CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 13th July, 1965,
at 10.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister (Items 1-3)
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (In the Chair for Item 4)
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs (Items 2 and 3)
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. Anthony Greenwood, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Frederick Lee, M.P., Minister of Power
The Right Hon. Barbara Castle, M.P., Minister of Overseas Development (Items 2-4)

The following were also present:
The Right Hon. Charles Pannell, M.P., Minister of Public Building and Works (Item 2)
Mr. George Darling, M.P., Minister of State, Board of Trade (Item 2)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 3)

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer (Items 1-3)
The Right Hon. Sir Frank Soskice, Q.C., M.P., Secretary of State for the Home Department (Items 1-3)
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Tom Fraser, M.P., Minister of Transport

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
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1. The Lord President of the Council recalled that he had been invited to review, in consultation with the Ministers concerned, the forward programme of publication of departmental White Papers. In so far as these were likely to provoke political controversy it would be undesirable that they should be published during the final weeks of the current Session or early in the Recess; and their release should therefore be deferred until mid-August. Thereafter they should be published at appropriate intervals. On this basis he would circulate, for consideration by the Ministers concerned, a list of the White Papers in question and the dates of publication proposed.

In discussion it was suggested that, although the Government were largely committed to publication before the Recess of a White Paper on Overseas Aid, it might be desirable to defer action in this respect until September, when it would be possible to consider the programme of aid, which imposed a considerable burden on the balance of payments, in relation both to other proposals which made heavy demands on resources, e.g., the forward housing programme, and to the Economic Plan, which was timed for publication about the same time.

The Prime Minister said that further discussion of this question should be postponed until the Minister of Overseas Development could express her views and the Cabinet had had an opportunity to consider, at an early meeting, the future programme of public expenditure as a whole.

The Cabinet—

Took note of the Lord President’s statement about the forward programme of publication of departmental White Papers.

2. The Cabinet considered a memorandum by the Minister of Public Building and Works (C (65) 94) on the redevelopment of the Whitehall area, to which was appended the draft of a proposed Parliamentary statement on this subject. An amended draft of this statement was circulated during the discussion.

The Minister of Public Building and Works said that the plans for the redevelopment of the Whitehall area which had been prepared by Sir Leslie Martin and Professor Colin Buchanan were far reaching and might not be fully realised for half a century; but, if the Government failed to endorse the general principles involved, piecemeal development of the area would effectively prevent the realisation of a bold and imaginative scheme. He therefore proposed to announce that the Government accepted the reports as the framework within which the future development of the Parliament Square and Whitehall areas should take place, particularly as regards the concept of a precinct in and around Parliament Square, from which traffic not serving the area should gradually be withdrawn;

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the need to develop the Bridge Street site for Parliamentary purposes and as Government offices; and the importance of carrying out feasibility studies of the project for building a riverside tunnel from the Embankment to Lambeth Bridge and of the related road proposals.

It would be important to make it clear that, in so far as further Government building was involved, this must be consistent with the Government's policy of restraining the growth of office employment in London and that during the currency of the present restrictions on office building in the metropolis the development of the area in question would be carried out in conformity with that policy. In fact, however, there need be no conflict between the proposals in the reports and the Government's policies in this respect. Even if decisions were taken immediately it would not be possible to start construction on the Bridge Street site until 1968; the site would not be redeveloped, and available for staff to be moved from the present Foreign Office building, until 1971; the rebuilding of the Foreign Office itself could not be expected to be completed until 1975; and it would be at least 1980 before the Great George Street site could be redeveloped. During this period the policy relating to the control of office building in general would inevitably be modified; and it would be unrealistic to seek to make the Government's endorsement of an imaginative long-term scheme conditional on the observance of restrictions which might well have been substantially changed before it came to fruition. Moreover, Whitehall and Parliament Square constituted the administrative centre of a city which was at once the capital of the United Kingdom and the centre of the Commonwealth; and their development should be accepted as being in a class apart from the development of other sites for office building. Finally, experience had shown that the cost of accommodating civil servants in leasehold buildings dispersed throughout London was unnecessarily high; and on grounds of economy and efficiency they should be housed in Crown buildings. This policy need not imply any increase in the total number of civil servants in London as a whole; it would merely denote a greater degree of concentration within the Whitehall area.

The Minister of State, Board of Trade (Mr. Darling) said that the proposals in C(65)94 foreshadowed an increase of office accommodation which might well conflict with the Government's policy and would be liable to constitute an embarrassing precedent in relation to office building projects in the private sector which the Government were concerned to seek to restrain. It would therefore be preferable to amend the proposed statement to indicate that the Government building contemplated in this area would be subject to the same restrictions as other office building in London.

In discussion there was general agreement that the imaginative quality of the proposals for the development of the centre of the capital over the next 30 years should not be obscured by the need to have proper regard to current restrictions on office building and to the financial exigencies of the immediate economic situation. While the timing of the expenditure involved and the manner of the
proposed development must take these difficulties in account, the Government should declare their firm intention to develop this area in the longer term in accordance with the principles of Sir Leslie Martin's report.

In further discussion the following main points were made:

(a) Any substantial expenditure on construction would not be incurred before 1968. A statement of policy on the lines proposed would not, therefore, imply any premature degree of financial commitment.

(b) In principle it would facilitate the conduct of Government business and be conducive to economy in expenditure if those Departments which remained in London were concentrated in the Whitehall area and were accommodated in Crown buildings rather than in rented premises. This need not imply, however, any change in the policy of dispersing Government staffs from London to the provinces to the maximum possible extent; and the proposed statement should emphasise this fact. It might also include with advantage some statistical information about the high cost of maintaining Government Departments in rented accommodation and the economies which might ultimately be achieved by building new Crown offices. But, in order to give effect to the undertaking in the proposed statement that during the currency of the present restrictions on office building in London development would be carried out in conformity with this policy, the Bridge Street site should not be developed to a greater capacity than 300,000 square feet, even though the building might be designed to be capable of extension at a subsequent stage.

(c) The concentration of Government staffs in the Whitehall area would imply the vacation of offices elsewhere in London; and it would be necessary to ensure that this did not provide opportunities for evasion of the Government's plans for the limitation of office accommodation in London as a whole.

(d) The wording of the proposed statement should not be such as to prejudice the rebuilding of the Foreign Office block as soon as possible. On the other hand work on this project could not begin until the major part of the staffs concerned had been rehoused in the new building on the Bridge Street site. It would be preferable, therefore, to combine the first two sentences of the fourth paragraph of the proposed statement in order to make it clear that both sites would be redeveloped as soon as practicable.

(e) The proposals relating to the rerouting of traffic in the Westminster area were less precise and more arguable than those concerned with site redevelopment. In particular, the proposed riverside tunnel would require further study before its feasibility could be decided. It might also prove impossible to remove traffic altogether from a precinct in Parliament Square. The statement should therefore be amended to emphasise the need for further consideration of the proposals relating to traffic before decisions.
could be taken. Meanwhile, however, it was important that the current efforts for the improvement of the traffic flow in this area should be continued as a matter of urgency.

(j) The statement should also refer to the part to be played in these developments by the Greater London Council.

The Prime Minister, summing up the discussion, said that there was broad agreement with the proposals in C (65) 94; and the draft statement should now be further considered, in the light of the discussion, by the Ministers primarily concerned. Agreement in principle did not, however, commit the Government to any decision on the precise timetable for the construction of the Government offices involved, which would require further examination when detailed plans and estimates were available.

The Cabinet—

(1) Approved C (65) 94 in principle.

(2) Invited the Minister of Public Building and Works, in consultation with the Minister of Housing and Local Government and other Ministers concerned, to revise the draft statement in the light of the discussion.

3. The Cabinet considered memoranda by the Minister of Land and Natural Resources (C (65) 96 and 102) on problems of policy in connection with the establishment of a Land Commission, with particular reference to betterment levy; a memorandum by the Chancellor of the Exchequer (C (65) 100) on betterment levy and capital gains tax; and a note by the Minister of Land and Natural Resources (C (65) 95) to which was appended a draft White Paper on the Land Commission.

Betterment levy and capital gains tax

The Minister of Land said that the proposal to create a Land Commission was based on the concept that development value which was created by the community should be recovered for the community, provided that the landowner retained a sufficient proportion of that value as an incentive to put his land on the market. In conformity with this concept it was proposed that development value should be subject to a single betterment charge, levied by the Land Commission, and not to capital gains tax in addition to the betterment levy. If this arrangement were adopted, there might be a progressive rate of levy. But, although there would be no difficulty in providing in legislation for the rate to be raised from time to time, any attempt to prescribe the dates on which it would be increased might provoke undesirable fluctuations in the supply of land; and it could be argued that it would be equally unwise to announce the amounts of the proposed increases. The balance of advantage, however, seemed to incline in favour of specifying the amounts involved, but not the dates on which they would take effect.
The Chancellor of the Exchequer said that it would be undesirable to remove development value from the scope of capital gains tax and to subject it only to betterment levy. During the recent Parliamentary debates on the Finance Bill the capital gains tax had been presented as a comprehensive tax, which should apply to every type of capital gain; and the Government had successfully resisted attempts by the Opposition to confine it to a limited field. To adopt a different policy in relation to development value would therefore expose the Government to charges of both indecision and breach of faith. Moreover, it would involve withdrawing relief in the Finance Bill to owner-occupiers and small taxpayers; and the Government would face determined opposition in the House of Commons to the imposition on the whole of development value of a levy which, unlike capital gains tax, would take no account of individual means and would comprise an element of retrospection. Persons in substantially similar positions would be treated differently—the property-dealing company from the land-owning company, the owner of land from the owner of shares in a land-owning company. The valuable distinction between the short-term and long-term gains of the speculator would be lost, as would the advantage that the weight of the capital gains tax would increase gradually over a period. The administrative problems which would ensue would be formidable.

In discussion it was suggested that the proposal would not make a formal breach in the comprehensive nature of the capital gains tax, since this would continue to be chargeable on increases in existing use value. Only the special increment of value resulting from the grant of planning permission would be affected; and, unless this increment were charged wholly to betterment levy, not only would the principle of retaining a due proportion of development value for the community be obscured but the rates of levy which it would be practicable to charge at the beginning of the Land Commission's operations would be so low that it would be difficult to convince public opinion of the necessity for the establishment of the Commission. The general public would expect to see development value charged solely to levy as a means of fulfilling the Government's pledge to reduce the price of land. Moreover, there was a risk that, if the levy were seen as an addition to capital gains tax, there would be pressure that individual ability to pay, a consideration which was properly relevant to taxation, should also be applied to the levy, despite the fact that the levy was directed to the wholly different social purpose of recovering for the community a reasonable part of the additional wealth which the community had helped to create. From this point of view a distinction could reasonably be drawn between the exemption of an owner-occupier from capital gains tax on the increased value of his house, which was intended to enable him to meet the cost of replacement, and the imposition of levy on the development value of his surplus land; and, while administrative difficulties would undoubtedly be encountered if betterment levy were
made the sole charge in the latter case, it was not clear that they would be any less if it were combined with capital gains tax.

The Prime Minister, summing up this part of the discussion, said that the balance of opinion in the Cabinet was in favour of subjecting development value solely to betterment levy and not to capital gains tax. It was agreed that the rate of the levy should initially be 40 per cent, rising to 45 per cent and 50 per cent, at intervals which should not be publicly specified.

The Cabinet—

(1) Agreed that the development value of land should be exempt from capital gains tax and made subject to betterment levy; and that it should be increased at intervals, which should not be specified in public, from an initial rate of 40 per cent to 45 per cent and, subsequently, 50 per cent.

Permanent endowment land of charities

The Minister of Land said that charities held land in three categories—functional land, which was directly used for the purposes of the charity; permanent endowment land, which had been given in perpetuity in order to provide the charity with income and was subject to restrictions on sale; and land which was held as an investment and was not subject to restrictions. It had been agreed that functional land, but not investment land, should be exempt from betterment levy. The question now at issue was whether permanent endowment land should be similarly exempt. It had not been found possible to distinguish between one charity and another, or one sale and another, on the basis of the social value of either the charity or the particular transaction, without raising the question whether purposes which the Government did not regard as socially valuable should nevertheless be recognised as charitable. But to exempt the permanent endowment land of all charities on the ground that, by definition, it served a social purpose would be contrary to the principle that increases in the value of land created by the community should not accrue solely to the owner, a principle which applied equally to charitable as to other landowners. Moreover, the Government would be open to political criticism if they introduced the Bill in a form which permitted, for example, Eton College to retain the full market value of the development land which they owned in London but did not enable a local authority to retain the development value of its land for its own social purposes.

In discussion it was pointed out that, since the control of the sale of permanent endowment land exercised by the Secretary of State for Education and Science, the Charity Commissioners, the Church Commissioners and the Courts ensured in practice that money realised by the sale of permanent endowment land was applied to charitable purposes, it was possible to distinguish charities from other landowners on the ground that their purposes had for generations been recognised to be deserving of encouragement. Moreover, while there might be political criticism of the exemption of individual charities, charities as a whole commanded considerable
public sympathy and support; and Members of all Parties would find themselves under embarrassing pressure from the supporters of small local charities in their constituencies if their endowment lands were made subject to betterment levy.

The Cabinet—

(2) Agreed that the permanent endowment land of charities should be exempt from betterment levy.

White Paper

In discussion of the draft White Paper, the following main points were made:

(a) As a matter of presentation it might be useful in the historical survey in Section I to refer, although preferably without suggesting any sympathy with the feudal system, to the fact that originally ownership of land had carried with it obligations to render service.

(b) Section IV on the Land Commission's powers of acquisition had been revised in order to bring out more clearly the Government's proposals for developing the Land Commission's functions and powers in stages and so to avoid creating unnecessary alarm about the operations of the Commission in the initial stage. From this point of view, however, paragraphs 14 and 17 might be further improved by minor drafting amendments.

(c) The absence in paragraph 20 of any indication of intention to make the more rapid procedure for compulsory purchase, as well as the new vesting procedure, available to all bodies with powers of compulsory purchase would be likely to attract criticism from local authorities. It would not be appropriate, however, to commit the Government to any such intention in advance of a thorough examination of compulsory purchase procedures, possibly by an independent committee. But it could be disclosed, if necessary, that the Government had compulsory purchase procedures generally under consideration.

(d) The reference in paragraph 22 to leasehold enfranchisement should be examined at a later stage, when decisions of policy on this subject had been taken.

(e) The third sentence of paragraph 24 should be amended to read: “Where this is not possible, however, with the consent of Ministers the Commission themselves will have power to provide houses for disposal direct.”

(f) The last sentence of paragraph 24, which referred to the possibility of using some of the proceeds of the Commission's activities to finance cheaper mortgages, should be omitted in favour of some more general statement about assistance to owner-occupiers.

(g) The passage in paragraph 36 discussing the means by which additional assistance might be given to local authorities as a result of the operations of the Land Commission should be omitted. It would be unwise to canvass the problems before the current
discussions with local authorities had been completed; but it might be possible to give some informal indication of the Government's intentions when the White Paper was published.

The First Secretary of State, summing up this part of the discussion, said that the amendments proposed in discussion should be considered by the Minister of Land and Natural Resources in consultation with the Ministers concerned; and, if agreement on a form of words could not be reached, the matter should be referred to the Lord President. Otherwise, the draft White Paper was approved. At present it was proposed that it should be published in September; but the precise date would need to be further considered in connection with the programme for the publication of other White Papers likely to appear in the autumn.

The Cabinet—

(3) Invited the Minister of Land and Natural Resources to discuss with the Ministers concerned the amendments to the draft White Paper which had been suggested in discussion and, if agreement was not reached, to refer the matter to the Lord President of the Council.

(4) Subject to Conclusion (3) above, approved the draft White Paper appended to C (65) 95.

(5) Took note that the Lord President of the Council, in consultation with the Minister of Land and Natural Resources, would consider the date of the publication of the White Paper in the context of the programme for the publication of other major statements of Government policy.

4. The Cabinet had before them memoranda by the Secretary of State for Education and Science (C (65) 88 and 99) about the public schools.

The Secretary of State for Education and Science said that on 17th December, 1964, his predecessor had announced that he proposed “to set up an educational trust with a view to the integration of the public schools within the State system of education.” His own proposals for achieving this objective had subsequently been approved in principle by the Social Services Committee; but the Committee had considered that further action should be deferred until the autumn. It would be desirable, however, to give some interim indication of the Government’s intentions; and he therefore proposed to announce, in answer to a Parliamentary Question, that the Government’s preparations for setting up a Public Schools Commission to advise on the best way of integrating the public schools into the State system of education had reached an advanced stage; that he now proposed to invite the views of interested parties; that he also intended to take into account the study by Dr. Lambert of boarding school education as a whole; and that he hoped to establish the Commission in the next Session of Parliament.
The Commission might be established early in 1966 and could be expected to take some two years to complete its work, including the implementation of pilot schemes. Thereafter, it should be possible to embark on a major plan of integration by the autumn of 1969. No major charge to public funds would be involved until the final stage of this plan. The ultimate cost would depend upon the Government's policy decisions; but the maximum expenditure would be of the order of £23–24 million if all boarding places were eventually taken over by the State.

Discussion showed general agreement with the terms of the announcement proposed, on the understanding that this did not imply any decision on the detailed proposals which the Social Services Committee had recommended until they had been further considered by the Cabinet.

The Cabinet—
(1) Approved C (65) 88.
(2) Invited the Secretary of State for Education and Science to circulate in due course his proposals on the future of the public schools.

Cabinet Office, S.W.1, 13th July, 1965.