(a) Percentage improvements have been converted to amounts.

Members of Parliament entitled to the London supplement: Percentage considering the London supplement inadequate and number suggesting improvements

	MPs entitled to the London supplement
Adequacy of the London supplement: Replies to question (number)	75
Percentage of returns from those entitled to the supplement (%)	80
Percentage of replies saying not adequate (%)	88
Suggested improvements	**Number**
Proposed amount(a)	
Less than £400	3
£400 - £499	7
£500	4
£600	1
£700 - £799	3
£1,000 and over	2
Other	
Bring into line with civil service	5
Bring into line with other professions/occupations	2
Cover true costs	8
Keep pace with rising costs	6
Other improvements (mainly unspecified)	11
Total number of suggestions	52
Number of Members making suggestions	48

(a) Percentage improvements have been converted to amounts.

TABLE 7

All Members of Parliament: Percentages employing a secretary, research assistant or using secretarial pool facilities

		Office holders	Other Members	Total 1975	Total 1971
		%	%	%	%
Employing or sharing in the employment of a secretary	YES	100	99	100	97
	NO	-	1	0	3
Replies to question	(number)	(58)	(382)	(440)	(524)
Percentage of total returns		98	99	99	100
Average hours per week for which secretary is employed					
Under 10		3	1	1	6
10 - 19		14	12	12	32
20 - 29		33	31	31	31
30 or more		50	56	55	30
Replies to question	(number)	(58)	(373)	(431)	(502)
Percentage of those with secretary		100	98	99	99
Use of the secretarial pool facilities	YES	14	17	16	13
	NO	86	83	84	87
Replies to question	(number)	(56)	(361)	(417)	(513)
Percentage of total returns		95	94	94	98
Employing or sharing in the employment of a research assistant	YES	11	32	29	9
	NO	89	68	71	91
Replies to question	(number)	(56)	(368)	(424)	(516)
Percentage of total returns		95	95	95	98

All Members of Parliament: Percentage distribution of gross annual costs of secretarial assistance, of research assistance and of general office expenses, before deducting the secretarial allowance

	Annual cost											All ranges (100%)	Average cost		Cost not given
	Nil	£1–£150	£151–£350	£351–£550	£551–£750	£751–£1250	£1251–£1750	£1751–£2250	£2251–£2750	£2751–£3500	Over £3500		Over all ranges	Over those with costs	
	%	%	%	%	%	%	%	%	%	%	%	No.	£	£	No.
Secretarial assistance[a]															
Office holders	–[b]	–	2	–	2	16	39	25	10	4	2	51	1770	1770	8
Other Members	1[b]	–	0	1	2	16	29	32	15	4	1	342	1796	1806	44
All	1[b]	–	1	1	2	16	30	31	15	4	1	393	1792	1801	52
Research assistance[c]															
Office holders	89[d]	2	2	6	2	–	–	–	–	–	–	53	45	399	[illegible]
Other Members	70[d]	6	8	6	4	4	1	0	0	1	0	346	173	581	4[illegible]
All	73[d]	6	7	6	4	3	1	0	0	1	0	399	156	571	4[illegible]
General office expenses															
Office holders	24	24	31	16	2	4	–	–	–	–	–	51	226	295	8
Other Members	16	28	28	13	6	7	2	–	–	–	–	346	297	353	40
All	17	27	28	14	6	6	2	–	–	–	–	397	288	346	48
All above items															
Office holders	–	–	2	–	2	10	29	31	21	2	4	52	1959	1959	7
Other Members	0	0	–	0	–	8	22	30	19	12	8	348	2264	2271	38
All	0	0	0	0	0	8	23	30	19	11	8	400	2225	2230	45

(a) In a number of cases expenditure on this item includes general office expenses.
(b) Includes 2 MPs whose secretaries are not paid by them.
(c) Twelve MPs incurred research assistance costs but did not employ a research assistant. A number of MPs did not provide cost information; where a research assistant was not employed, costs have been counted as 'nil'.
(d) Includes 2 MPs whose research assistants are not paid by them.

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TABLE 9A

All Members of Parliament: Percentage considering secretarial allowance inadequate and number suggesting improvements

	All MPs
Adequacy of secretarial allowance: Replies to question (number)	438
Percentage of total returns (%)	98
Percentage of replies saying not adequate (%)	88
(Percentage in 1971) (%)	(89)
Suggested improvements	**Number**
Proposed maximum[a]	
£1,750 - £1,999	1
£2,000 - £2,249	28
£2,250 - £2,499	19
£2,500 - £2,749	50
£2,750 - £2,999	15
£3,000 - £3,499	38
£3,500 - £3,999	13
£4,000 - £4,499	6
£6,000	1
Unlimited	1
Other	
Enough for a full-time secretary and research assistance	17
Enough for a full-time secretary	45
Secretary should be on the payroll of the House	46
Cover full cost	18
Keep pace with rising costs	35
Secretary's pay to be linked to a civil service grade	5
Travel expenses of secretaries to be covered	5
Separate allowance for office equipment (or free equipment)	40
Extra secretary needed for constituency office	9
Other improvements (mainly unspecified)	40
Total number of suggestions	432
Number of Members making suggestions	342

(a) Percentage improvements have been converted to amounts.

TABLE 9B

All Members of Parliament: Percentage considering research assistance element within secretarial allowance inadequate and number suggesting improvements

		All MPs
Adequacy of research assistance element:		
Replies to question	(number)	355
Percentage of total returns	(%)	80
Percentage of replies saying not adequate	(%)	81
Suggested improvements		**Number**
Proposed maximum (a)		
Below £550		9
£550 - £749		9
£750 - £999		6
£1,000 - £1,249		24
£1,250 - £1,499		1
£1,500 - £1,999		10
£2,000 - £2,499		7
£2,500 - £2,999		4
£3,000 and over		8
Other		
Enough for a full-time research assistant		18
More for part-time research assistance		30
Cover full cost		11
No limit on research element within secretarial allowance		6
Should be separate from secretarial allowance		52
Research assistance should be provided by the House		24
Other improvements (mainly unspecified)		36
Total number of suggestions		255
Number of Members making suggestions		212

(a) Percentage improvements have been converted to amounts.

TABLE 10

All Members of Parliament: Percentage considering reimbursement of travel and subsistence expenses for Members on Select Committees, delegations etc. inadequate and number suggesting improvements

	All MPs
Adequacy of arrangements for travel and subsistence of Members on Select Committees, delegations etc:	
Replies to question (number)	323
Percentage of total returns (%)	73
Percentage of replies saying not adequate (%)	58
(Percentage in 1971) (%)	(56)
Suggested improvements	**Number**
Increase	
10 per cent	1
20 or 25 per cent	5
30 or 33 per cent	3
40 or 50 per cent	6
70 or 100 per cent	4
£5 per day	1
£7.50 per day	1
Other	
Equal treatment with foreign delegates	12
All items of expenditure should be covered	13
Cover full cost (of items at present covered)	15
Keep pace with rising costs	19
Extend to cover wife/husband	4
Other improvements (mainly unspecified)	24
Total number of suggestions	108
Number of Members making suggestions	101

TABLE 11

All Members of Parliament: Percentage considering travel facilities for wives or husbands of Members inadequate and number suggesting improvements

		All MPs
Adequacy of travel facilities for wives or husbands of Members:	Replies to question (number)	399
	Percentage of total returns (%)	90
Percentage of replies saying not adequate	(%)	59
(Percentage in 1971)	(%)	(75)

Suggested improvements	Number
Proposed maximum number of warrants per year	
12 - 16	23
18 - 20	13
24 - 26	7
30 - 40	8
50 - 52	4
Unlimited	13
Other	
Same facilities as Members	18
Facilities to accompany Members on Parliamentary business	9
Home/constituency travel should be covered	13
Allowance for travel by car	23
Allowance for children to accompany parents	26
Choice of 1st class, or more 2nd class warrants (to equivalent cost)	2
Extend to cover subsistence	7
Other improvements (mainly unspecified)	55
Total number of suggestions	221
Number of Members making suggestions	183

TABLE 12

All Members of Parliament: Percentage considering free facilities for postage, telephone calls and stationery inadequate and number suggesting improvements

		All MPs
Adequacy of facilities for postage, telephone calls and stationery:		
Replies to question	(number)	433
Percentage of total returns	(%)	97
Percentage of replies saying not adequate	(%)	34
Suggested improvements		**Number**
Postage from home and/or constituency should be free		14
Overseas postage from the House should be free		17
Home and/or constituency telephone calls should be free		91
Telephone calls from anywhere outside the House should be free		2
Telephone calls to EEC countries should be free		7
Telegrams should be free		4
All stationery should be free		3
More stationery or a wider range is needed		12
Other improvements (mainly unspecified)		14
Total number of suggestions		164
Number of Members making suggestions		133

All Members of Parliament: Percentage considering that other categories of expenditure on Parliamentary business should be covered, numbers asking for certain categories to be paid for and proposals for method of payment

	All MPs	Proposals for method of payment[a]; All MPs[b]				
		Cash allowance or reimbursement	Free facilities	Fund	Tax deductible	Unspecified
Whether other categories of expenditure on Parliamentary business should be covered	%					
YES	66					
NO	34					
Replies to question (number)	(384)					
Percentage of total returns	86					
Categories of expense[a]	Number	Number	Number	Number	Number	Number
Travel in UK:						
Anywhere	68	16	28	2	-	22
For research	47	17	2	3	-	25
Taxis or hire cars	16	3	2	-	1	10
Meals on trains	4	-	1	-	-	3
Other	22	10	2	-	4	6
Travel abroad for research	35	17	3	3	1	11
Entertainment:						
In House	54	27	5	-	6	16
Constituents (place unspecified)	26	13	-	-	4	9
Other	14	3	1	-	4	6
Subscriptions and donations	30	11	-	-	7	12
Books, journals and newspapers	33	10	3	-	5	15
Wife's/husband's expenses	12	7	-	-	1	4
Expenses of constituency surgery:						
Advertising, accommodation etc.	40	16	3	-	-	21
Assistance (non-secretarial)	20	9	1	-	-	10
Meals in House	7	4	-	-	1	2
Clothing	8	4	-	-	4	-
Capital allowance for car purchase	4	4	-	-	-	-
Other	7	1	-	-	-	6
Total number of categories/proposals	447	172	51	8	38	178
Number of Members specifying categories	253					

(a) Members were asked for categories of expenditure, amounts incurred, proposals for meeting these and reasons. Those naming categories did not necessarily give replies for all or any of the other items. Reasons included: gives independence from pressure groups, foreign governments etc.; provides background information (travel for research purposes). Expenditure on some of the categories specified is already covered by existing arrangements in certain circumstances, e.g. meals on trains between Westminster and the constituency.

(b) 178 Members gave 269 specific proposals for methods of payment.

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All Members of Parliament: Distribution in ranges of expenditure on items not covered by existing allowances, arrangements for reimbursement or free facilities

Category of expenditure	Annual expenditure: Not stated	Less than £101	£101-£200	£201-£300	£301-£400	£401-£500	£501-£750	£751-£1000	Over £1000	1975: All ranges	1975: Average amount(a)	1971: All ranges	1971: Average amount(a)
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	£	No.	£
Travel in UK not now covered	73	28	23	13	4	1	1	-	2	143(b)	197	43	158
Travel abroad for research	25	1	2	2	-	3	-	1	1	35	442	16	225
Entertainment	24	8	11	24	6	5	6	2	1	87(b)	319	260	216
Subscriptions	8	5	6	5	1	3	-	-	-	30	208	58	95
Donations												92	147
Books, journals and newspapers	4	15	8	3	1	1	1	-	-	33	151	56	97
Wife's/husband's expenses	5	1	2	3	1	-	-	-	-	12	224	20	283
Total of above										340	243	545	175
Expenses of constituency surgery	22	5	10	7	-	1	4	1	4	54(b)	487	..	..
Meals in the House	2	-	2	1	-	1	1	-	-	7	300	..	..
Clothing	3	-	2	1	-	1	1	-	-	8	328	..	..
Capital allowance for car purchase	1	-	-	1	1	-	-	-	1	4	653	..	..
Other	2	3	-	1	-	1	-	-	-	7	167	162	252
Total of above										420	281	707	190(c)

(a) Based only on those giving an amount.

(b) These totals are not the sums of the appropriate breakdowns in Table 9 since some Members named more than one item within a category.

(c) The average shown in the 1971 Report (Cmnd. 4836 - Appendix A, Table 14) was £206; this included research expenditure.

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TABLE 15

All Members of Parliament: Average hours per week spent on Parliamentary work

	Average hours per week									
	In the House		Outside the House						In total on Parliamentary business	
			On behalf of constituents		On preparatory work for Parliamentary proceedings		On visits			
	1975	1971	1975	1971	1975	1971	1975	1971	1975	1971
Minister (a) (b)	31	31	14	12	14	23	1	2	61	68
Parliamentary Secretary or Under Secretary (b)	45	27	13	10	14	31	4	2	78	70
Other office holder	62	58	12	9	3	3	1	1	79	71
Other Members	46	42	14	11	7	7	3	3	70	63
All	46	42	13	11	7	7	3	3	70	63

(a) For Ministers departmental work was included in 1971 but it is not clear how far it was included in 1975.

(b) For both Ministers and Parliamentary Secretaries and Under Secretaries departmental work was normally included in 1971 under 'hours spent on preparatory work for Parliamentary proceedings' but in 1975 was included partly under 'hours spent in the House' and partly under 'hours spent on preparatory work for Parliamentary proceedings'.

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TABLE 16A

All Members of Parliament: Percentage distribution of hours spent in the House

	Percentage of MPs whose average hours per week were:										All ranges (100%)
	Under 26	26 - 30	31 - 35	36 - 40	41 - 45	46 - 50	51 - 55	56 - 60	61 - 65	66 or over	
	%	%	%	%	%	%	%	%	%	%	No.
Office holders (a)	28	16	2	5	2	5	5	23	2	12	43
Other Members	4	6	6	16	16	25	7	15	2	3	363
All: 1975	7	7	6	15	15	23	6	16	2	4	406
(1971) (b)	(10)	(9)	(9)	(22)	(8)	(19)	(7)	(11)	(2)	(2)	(481)

(a) See footnotes (a) and (b) to Table 15.

(b) The figures were not shown in the 1971 Report (Cmnd. 4836).

TABLE 16B

All Members of Parliament: Percentage distribution of hours spent in total on Parliamentary work

	Percentage of MPs whose average hours per week were:										All ranges (100%)
	Under 41	41 - 45	46 - 50	51 - 55	56 - 60	61 - 65	66 - 70	71 - 80	81 - 90	91 or over	
	%	%	%	%	%	%	%	%	%	%	No.
Office holders (a)	12	2	5	5	5	7	14	30	5	16	43
Other Members	3	1	6	5	15	12	12	26	10	10	350
All: 1975	4	1	6	5	13	11	12	27	9	10	393
(1971)	(6)	(4)	(9)	(13)	(14)	(12)	(13)	(16)	(7)	(5)	(481)

(a) See footnotes (a) and (b) to Table 15.

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All Members of Parliament: Number and percentage going abroad on Select Committees, delegations etc. in the 12 months preceding the survey and average number of days spent abroad

	Number of MPs	MPs going abroad		Average number of days spent abroad (a)
		Number	Percentage	
	Number	Number	%	Days
Office holders	59	14	24	11
Other Members:				
Former office holder	97	36	37	17
Not former office holder:				
Less than 2 years' service	106	32	30	7
2 or more years' service	183	83	45	23
Total other Members	386	151	39	18
All : 1975	445	165	37	17
(1971)	(524)	(238)	(45)	(18)

(a) Based only on those going abroad

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TABLE 18

Members of Parliament who are not office holders: Percentages with and without other paid occupations

	Former office holder	Not former office holder	Years of service				All	
			Less than 6	6-10	11-15	16 or over	1975	1971
	%	%	%	%	%	%	%	%
Members with other paid occupations	82	64	59	78	73	84	69	70
Members without other paid occupations	18	36	41	22	27	16	31	30
Replies to question (number)	(95)	(287)	(197)	(68)	(48)	(69)	(382)	(454)
Percentage of returns from non office holders	98	99	99	100	100	96	99	99

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TABLE 19

Members of Parliament who are not office holders: Percentage distributions of hours spent on other paid occupations

Hours spent on other paid occupations	Former office holder	Not former office holder	All	
			1975	1971
	%	%	%	%
While the House is sitting:				
Under 5	39	40	40	29
5 - 9	18	26	24	23
10 - 19	30	25	26	29
20 - 29	10	7	8	14
30 or more	3	2	2	5
Replies to question (number)	(77)	(181)	(258)	(311)
Percentage of returns from those with other occupations	99	98	98	98
During recess:				
Under 5	22	28	26	18
5 - 9	17	12	13	13
10 - 19	25	23	24	18
20 - 29	19	16	17	24
30 or more	17	20	19	26
Replies to question (number)	(72)	(176)	(248)	(300)
Percentage of returns from those with other occupations	92	95	94	94

TABLE 20

Members of Parliament who are not office holders: Relationship of hours spent in total on Parliamentary business to hours spent on other paid occupations while the House is sitting

	Percentage (cumulative) of MPs whose total hours spent on Parliamentary business were less than:										All ranges
	41	46	51	56	61	66	71	81	91	Total	
	%	%	%	%	%	%	%	%	%	%	No.
Members with no other paid occupation	1	1	2	4	16	27	36	69	82	100	107
Members with other paid occupations: hours spent while the House is sitting:											
Under 5	2	3	6	10	26	37	51	82	93	100	94
5 - 9	2	2	5	14	40	48	59	90	97	100	58
10 - 19	10	12	27	36	45	60	72	88	93	100	67
20 - 29	-	12	41	53	65	76	100	100	100	100	17
30 and over	20	20	40	60	60	80	100	100	100	100	5
All	3	5	11	16	31	43	55	82	91	100	348

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TABLE 21

All Members of Parliament: Percentage considering that further Parliamentary functions should be treated as paid offices and number specifying functions

	Office holders	Other Members		All MPs
		Former office holders	Not former office holders	
Whether any Parliamentary functions not at present treated as paid offices should be so treated:				
Replies to question (number)	47	76	223	346
Percentage of total returns (%)	80	78	77	78
Percentage of replies saying YES (%)	36	32	27	29
Functions specified	Number	Number	Number	Number
Chairman of Committee/Chairmen's Panel	3	8	20	31
Member of Select Committee	1	2	10	13
Member of Standing Committee	1	3	9	13
Opposition Whip	11	11	12	34
Opposition spokesman	4	4	9	17
Parliamentary Private Secretary	-	-	6	6
Official of a political group	2	-	5	7
Any function requiring full-time attendance	-	1	6	7
Other	-	1	3	4
Total number of functions specified	22	30	80	132
Number of Members specifying functions	17	24	59	100

TABLE 22

All Members of Parliament: Percentages considering present severance arrangements inadequate and number suggesting improvements

		Replies to question	Percentage of total returns	Percentage of replies saying not adequate
		Number	%	%
Type of MP:	Office holders	53	90	68
	Other Members:			
	Former office holders	88	91	39
	Not former office holders	270	93	55
Age (years):	Under 40	91	92	57
	40-49	151	94	56
	50-59	106	90	48
	60-64	41	95	56
	65 and over	22	88	36
Length of service (years):				
	0 - 1	97	92	59
	2 - 5	99	93	51
	6 -10	89	92	60
	11 -15	53	93	47
	16 -25	57	97	42
	26 and over	16	80	56
All		411	92	53

Suggested improvements	Number
Severance payment of : 4 months' salary	2
6 " "	64
9 " "	3
12 " "	21
Scheme related to length of service[(a)]	81
Scheme related to age	17
Parliamentary allowances to continue for a period	5
Statutory redundancy payments	16
Payable on resignation and/or failure to secure re-adoption	24
Based on personal circumstances	9
Other improvements (mainly unspecified)	28
Total number of suggestions	270
Number of Members making suggestions	210

(a) Includes 3 schemes based on both age and length of service.

All Members of Parliament: Opinions on pension provisions

	Office holders	Other Members	Total	All MPs					
				Age (years)			Pre-October 1964 service (years)		
				Under 40	40-59	Over 59	0	1 - 9	10 or more
	%	%	%	%	%	%	%	%	%
Whether prepared to pay a higher rate of contribution in return for a more rapid accrual of pension entitlement									
Percentage of replies saying YES	89	78	80	75	79	90	80	76	84
Replies to question (number)	(56)	(346)	(402)	(85)	(256)	(61)	(280)	(72)	(50)
Percentage of total returns	95	90	90	86	92	90	90	91	89
Whether in favour of the scheme including provision for the purchase (calculated on normal actuarial principles) of added years of reckonable service									
Percentage of replies saying YES	96	84	86	87	87	80	88	75	90
Replies to question (number)	(50)	(337)	(387)	(83)	(243)	(61)	(269)	(68)	(50)
Percentage of total returns	85	87	87	84	87	90	87	86	89
Whether the present Parliamentary pension arrangements, including those for widows and dependents, are considered adequate in other respects									
Percentage of replies saying NO	50	56	55	49	56	61	51	60	75
Replies to question (number)	(54)	(330)	(384)	(78)	(242)	(64)	(259)	(73)	(52)
Percentage of total returns	92	85	86	79	87	94	84	92	93

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All Members of Parliament: Number of suggestions for improvements in pension arrangements

Suggested improvements	Office holders	Other Members	Total
	Number	Number	Number
Faster accrual(a): 1/40th per year of reckonable service(b)	1	16	17
other	5	12	17
unspecified	3	19	22
Higher proportion of salary	–	5	5
Earlier retirement: 60 years	2	8	10
63 years	–	2	2
Death in service benefit	1	9	10
Improved provision for early retirement through ill-health	1	8	9
Improved transference of existing pension rights	2	11	13
Improved provision for widows/dependents	13	53	66
Additional back service credit for Members with pre-October 1964 service	1	7	8(c)
Members who retired prior to October 1964 should be entitled to a pension	–	2	2
Option for earlier retirement on reduced pension	4	9	13
Improved protection against inflation(d)	1	25	26
Other improvements (mainly unspecified)	8	70	78
Total number of suggestions	42	256	298
Number of Members making suggestions	30	192	222

(a) Includes 36 suggestions made by 36 Members who said that they were satisfied with the present Parliamentary pension arrangements in other respects.

(b) The current accrual rate is 1/60th per year of reckonable service.

(c) One Member with less than 10 years' and 7 Members with 10 or more years' pre-October 1964 service.

(d) The Parliamentary Pension scheme falls under the provisions of the Pensions (Increase) Act 1971.

TABLE 25

All Members of Parliament: Percentages proposing various intervals for adjustment of salaries and for general reviews of remuneration

Interval for adjustment of salaries		Whether there should be a periodic general review of remuneration		Interval for such a review	
	%		%		%
Annual[a]	70	YES	90	Biennial	40
Biennial	19	NO	10	About every 4 years[b]	48
About every 4 years	6			Other:	
Other	5			As for civil service or annual	10
				Other	1
Replies to question (number)	(429)	Replies to question (number)	(401)	Replies to question (number)	(342)
Percentage of total returns	96	Percentage of total returns	90	Percentage of those proposing such a review	95

(a) Includes "as for civil service".

(b) Includes 5 per cent proposing "once in each Parliament".

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All Members of Parliament: Numbers suggesting adjustment of salaries between reviews by linkage to movements in salaries or indices

Suggestions for linkage (a)	All MPs
Movements in salaries in	Number
Civil service	227
of which: Above Under Secretary	6
Under Secretary	7
Assistant Secretary	26
Below Assistant Secretary	3
Unspecified	185(c)
Judiciary	18
of which: Circuit Judge	11
High Court Judge	4(d)
Unspecified	3
Other specified professions	10
Unspecified professions	16
"Evelyn King scheme" (b)	3
Other specified groups of professions	4(e)
General indices	
Index of retail prices	29
Average earnings or wages	15
Average salaries	3
Earnings and prices	2
Against linkage with other occupations or general indices	14
Total number of suggestions	341
Number of Members making suggestions	325

(a) Includes 75 suggestions from Members who proposed the same interval for adjustment of salaries as for the general review and 39 from Members who did not say how often they wanted a review.

(b) A scheme suggested by Evelyn King MP in 1975 whereby the salary of a Member would be calculated at 1 December each year as "x" per cent of an average of (i) average weekly earnings, (ii) the salary level of an Assistant Secretary in the civil service and (iii) the salary level of a Circuit Judge.

(c) Includes 33 saying "higher grades of the civil service".

(d) Includes one who said that Ministers should be so linked.

(e) Civil servant and judge (1)
Civil servant, judge and army officer (2)
Civil servant, judge, army officer and Royal Household (1).

All Members of Parliament: Additional comments offered by respondents

	Office holders	Other Members	Total
	Number	Number	Number
Present personal financial situation difficult	1	14	15
Was better off before becoming an MP and/or would be better off in outside job	2	11	13
Poorly treated in comparison with legislatures abroad	–	14	14
Salary needs to accord with high standard of public service	–	10	10
Specific salary proposals	1	13	14
Need for this review to be speedy	1	10	11
Salary increase more important than raising allowances	2	5	7
Adequate allowances more important than salary increase	–	23	23
Increase should be limited by economic considerations	–	10	10
Lack of family life and/or pressure on dependents	–	12	12
Parliamentary work is increasingly time consuming	–	18	18
Differentiate full and part-time Members	3	12	15
Supports concept of full-time commitment	1	9	10
Resists professionalisation/favours part-time commitment	–	13	13
Change differential between Ministers and backbenchers	–	14	14
Minister/office holder to receive higher proportion of Parliamentary salary	6	4	10
Take remuneration out of political arena	5	27	32
Higher car mileage allowance	3	29	32
Remove income tax/national insurance anomalies	1	13	14
Other	–	8	8
Total number of comments	26	269	295
Number of Members offering comments	24	176	200
Number of Members returning questionnaire	59	386	445

APPENDIX B

LIST OF INDIVIDUALS AND ORGANISATIONS WHO GAVE ORAL EVIDENCE

Individuals who gave oral evidence

Mr Jack Ashley CH, MP, and Mrs Ashley.

The Rt Hon Lord Carrington KCMG, Leader of the Opposition in the House of Lords.

The Rt Hon Edward du Cann MP.

The Rt Hon Lord Elwyn-Jones, the Lord Chancellor.

Mr Michael English MP.

Mrs Winifred Ewing MP.

The Rt Hon Lord Goronwy-Roberts.

Mr Peter Hordern MP.

The Rt Hon Roy Jenkins MP.

The Rt Hon Ronald King Murray QC, MP, the Lord Advocate.

Sir Peter Kirk MP.

The Earl of Limerick.

Mr John H McCluskey QC, the Solicitor General for Scotland.

Mr John Mackintosh MP.

Mr Peter Mills MP.

The Rt Hon Earl St.Aldwyn KBE, TD, DL, JP, Opposition Chief Whip in the House of Lords.

The Rt Hon Lord Shackleton KG, OBE.

The Rt Hon Lord Shephard, Lord Privy Seal and Leader of the House of Lords.

The Rt Hon Edward Short MP, then Lord President of the Council and Leader of the House of Commons.

Mr David Steel MP.

The Rt Hon George Strauss MP, Chairman of the Trustees of the Parliamentary Contributory Pension Fund.

Mr Mike Thomas MP.

The Rt Hon Jeremy Thorpe MP.

Mr Christopher Tugendhat MP, accompanied by Miss L Hastie (secretary).

Mr W van Straubenzee MBE, MP, Chairman of the Select Committee on Assistance to Private Members.

Mr Brian Walden MP.

The Rt Hon William Whitelaw CH, MC, DL, MP.

The Lord Winterbottom.

Government Departments and other organisations who gave oral evidence

Civil Service Department

Board of Inland Revenue

Members of the Secretaries Council of the House of Commons

APPENDIX C

CURRENT SALARIES OF MINISTERS AND PAID OFFICE HOLDERS

Prime Minister	£20,000
Cabinet Minister	£13,000
Minister not in the Cabinet Minister of State	£9,500 – £7,500
Parliamentary Secretary or Under Secretary of State	£ 5,500
Lord Chancellor	£20,000
Attorney-General	£14,500
Solicitor-General	£11,000
Lord Advocate	£11,000
Solicitor-General for Scotland[1]	£ 7,750
Chief Whip, House of Commons	£ 9,500
Chief Whip, House of Lords	£ 6,500
Deputy Chief Whips, both Houses	£ 5,000
Other Government Whips, House of Lords	£ 4,500
Other Government Whips, House of Commons	£ 4,000
Leader of the Opposition, House of Commons	£ 9,500
Opposition Chief Whip, House of Commons	£ 7,500
Two other Opposition Whips, House of Commons	£ 4,000
Leader of the Opposition, House of Lords	£ 3,500
Opposition Chief Whip, House of Lords	£ 2,500
Mr Speaker	£13,000
Chairman of Ways and Means, House of Commons	£ 6,750
Chairman of Committees, House of Lords	£ 6,750
Deputy Chairman of Ways and Means, House of Commons	£ 5,500
Principal Deputy Chairman of Committees, House of Lords	£ 5,500

[1]The present Solicitor General for Scotland is not a Member of either House of Parliament.

Notes:

Ministers and other office-holders, other than those who are provided with an official residence, receive a London supplement of £385 a year. Those who are Members of the House of Commons receive a Parliamentary salary of £3,700 a year (except Cabinet Ministers who receive £3,000 a year) in addition to their Ministerial or official salary and are also eligible, with certain modifications, to claim against the allowances and facilities available to all Member of Parliament. Those who are Members of the House of Lords may claim up to a maximum of £700 a year against the Peers' expenses allowance, and the first £100 of such claims is free of tax.

The salaries of the Prime Minister and of Mr Speaker include flat-rate elements of £5,000 and £4,000 a year respectively that are free of tax in recognition of the additional expenses of the offices.

The salary of the Lord Chancellor includes £2,500 in recognition of his function as Speaker of the House of Lords.

Statutory pensions of £7,500, £6,500 and £8,500 a year respectively are attached to the offices of the Prime Minister, Mr Speaker, and the Lord Chancellor.

RECOMMENDATIONS ON ALLOWANCES AND FACILITIES FOR MEMBERS OF PARLIAMENT.

i) Secretarial Allowance (para 15)

The maximum of the current allowance is £3,200 and is intended to provide Members with either or both secretarial and research assistance.

In considering an increase in the allowance to cover the cost of an occupational pension scheme for MPs' secretaries, the Review Body noted the variety of circumstances in which secretaries are employed and what provision is already made for superannuation.

The current allowance contains an element both for national insurance contributions, including graduated pension, and for contributions to the earnings related pension scheme to be introduced in April 1978. Because of this and the fact that many Members require less than full-time assistance, the current allowance is the most that can be justified for superannuation arrangements, without the introduction of an accounting procedure.

ii) Office Expenses Allowance (para 16)

The Review Body acknowledged that Members have to meet their own office expenses for machinery and equipment. A new allowance to assist with initial and maintenance costs of general office equipment is recommended. The maximum of the allowance should be £300, payable at any time during a period of three years, upon evidence of expenditure.

iii) Additional Costs Allowance (para 17)

The Review Body does not recommend increasing the current maximum of £1,814 p.a. to enable individual Members to attend Westminster during Recesses, since the formula of four nights a week subsistence for the duration of an average Parliamentary session is based on a notional full-time attendance and provides sufficient leeway to enable most Members to attend Westminster occasionally during a Recess. Furthermore, the travel facilities available to Members are not restricted to the period of a Parliamentary session.

iv) Travel Facilities (para 19)

Free travel within national borders is a facility commonly available to other European and Commonwealth Parliamentarians, and frequently in business or professional life. Members travel costs are at present

reimbursed for journeys between Westminster, home and constituency; within the constituency; and to central or local government authoritie connected with the constituency but located outside the boundaries. Th report recommends that Members should be reimbursed, or qualify for car mileage allowance, for all travel within the United Kingdom, on Parliamentary business, in order to inform themselves on subjects directly relevant to the work of Parliament, or the interests of their constituents.

v) Postage and Telephone Costs (para 21)
Members are provided with free postage from Westminster to destinations within the United Kingdom for Parliamentary business, and telephone calls from the House, within the United Kingdom, are similarly free. The facilities are considered adequate and an extension of the faciliti to Members' homes or constituencies would be inappropriate. An extension of facilities from the House is however recommended to apply to communications with other EEC countries on Parliamentary business.

vi) Severance Arrangements (para 24)
Since April 1975 Members have been reclassified for national insurance purposes, and may be eligible to receive redundancy payments in the event of losing a seat as a result of reorganization of constituencies. The report therefore recommends that the grant under severance arrangements should be available only as an alternative to redundancy payments, depending on individual circumstances, otherwise the severanc arrangements should be unchanged.

APPENDIX B

RECOMMENDATIONS ON MEMBERS' AND MINISTERS' PENSIONS

i) Inclusion of Members who retired prior to the implementation of the scheme (para 34)

At present, Members who retired before October 1964 and who have no subsequent service in the House of Commons are not entitled to any benefits under the Parliamentary Contributory Pension Fund. Despite the small numbers involved, the Review Body considers that the principle of no retrospection is an important one, and recommends no change in the present arrangements. However, the Review Body suggests the possibility that some benefit, in parallel with the State pension arrangements for the over-80's, should be made available as of right to such Members when they reach age 80. It makes no recommendation but considers that Parliament should decide.

ii) Reckonable service before 1964 (para 35)

The present scheme provides for a maximum of 10 years' service prior to October 1964 to be counted by Members with service after that date. The Review Body does not think that all pre-1964 service should be reckonable, but recommends that the maximum of such reckonable service should be increased to 15 years for those with service after the change is introduced, and that the cost should be met from public funds.

iii) Rate of accrual (para 38)

The Review Body notes the heavy cost that would be involved if the rate of accrual were to be faster. It comments on the increasing likelihood that Members' pensions will become preserved or transferable and notes the practice regarding accrual rates in other parts of

the public sector in recommending no change in the present 40 year accrual.

iv) Interest on refunded contributions (para 41)

Noting the concessionary tax levels on refunded contributions and that the interest level on the refunds must have regard to the long-term trend of interest rates generally, the Review Body does not consider that an increase in the rate of interest on refunded contributions to the level of current interest rates generally can be sustained, but recommends that the rate should be improved from 3% to 4%, in respect of contributions made from a current date.

v) Purchase of added years (para 46)

The Review Body recommends that provision should be made for the purchase of added years by those in service or subsequently serving. Purchase might be made by a lump sum within 12 months or by periodical payments from salary. The Review Body considers that, on the cessation of service caused by death or ill-health, the total number of years the Member contracted to buy should be reckonable for pensions purposes, and that a Member who resumes a Parliamentary career after a break in service should be able to resume the purchase of added years at the contribution rate applied before the break in service.

vi) Retirement on grounds of ill-health (paras 49 and 100)

The Review Body recommends that provision should be made within the scheme for retirement on grounds of ill-health. This should include enhancement of reckonable service modelled on public service arrangements but related to a retirement age of 65. It should also include the

immediate payment of preserved pensions, but without enhancement, to those already retired who have to retire from their present employment. It recommends that immediate payment of accrued entitlement under the Supplementary Scheme should be made to Members of that Scheme forced to retire early on grounds of ill-health.

vii) Widows' and dependants' pensions (para 55)

The Review Body recommends a number of improvements to the provisions for Members' widows and dependants. These include ill-health enhancement of reckonable service when the Member dies in service, and the payment of widow's pension at the Member's full salary rate for the first 3 months after his death. The Review Body recommends that all the widows' benefits should be available to dependant widowers of women Members.

viii) Early retirement option (para 57)

Under existing arrangements a Member can retire early, under certain circumstances, and receive an actuarially-reduced pension. The Review Body does not consider that the retirement age of Members should be reduced but recommends that, in addition to the present arrangements, a Member who is aged 62 and has completed 25 years' service should be able to retire with immediate payment of unreduced pension accrued to that date.

ix) Contribution rates (para 60)

In order to help meet the cost of the improvements, the Review Body recommends that Members' contributions should be increased from 5% to 6% of pensionable salary.

x) Ministers' pensions (paras 99 and 103)

While it considers provision for the purchase of added years inappropriate for extension to the Supplementary Scheme, the Review Body suggests that the possibility of introducing a qualifying period of 3 years for that scheme should be considered.

The Review Body makes recommendations for improvements in the salaries of the Offices of Prime Minister, Speaker and Lord Chancellor, which will increase the annual rate of these statutory pensions to £9375, £9000 and £11 475 respectively.

APPENDIX C

SALARIES RECOMMENDED FOR MINISTERS AND OFFICE HOLDERS

POST	CURRENT (April 1972) £	RECOMMENDED (June 1975) £
Prime Minister	20,000	25,000
Lord Chancellor	20,000	27,000
Cabinet Ministers	13,000	18,000
Senior Ministers not in Cabinet) and Ministers of State)	9,500 7,500	13,000 11,000
Parliamentary Secretaries	5,500	8,500
Law Officers		
Attorney General	14,500	19,000
Solicitor General	11,000	15,000
Lord Advocate	11,000	15,000
Solicitor General for Scotland	7,750	13,000
Office Holders		
House of Commons		
Speaker	13,000	18,000
Chief Whip	9,500	13,000
Chairman, Ways and Means	6,750	9,500
Leader of the Opposition	9,500	14,000
Opposition Chief Whip	7,500	9,500
Deputy Chairman, Ways and Means	5,500	8,500
Deputy Chief Whip	5,000	7,500
Government Whips	4,000	6,000
Opposition Deputy Chief Whip	4,000	6,000
Opposition Whip	4,000	4,000*
House of Lords		
Chairman of Committees	6,750	9,500
Chief Whip	6,500	9,500
Principal Deputy Chairman of Committees	5,500	8,500
Deputy Chief Whip	5,000	7,500
Government Whips	4,500	7,000
Leader of the Opposition	3,500	6,000
Opposition Chief Whip	2,500	4,000

* Until dissolution only: thereafter nil.

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COPY NO 81

5 July 1976

CABINET

CUTTING THE COST OF THE CIVIL SERVICE: ABOLITION OF VEHICLE EXCISE DUTY

Memorandum by the Chancellor of the Exchequer and the Secretary of State for Industry

1. It was announced in the Budget Statement that, because of the industrial consequences, Vehicle Excise Duty (VED) on petrol-driven vehicles would not be abolished. Nevertheless, and despite the very short time that has elapsed since the Statement, the Lord Privy Seal attaches critical importance to VED abolition in the context of our objective to cut the cost of the Civil Service by £140 million in 1978-79. He takes the view that not only would there be a major saving of staff, but that a failure on the part of the Treasury to concede it could impair the willingness of our colleagues to co-operate wholeheartedly in making the difficult and painful decisions in their own spheres of responsibility that are necessary to ensure the achievement of our objective.

2. We accept entirely that if that objective were imperilled the wider task of bringing aggregate public expenditure within the limit set in last February's Public Expenditure White Paper could be compromised. We have not therefore lightly maintained our objections to VED abolition through the successive Ministerial exchanges on the subject since last autumn. We must, however, keep matters in scale. We are concerned here with about 3,000 prospective new recruits, some of them to be engaged in Swansea which is of course in an area of high unemployment. These people will more than pay their way in revenue-gathering; given, in addition, the effects on the car industry, there is a better case for looking for staff economies where the effects will be less likely to be counter-productive. We recognise that VED abolition is associated also with important if less urgent objectives in the field of transport policy. But the link between VED abolition and transport policy is basically an indirect one. It is not so much the abolition of VED as such but the consequential increase in petrol prices which provides the main connection with transport policy. The recent Budget illustrates that it is possible to move in this direction while still retaining VED as a useful source of revenue.

THE FISCAL ARGUMENT

3. We take first the fiscal argument for retaining VED, not because it is more immediately important than the industrial argument but because it has received less attention than it warrants in the interchanges at both Ministerial and official level. The essence of the fiscal argument is that to substitute higher petrol taxation for VED, which is what would be entailed in order to maintain revenue-neutrality and prevent a further and wholly unacceptable widening of the public sector borrowing requirement (PSBR), would amount in practice to a serious erosion of revenue-raising capacity that would make still more difficult the essential task of bringing the PSBR down to more manageable proportions over the years immediately ahead.

4. Even with the revisions to public expenditure programmes that were announced in the February White Paper, and allowing for the need progressively to reduce the PSBR, we are as a Government going to be faced in the period up to 1970-80 with a formidable revenue-raising problem. We cannot look as in the past to direct taxation for a major contribution. On the contrary, as we acknowledged in the Public Expenditure White Paper, the income tax burden now bites too harshly on low incomes while the high level of marginal tax rates is a serious threat to the morale and effectiveness of management. Any easing of the burden of income tax will increase the need for revenue from other sources. In this process petrol taxation will have to play a significant part; but the very real constraints on our freedom of action here need to be recognised. They are, most notably, the price leverage exerted by the Oil Producing and Exporting Countries (OPEC) cartel, which we are virtually powerless to influence; the importance of petrol in the Retail Price Index (RPI) and hence to wage bargaining in the context of counter-inflation policy; and the need to maintain, in the interests of both industrial and counter-inflation policy, an appropriate balance between the price of petrol and derv. The presence of such constraints calls into doubt any assumption that if VED on petrol-driven vehicles were abolished, at a loss to the revenue of £625 million in the current financial year and of a steadily rising sum beyond this (as the car population continues to grow) in future years, the loss could be readily recouped via higher petrol taxation. It is likely that in practice other taxes would have to be increased, or entirely fresh sources of revenue found, against a background, to repeat, of general fiscal stringency.

5. We note, in passing, that every other European Economic Community (EEC) country has, as we now have, a three-tier structure of motoring taxes comprising VED, petrol tax and vehicles sales tax. So does the United States. All these countries find it necessary to spread the tax burden on motoring in this way.

THE INDUSTRIAL ARGUMENT

6. Any substantial and sudden increase in the price of petrol would strengthen the tendency which has been apparent over the last year or two for United Kingdom car buyers to switch from larger to smaller cars. Fuel economy is an increasingly emphasised selling factor and this is normally related to engine size. Import penetration has been growing particularly in the mini segment of the market and is now nearing 50 per cent; penetration is much less in the size range immediately above this (taken as cars between 1200 cc and 2000 cc and so covering the vast bulk of all cars produced in this country) and is of the order of 20-25 per cent. The Society of Motor Manufacturers and Traders (SMMT) estimated that if car buyers responded to the sudden increase in the petrol price following the abolition of VED in a way similar to their response to substantial price rises over the past few years, demand for cars under 1200 cc would increase by about 20 per cent with comparable losses in demand for cars over that level. Import penetration in the small car segment could thus be expected to increase by up to 10 per cent. They estimated that this might cost the balance of payments perhaps £20-25 million. Apart from the loss of business to imports, a shift downwards in demand would be detrimental to the industry's profitability, given the close link which exists at almost every level between car selling prices and the profitability of the individual model.

7. The particular vulnerability of the industry to the abolition of VED lies in the fact that the industry has at present only one car available in any numbers in the mini segment (the nearly 20 year old (British Leyland (BL) Mini for which the proposed replacement is not expected to be effectively established in the market until 1980), compared with a very wide range of competing imported models. Even with the introduction of the Ford Fiesta at the end of this year we will still be highly dependent in this area on imports. Ford estimate that imports will still account for 43 per cent of registrations in the mini sector on average between 1976 and 1980. Apart from the consequences for the level of imports, a change coming before the new BL Mini has been introduced and established itself could be damaging for BL. If there is an artificial stimulus to imports in this sector before 1980 with a demand which the existing Mini could not satisfy in output terms even apart from the competitive advantages of the imported models, existing loyalties to Leyland products will be lost and the new Mini will have to be launched against a difficult background which may threaten its profitability and viability. This would be particularly serious since the new Mini is of central importance in BL's model plan and of key importance in allowing BL distributors to have a wide enough range to offer.

8. The effects on employment can arise both as a direct consequence of a shift of demand from the medium range of cars where the great volume of United Kingdom production rests and also from the threat to the success of the Mini replacement which the consolidation of the position of the foreign small cars in the market in the period up to 1980 would constitute. In the Motor Industry Tripartite Group (of which Mr Jack Jones and Mr Hugh Scanlon are members as well as the chief executives of the four major car manufacturers) the view has been strongly expressed that job security depends

on the stability of the environment for industry planning. The Group's agreed view was that the abolition of VED and its replacement by increases in petrol tax would be disturbing and damaging for the industry. The union members of the Group continue to press strongly the case for selective controls of imports of cars to protect jobs, with considerable support from the manufacturers, and the threat of increased imports due to the abolition of VED would very much strengthen their pressure. They believe, rightly in our view, that abolishing VED by loading the burden on to the petrol tax would add to unemployment by reducing the number of jobs in the car industry. This loss of jobs has to be added to the Civil Service clerical jobs that would not materialise in Swansea and elsewhere.

9. A further relevant consideration is the treatment of company cars as a taxable fringe benefit. Our colleagues will be aware that the fringe benefit proposal has stimulated considerable criticism from the motor industry. We have offered full and genuine consultation with the industry so as to see how far the possible adverse effects on the industry can be ameliorated. This issue still remains open. But it is relevant to the proposal to abolish VED in two respects. First, the decision not to abolish VED was received by the motor industry with considerable relief. They would find it incomprehensible if the Government were to reverse this decision, particularly bearing in mind that the Budget Statement emphasised industrial considerations as the major reason for retaining the duty. Second, whatever the outcome of the fringe benefit discussions, the industry would be shocked and demoralised, and in our view with some justification, if after emphasising to us the difficulties that they would face if fiscal measures encouraged a shift towards small cars, we were to make a change which would almost certainly have precisely this result. The credibility of consultation, on which we have placed considerable emphasis, would be severely, perhaps irreparably, undermined.

CONCLUSION

10. In the light of these considerations we conclude that the prospective staff savings are insufficient ground for abolishing VED on petrol-driven vehicles. In the first place, given on the one hand the revenue requirements that lie ahead and in particular the paramount importance of curtailing the PSBR, and on the other hand the practical constraints that apply in the field of petrol taxation, we cannot afford the effective narrowing of the tax base that abolition would imply; we should in practice be giving up £625 million a year for nothing! Second, we cannot sensibly contemplate action that would further open up the domestic market to foreign small cars, and thereby put at risk the efforts that British Leyland, Ford, Chrysler and Vauxhall will be making over the next few critical years to regain their share of this section of the market. While the administrative cost of collecting VED is admittedly high relative to other important taxes (though arguably not as high as it appears because the

cost of vehicle registration would presumably still have to be borne even if VED did not exist), the duty does seem to work to our national advantage in present circumstances. It is acting in effect as a non-tariff barrier of a kind which our more nationalistic competitors, notably the French and Japanese, unashamedly deploy. It is impossible to imagine that any of them would make a fiscal change which would increase the vulnerability of one of their major industries. Third, a change of mind now on VED, after the decision announced in the Budget speech on prior industrial grounds, would deal a severe blow to the credibility of our pledge, notably in the National Economic Development Council last autumn, to give priority to manufacturing industry in framing our economic and fiscal policies. The implications of that for the currently very successful work on industrial strategy would be very serious indeed.

D W H
E V

Treasury Chambers

5 July 1976

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5 July 1976

CABINET

DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. At its meeting on 11 June Cabinet agreed that the Report of the Select Committee on direct elections should be considered by Parliament and discussed by Cabinet itself before the European Council on 12-13 July. The Committee published its first report covering the Community aspects of the problem on 15 June. I attach at annex to this paper the summary of its recommendations. Arrangements have been made for the report to be debated by the Commons on 9 July. Mr Hattersley will open for the Government in my absence in the United States.

2. This memorandum sets out the line that I propose we should take both in the debate and at the European Council at which there will be great pressure to settle the main outstanding issues in the Community. In general the Select Committee's recommendations are close to the line proposed in the Government's Green Paper Cmnd 6399 which has been taken as the guideline for our negotiations in the Community so far. The situation under the four main headings considered by the Committee itself is as follows:

SIZE AND COMPOSITION OF THE ASSEMBLY

3. Within the Community the negotiating options have become a good deal clearer since the last Cabinet discussion. Community Foreign Ministers had a useful exchange at their informal meeting on 12 June and the Prime Minister and I were able to pursue the matter further bilaterally during President Giscard's State Visit. As we had hoped the President proved to be more flexible than his Foreign Minister or officials. Since he had formal difficulties with the Belgian compromise proposal which we were inclined to favour (outlined in paragraph 4 of my memorandum CP(76) 25 of 7 June), we floated with him another variant devised to meet his objections, which would give an Assembly of 390 of which 78 seats would go to the United Kingdom. President Giscard was careful not to commit himself but indicated that he would not take a lead in opposing a solution on these lines.

4. In the debate I believe we should accept the Select Committee's recommendations as to our broad negotiating aims while making it clear that the result we obtain will have to be within the limits of what is negotiable. It would not be right to reveal the confidential exchanges with President Giscard and we should not tie our hands too tightly before the final negotiations in the Community. In the European Council we should continue to seek the best possible solution for the United Kingdom in comparison with the smaller Member States. I believe that a solution in the range of the Belgian proposal or the variant floated with Giscard should be acceptable.

DATE FOR ELECTIONS

5. The Committee recommend in favour of elections being held in May or June 1978. They believe that it should be possible for the necessary legislative and preparatory work to be completed in time for this date to be adhered to but add that they will be in a better position to make a firm assessment on this point when they have considered the matters raised in Part 3 of the Green Paper (ie the electoral arrangements including constituencies, franchise etc which are to be decided nationally). These are matters which the Government will itself wish to consider carefully in the light of the Select Committee's future report. In concluding the negotiations in the Community I believe we should keep open the possibility of nominating United Kingdom members in 1978 in case this should prove necessary. But we should emphasise our intention to proceed to elections at the same time as the other Member States if possible. We should also indicate these intentions in the debate.

6. The European Council may also set the precise dates for the first elections in 1978 which it has already been decided should take place within a period of a Thursday to Sunday inclusive in May or June. In the Green Paper we suggested there might be advantage in holding the European Assembly elections in May at the same time as local authority elections if this can conveniently be arranged. The Select Committee in the light of the views put to them recommend that elections should take place on a date on which no other elections are statutorily held. The Labour Party, however, recently inclined toward a different view on this point. It is for consideration whether we should accept the Committee's recommendation on this and say so in the debate. Since the prospect of altering dates of the local elections due in England in 1978 is in any case under consideration because of the coincidence with Ascension Day, there would in practice be no problem in accepting any date in May or June 1978 which avoids United Kingdom public holidays.

THE PERIOD FOR WHICH THE ASSEMBLY SHOULD BE ELECTED

7. The Select Committee came out in favour of a fixed term but with a slight bias in favour of four rather than five years. As explained in the Green Paper there is already a broad consensus in the Community in favour

of a five-year period. I think we should go along with the Community view rather than reopen the point at this stage. The Committee advances no substantive arguments in favour of four rather than five years.

STATUS OF MEMBERS OF THE ASSEMBLY

8. The Committee recommends clearly in favour of an optional dual mandate. This is also the view put forward by the Government in the Green Paper. We should stick to this.

CONCLUSIONS

9. The negotiations in the Community are now within sight of a conclusion. The main outstanding points are likely to be settled at the European Council on 12-13 July and the final details will be settled as soon as possible thereafter. In the negotiations so far we have played a full part in order to make sure that British interests should not go by default, but under the general reservation that the Government would wish to look at the agreement as a whole in the light of the results of their political consultations within the United Kingdom. As far as the Community aspects of the problem are concerned (ie those covered in Part 2 of the Green Paper) the debate on 9 July will be the conclusion of a process of consultation in which we have sought a full spectrum of political views. I believe that an agreement on the lines outlined above will be acceptable to the broad majority of opinion in Parliament. I therefore recommend that Cabinet should agree that the Prime Minister and I should seek to conclude the Community negotiations on this basis.

A C

Foreign and Commonwealth Office

5 July 1976

ANNEX

FIRST REPORT FROM THE SELECT COMMITTEE ON DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

SUMMARY OF RECOMMENDATIONS

1. The Government should press for an agreement under which the size of the Assembly should fall between 350 and 425 seats.
2. In reaching a decision on the final number and allocation of seats, the following considerations in particular should be borne in mind:-
   - (i) that population should be the chief factor in any computation of seats as between different Member States;
   - (ii) that any formulation should be such as to make it possible for the United Kingdom's allocation of seats to be large enough to provide representation for its component parts not significantly out of proportion to those of the smaller Member States (with the proviso that Luxembourg should be treated as a special case).
3. The Government should agree in the Council that elections should be held in May or June 1978.
4. Elections should take place on a date on which no other elections are statutorily held.
5. Elections in the different Member States should be held on the same date or within a few days of each other (but not on a Sunday in the United Kingdom), and the results in each Member State should be declared at the same time.
6. To allow for the fact that some Member States may use an electoral system requiring more than one ballot, in such cases the first ballot should be held at the same time as the single ballot in single ballot countries, and the result of the first ballot should be declared at the same time as the final results are declared in single ballot countries.
7. The directly elected Assembly should be elected for a fixed term of four or five years (with a slight bias in favour of four).
8. An optional dual mandate should be adopted so far as the United Kingdom is concerned.

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9 July 1976

CABINET

PUBLIC EXPENDITURE AND THE AID PROGRAMME

Memorandum by the Minister for Overseas Development

1. The Chancellor's paper proposes a cut of £100 million in the overseas aid programme for 1977-78. I submit to my colleagues that this is completely unacceptable for the following reasons:

1. It is outrageously disproportionate to all the other savings he is seeking. He would be taking 10 per cent of his savings from a programme which accounts for only 0.89 per cent of public expenditure.

2. It would reduce our aid programme in 1977-78 by over 18 per cent. This could not be done by 'limiting new commitments' as suggested in the Annex to the Chief Secretary's memorandum. A cut of this size would mean reneging on a number of commitments and expectations of a bilateral, European and international character, and the political consequences of such an action would be grave. My officials are urgently studying which commitments we would have to go back on so as to minimise the damage, but I can say already that we should have to take an implacably negative attitude in Brussels, even on favoured programmes such as aid to non-Associates, and in the international discussions on the follow up to the North-South dialogue and the United Nations Conference on Trade and Development (UNCTAD); that bilateral capital aid pledged but not yet allocated to particular projects would in some cases have to be stopped; and that even on-going projects may be affected, with adverse effects on the development plans of our clients and on our relations with them. It goes without saying, of course, that new commitments would have to be eliminated however urgent the political case might be in the view of the Foreign and Commonwealth Office or my Cabinet colleagues. Last October we published a White Paper (Cmnd 6270), announcing our policy of directing more aid to the poorest countries and the poorest groups within them. This was approved by the House of Commons in a debate in November and has been well received throughout the world. We could not pursue the strategy if our programme was substantially cut.

3. The moral case for maintaining, and, as far as possible, increasing the aid programme is well understood by my colleagues. But in a year in which our national wealth is expected to increase by 5 per cent the Chancellor is not merely suggesting that we do not spend a penny of this addition to our wealth on aid but that we actually reduce the programme far below its present level. I could not possibly explain this to public and Parliamentary opinion. A rich country ought not to be so mean and petty as to solve its problems at the expense of poor countries, with the biggest loss being suffered by the world's poorest people, many of them living near starvation level. Britain is a rich country. There is a difference between being broke and being poor. The fact that one has a mortgage on one's house does not prevent one from contributing to the local church.

4. The international political consequences of a major aid cut would be most damaging. The political background includes the continuing "North/South" dialogue in the Conference on International Economic Co-operation talks in Paris; and the follow up to UNCTAD, where our existing attitudes were condemned as negative. We want the Commonwealth Prime Ministers' Conference next year - at which we shall be the hosts - to be a success. If a swingeing cut in aid to the developing Commonwealth were just taking effect, the conference would get off to a very bad start. The Organisation for Economic Co-operation and Development (OECD) Ministers agreed only a fortnight ago that increased concessional aid was required in particular for those developing countries most in need; and the communique continued: "Member Governments agreed to intensify their efforts within the OECD to strengthen policies to those ends". We are already one of only four OECD countries whose aid performance was worse in 1975 than 1971. Within the European Economic Community (EEC) we devoted a smaller share of our Gross National Product (GNP) to aid in 1975 than any of our partners except Italy, Ireland and Luxembourg. And in terms of dollars per head of population our aid in 1975 represented $15, that of Germany $27 and that of the Netherlands $45. Do we really want to earn the reputation of being more mean and unreliable than other Western nations?

5. There would be a violent reaction on the domestic political front. We have been the Party which has endorsed the United Nations 0.7 per cent of GNP target for aid in election manifestos and in Conference resolutions. Since we returned to office we have publicly accepted the target as a Government and at very many international conferences have undertaken to move towards it as our economic situation allows. But in fact ever since 1961 our aid performance has been declining, from 0.52 per cent in that year to 0.38 per cent in 1975, and the decline has been faster under Labour than under Conservative Governments (who indeed exempted the aid

programme in major cutting exercises in 1970 and 1973). As a percentage of public expenditure it has declined from 2 per cent in 1961 to 0.89 per cent in 1975. The Chancellor's proposals would reduce both these figures still further in 1977. A further move away from the 0.7 per cent target at a time when our GNP was growing by as much as 5 per cent would cause an explosion of feeling in all parts of the Labour Party. This would be reflected in an outburst by all internationally-minded people - in the Churches, in organisations such as the Oxford Committee for Famine Relief (OXFAM) and the United Nations Association. Any claim that the Labour Party represented Britain's "international conscience" would be destroyed.

6. The economic consequences to us of cutting our aid programme would at best be neutral - probably harmful. About 70 per cent of our aid is spent in the United Kingdom on British goods and services; and aid helps to capture markets for future United Kingdom commercial exports and so contributes to higher growth and employment of the United Kingdom economy in the longer run. Since aid cuts will fall disproportionately on the bilateral capital aid programme some markets could be lost completely. This aid is almost entirely tied to the procurement of British goods and therefore cuts in aid would have the effect of increasing unemployment in this country at least as much as cuts in other programmes. Nor can we expect to opt out of the international aid effort without possible consequences on the actions of other donors and in particular the Japanese, the Germans and the Americans. The value of the orders we get from the international aid effort is greater than the money we put into it.

7. As for our longer-term interests, the recent Cabinet Office paper on Future World Trends emphasised the race between population and resources which will condition the whole world outlook in coming years, and concluded: "Unless there are resource transfers on a scale many times greater than at present, the effective check to world population will be the Malthusian trilogy of war, famine and disease".

CONCLUSION

2. There appear to me to be three alternatives facing the Cabinet in relation to the aid programme -

a. To make a massive and disproportionate cut as recommended by the Chancellor.

b. To make a small cut, in proportion to the rest of the cuts, eg of 2½ per cent or so.

c. To leave it alone.

I submit that alternative a. is totally unacceptable for the reasons given above. Alternative b. would still attract a large amount of adverse reaction at home and abroad and would produce savings to the Chancellor so small as to be worthless. We should adopt alternative c. This is what we did a few months ago in relation to the last Public Expenditure White Paper. The reasons which were valid then are equally valid now.

R E P

Ministry of Overseas Development

9 July 1976

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CABINET

FOOD SUBSIDY PROGRAMME 1976-77 and 1977-78

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

1. Among his proposals for reducing public expenditure in 1977-78 the Chief Secretary has suggested (CP(76) 42) that food subsidies in that year should be cut by £200 million. I think my colleagues should be aware of what the effects of such a cut would be.

2. The 1975 Public Expenditure White Paper (Cmnd 6393) provided for food subsidies to be run down as follows:-

	£m. (1976 survey prices)
1975-76	635
1976-77	408
1977-78	280
1978-79	84
1979-80	56

The Chief Secretary is now proposing that the 1977-78 stage in the programme should be omitted and that the run down should be accelerated by one year. Because the figure of £84 million would cover little more than ½p on a pint of milk, the effect of the Chief Secretary's proposal would be to reduce the milk subsidy to that level, and abolish the other subsidies, within about 12 months from now - in other words, broadly within the period of the present incomes policy agreement with the Trades Union Congress (TUC).

3. The existing programme, involving a reduction in food subsidies in this current financial year of £227 million (at 1976 survey prices) will itself cause substantial price increases between now and next April. It will entail abolishing the subsidy on tea, and reducing the level of each of the other subsidies. Because falls in the price of milk for manufacturing purposes have the effect of increasing the deficit in the Milk Fund which has to be met by the subsidy, it will be necessary to bring forward from January 1977 to September next an increase in the price of milk. This is contrary to an undertaking we gave in the House of Commons at the time of the last farm price review but if the Minister of Agriculture agrees I am

prepared to accept it as unavoidable. None of these price increases will be palatable to the TUC and our supporters, but they can be defended as being within the existing programme which was known to the TUC when they agreed to the pay limits for the next incomes policy year.

4. But to achieve the accelerated run-down asked for by the Chief Secretary would mean that price increases linked to subsidy reductions would have to take place in every single month from September 1976 to April 1977. These increases would be additional to the heavy price increases on subsidised foods expected for reasons unrelated to reductions in subsidy. The total effect is estimated to be that price increases on the six subsidised foods alone might add 1-1¼ per cent on the Retail Price Index over the 1976-77 financial year and a further ¾-1 per cent over the 1977-78 financial year - in all about 8 per cent on the Food Index. (These figures take no account of a possible devaluation of the Green Pound. I cannot emphasise too strongly the importance of avoiding any move on that front, particularly in relation to milk products and milling wheat.) The increases before August 1977 include at least 2p a pint on milk (24 per cent, all due to the subsidy cut); 3p on a large loaf of bread (17 per cent, two-thirds due to the subsidy cut); 14p a pound on cheese (28 per cent, three-quarters due to the subsidy cut); and 12p-13p a pound on butter (31 per cent, about one-third due to the subsidy cut).

5. These increases will hit hardest the most vulnerable sections of the community whom we have tried to help through the food subsidy programme - pensioners, those on low incomes, and those with large families. We subsidised the cheaper sources of nourishment to help the poor; hence, sharp price increases in subsidised foods must discriminate against them, as they have no acceptable alternative to turn to. Prices of these basic necessities are likely to go up considerably faster than the non-basic foods. Some of those most affected are already disappointed by the slower phasing in of the full Child Benefit Scheme, and will be affected by increased charges for school meals in the spring. The report from the General Council of the TUC which was presented to the special conference of the TUC last month reaffirmed their belief in the value of food subsidies in giving special help to the least well off. I do not believe the TUC or our supporters in general would be prepared to accept action on our part to effect increases in the prices of food over and above those caused by reasons beyond our control and by the need to meet our existing programme for reducing the level of subsidies.

6. My conclusion is that we cannot go along with the Chief Secretary's proposal for a further cut of £200 million in food subsidies in 1977-78 without putting at risk both the maintenance of this year's pay policy and the possibility of negotiating an acceptable policy for the following year. I have considered carefully whether there is any lesser cut which we could adopt but I have come to the conclusion that the most I could safely offer is £50 million. Even this would involve abolishing the subsidies on bread and flour in April next year; but it would enable the increases in the price of milk and the reductions in and eventual abolition of the subsidies on

butter and cheese to be phased over a slightly longer period, and so reduce the pressure on the critical first half of next year.

7. I therefore recommend that the food subsidy programme for 1977-78 should be cut by £50 million. Recognising the need to reduce the Public Sector Borrowing Requirement, one possible alternative which I have put to the Chief Secretary would be to increase excise duties. The difference of £150 million between the Chief Secretary's proposal and my own could be covered by, for example, an additional ½p on a pint of beer and 3p on a packet of 20 cigarettes. I am loath to make any recommendation which would increase prices or put up the Retail Price Index, but I would regard an increase in excise duties as likely to be less repugnant to the TUC, as well as being a more tolerable step in terms of both social and nutritional policy, than the virtual elimination of food subsidies over the next 12 months.

S W

Department of Price and Consumer Protection

12 July 1976

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CABINET

PUBLIC EXPENDITURE

Memorandum by the Secretary of State for the Environment

1. At our discussion last Tuesday, the nature of our problem for next year became clear. It is not one of shortage of resources. True, as always in recovery, bottlenecks will emerge in a few sectors, but by any post-war standard output and employment will still be heavily depressed throughout next year. The real constraint is that we cannot get by now or next year without extensive foreign borrowing, and that will not be forthcoming without foreign confidence in our power to handle our economy decisively and to break through to a position when we are again paying our way.

2. The first question, therefore, is whether what we are being asked to do is likely to restore confidence. It is only five months since we published our last public expenditure White Paper. That committed us to a strategy for getting through the next three years by rigid control to ensure that public expenditure took none of the increment of output. To abandon it so quickly will not restore confidence: it will show only that the British Government has neither confidence in its own policies, nor the resolution to resist foreign pressures.

3. To do what the Chancellor is asking, we shall have to announce this month a package of actions directed at public expenditure alone. We shall be forced both to reduce subsidies on some basic services and to take a further slash at public sector capital programmes.

4. Cuts in subsidies will fall on rents, food or fares. Like increases in Value Added Tax (VAT) or tobacco tax they put up the Retail Price Index (RPI). On council rents, room for manoeuvre is in any event limited by the need for legislation specifically to cut subsidies if we are to meet the Cmnd 6393 targets. That seems to me out of the question in present circumstances. Politically, the limit to which we can go is in practice an increase of around 60p - the same as this year.

5. But the cuts on public capital programmes are even more misguided - economically and politically. We could not possibly achieve savings of the size requested without imposing a virtual moratorium, more or less prolonged, on starting new council houses as well as on road building - local and national. This would have no possible justification in terms of relieving the pressure on the construction industry. The Public Expenditure Survey Committee (PESC) Report forecasts that even without cuts, construction output in every year to 1980 will remain below 1970 levels. After shipbuilding, construction is our worst-hit industry. Unemployment is running at 13½ per cent. Less work means the deliberate creation of higher unemployment there. £400 million off public sector construction work will mean over 50,000 jobs lost - with nothing to show for it since neither the spare labour nor the spare capacity can help the industrial strategy at this stage.

6. To achieve major savings in expenditure next year the moratorium must be announced this summer, inevitably with mounting effect on jobs this coming winter. I do not see how we could justify such an abrupt U-turn in our policy from Cmnd 6393 when we said 'The planned levels of expenditure for future years reflect the continuing high priority being accorded to housing' to a situation where housing investment bears the brunt of a programme of public expenditure cuts. At least when our apponents imposed a construction moratorium in 1973 they had the justification of a serious overload on the industry - and even then they excluded housing and roads.

7. These measures will in my view do serious, perhaps fatal political damage. The public sector unions - and they include not only the National Union of Public Employees, the General-Municipal Workers Union, the National Association of Local Government Officers and the National Union of Teachers but in construction the Union of Construction and Allied Trades and Technicians and the Electrical, Electronic, Telecommunications and Plumbing Union and in transport the Transport and General Workers Union and the rail unions - will be bitterly opposed and this will certainly be reflected at the Trades Union Congress in September and increasingly in the months ahead. The Party in the House and in the country will simply not accept the deliberate creation of extra unemployment in the midst of our worst post-war recession. There is also a real risk of a breakdown in our relationship with the local authorities. We promised to bring them into PESC and we are presently seeking their co-operation in cutting some £400 million of excess planned expenditure this year. To impose new economies on them, without consultation will be regarded quite simply as a breach of faith. But, above all the loss of morale will come from the clear recognition that we are being forced to take measures not because they assist our strategy for industrial revival but as a gesture to appease our critics at home and overseas.

8. We decided last week to cut out the prospective over-spend, so that we remain on course with our announced strategy of zero growth in public expenditure. This by itself will involve the control of local authority house building and a reduction of £150 million on capital expenditure. We should not at this stage do more. If we cut £1 billion this time, we shall soon be told that more is needed - and the next £1 billion instalment will require even more drastic revisions of our fundamental social policies, and even more deliberate creation of unemployment in construction.

9. Either we maintain confidence by sticking to the course we have already publicly charted or we go for a comprehensive package which will be seen to be balanced and relevant to our problems. Taxes, not public expenditure cuts, are the obvious instrument for short-term demand management. Of course, higher indirect taxes will add to the RPI. But before we decide that is a critical objection to their use now, let us ask two simple questions -

> Do we see no distinction between prices of essentials such as fares, rents and foods, and more discretionary items such as petrol, tobacco and drink - even if the effect on the RPI is slightly larger?
>
> Do union members really prefer fewer jobs to higher prices?

10. But, above all, higher taxes demonstrably bear much more directly on imports. If we cut public construction, the direct effect is on jobs at home with only a small reduction on imported materials. If we put up indirect taxes, this will have a much larger and more direct effect both on imports and on the release of production for the export market. Taxation even helps the Public Sector Borrowing Requirement <u>more</u>, since every domestic job lost means both less revenue from taxes on income and more expenditure on unemployment pay to be set against the original public expenditure saving.

11. If the view of the Cabinet is that £1 billion is not enough, that we shall still be unable to finance our prospective trade deficit, then other and different measures are required. The situation of deficit, falling reserves and high unemployment precisely fits the terms of Article XII of the General Agreement on Tariffs and Trade and Article 108 of the Rome Treaty and would justify in international economic law the imposition of general restraints on imports.

12. I therefore urge my colleagues to think again and to take the time needed to evolve a total package that will both directly reduce our need for foreign money and command the political support required to maintain the major success that has been achieved in our voluntary prices and incomes policies.

P S

Department of the Environment

13 July 1976

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13 July 1976

CABINET

PUBLIC EXPENDITURE CUTS

Memorandum by the Secretary of State for Energy

1. The proposals of the Chancellor of the Exchequer and the Chief Secretary, Treasury, for cuts in our programme in 1977-78 may have damaging effects on Department of Energy programmes. If other spending Departments are in a similar position, the Cabinet will have to consider the possibility that cuts on the scale requested cannot realistically be achieved. Even if the full cuts were decided now, the Government's economic policy is still likely to be seen to be totally inadequate within a few months. Instead we should decide on such practicable savings in public expenditure as can be identified without damage to our economic strategy or the social contract, press ahead with urgent negotiations to stabilise sterling, and prepare a new economic programme to announce in the autumn.

EXPENDITURE CUTS IN DEPARTMENT OF ENERGY PROGRAMMES

2. £65 million of the British National Oil Corporation's (BNOC) bid for 1977-78 can notionally be transferred back to the contingency fund, provided that this does not mean that BNOC is subsequently forced to forgo investments which would hield a high return, largely in the form of foreign currency. But the further £100 million of cuts proposed for energy investment and Research and Development is contrary to the Government's declared strategy of promoting productive investment and strengthening manufacturing industry.

3. The existing bids of nationalised energy industries are "mid-point" estimates from which most over-estimating has already been cut out on the understanding that this Government can be trusted to take realistic account of their needs. The view of the industries would be that it is indefensible for the Government to cut investment by nationalised bodies at a time when it is vigorously trying to promote private industry. The effect of cuts in investment would be:-

a. to damage manufacturing industries by halting orders for plant and equipment;

b. to necessitate some reductions in employment in the nationalised industries on which consultation with the relevant trade unions has not been possible;

c. to require additional investment later to make good projects which have to be temporarily held up.

INADEQUACY OF THE PROPOSED MEASURES

4. If other spending Departments are in a similar position and find that cuts on the overall scale suggested (elimination of £1.6 billion additional bids plus net reductions in spending of £1 billion or more) cannot be achieved without very serious damage, the whole strategy of cuts will have to be reconsidered.

5. Even if the full cuts proposed by the Chancellor were feasible, they would buy as at most only a very brief breathing space. By the autumn our economic policy will still be seen to be inadequate in the face of rising unemployment, exhaustion of foreign credit, stagnation of private investment and a growing trade deficit.

RECOMMENDATIONS

6. Instead of going ahead with cuts on the scale proposed by the Chancellor, we should -

a. adopt limited savings in public expenditure from the baseline of existing plans <u>including</u> the additional bids;

b. start immediate negotiations with the International Monetary Fund and the Oil Producing and Exporting Countries creditors to obtain a medium-term settlement of the sterling crisis;

c. start work now on a full programme of new measures for the autumn, including -

i. restructuring taxation to improve public sector revenue;

ii. import controls;

iii. emergency planning agreements backed by the National Enterprise Board and an investment reserve fund.

A W B

Department of Energy

13 July 1976