CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 25th November, 1965, at 10.30 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister

The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (Items 1-3)

The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs

The Right Hon. Sir Frank Soskice, Q.C., M.P., Secretary of State for the Home Department

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 (Items 1-4)

The Right Hon. R. J. Gunter, M.P., Minister of Labour (Items 1-3)

The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. Tom Fraser, M.P., Minister of Transport

The Right Hon. Herbert Bowden, M.P., Lord President of the Council

The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer

The Right Hon. Denis Healey, M.P., Secretary of State for Defence (Items 1-2)

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 (Items 1-2)

The Right Hon. Barbara Castle, M.P., Minister of Overseas Development
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The following were also present:
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 2)
The Right Hon. MARGARET HERBISON, M.P., Minister of Pensions and National Insurance (Items 2-4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 2-5)
Mr. GEORGE WILLIS, M.P., Minister of State, Scottish Office (Items 4-5)
The Right Hon. EDWARD SHOFT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
MISS J. J. NUNN
Mr. L. ERRINGTON

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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

In discussion the following points were raised:

(a) A Motion had been put down for debate by a back bench Member of the Opposition censuring the Government's policy on Rhodesia. It was for consideration whether this Motion should be merely opposed or whether an amending Motion should be tabled, not on behalf of the Government, but by a Private Member. There was general agreement that the matter should be left for decision by the Prime Minister with the Ministers primarily concerned.

(b) The draft Rating Bill, which was due to be published on the following day, had only come before the Legislation Committee on the preceding Tuesday; and an issue of policy, which was to be considered by the Cabinet under a later item on the agenda, had still not been resolved. The delay in reaching decisions on the content of several Bills was beginning to jeopardise the timetable for the Government's programme of legislation in the current Session.

(c) Lord Silkin had introduced an Abortion Bill in the House of Lords. This went further in a number of respects than the earlier proposals for reform which had been put forward by the Abortion Law Reform Association. In particular, it sought to legalise abortion on grounds connected with the social conditions in which the mother was living; and the effect of such a provision could be regarded as removing, in effect, any restraint on abortions. Moreover, the General Council of the British Medical Association had recently set up a committee to consider the reform of the law relating to abortion and had called upon the Government to refrain from any action in this regard pending the committee's report. There was general agreement that in these circumstances the Government's spokesman should maintain an attitude of strict neutrality towards Lord Silkin's Bill.

The Cabinet—

(1) Took note of the points raised in discussion.

(2) Agreed that the Government spokesman should adopt an attitude of strict neutrality towards the Abortion Bill introduced by Lord Silkin in the House of Lords.

2. The Cabinet resumed their discussion of a note by the Chief Secretary, Treasury (C (65) 157) on the implications for the public sector of the change in the basis of contracting out proposed by the Minister of Pensions and National Insurance.

The Chief Secretary, Treasury, said that it had emerged from the Cabinet's previous discussion that the Minister's proposals for eliminating the anomalies in the present arrangements for contracting out would be liable to provoke strong reactions among a large body
of employees in the public sector, who would be required to pay higher contributions in return for lower pensions; nor, apart from acquiring cover for widow's benefit, would they gain any significant advantage from the new earnings-related short-term benefits. Moreover, the Cabinet's decision on the pay of the Armed Forces had now exposed a new area of sensitivity in this connection. The Minister's proposals, therefore, raised acutely the difficult and controversial problem of abatement of public service pensions by reference to National Insurance provision which had lain unsolved since 1948. Although the change proposed by the Minister was probably inevitable, and the abatement issue must therefore be faced sooner or later, it was arguable whether this was the appropriate time for raising it. If the changes in contracting out were deferred until the Minister's review of national insurance pension provision was complete, it might then be possible to offer the public service employee a better bargain. There was a strong case for leaving the contracting out arrangements unchanged for the time being and for confining the immediate legislation to earnings-related short-term benefits and the small earnings-related contribution of a half per cent which was needed to cover the cost.

The Minister of Pensions and National Insurance said that the Chief Secretary's proposal would not entirely avoid the difficulties on abatement and would create further difficulties of its own. The public service employee would have to pay up to 2s. 1d. a week more for earnings-related short-term benefits from which he was unlikely to receive any great advantage. All the anomalies and inequities of the present arrangements, which the Government had themselves criticised, would be perpetuated; and there would be considerable difficulty in increasing graduated contributions to help to finance the next general increase in benefit so long as the present contracting out arrangements remained. If the next increase in benefits had to be paid for solely by increases in the flat rate contribution, this would limit the amount of increase that could be given, would impose hardship on the lower paid contributors and would be expensive to the Exchequer by reason of the additional proportionate Exchequer supplement thereby attracted. Moreover, the changes in contracting out would incidentally produce extra income which would enable an all-round reduction of 4d. to be made in the flat rate contribution; and this, in turn, would yield a saving of £8 million in the Exchequer's proportionate supplement. Thus, the changes in the arrangements for contracting out which she proposed might well prove no more expensive to the Exchequer than a perpetuation of the present arrangements, even taking account of the concessions which might have to be made in negotiation.

In discussion the following main points were made:

(a) The original proposal to introduce earnings-related unemployment benefit for economic reasons had now been expanded to include changes which, however desirable, had no economic justification. In view of the difficulties which they raised and the large numbers in the public sector who would be adversely affected, it was doubtful whether the Minister's proposals in regard to
contracting out should be grafted on to the proposals for earnings-related short-term benefits, since a better opportunity might later occur in the context of a new national insurance pension scheme.

(b) A contribution increase of no more than one-half per cent for the contracted out might prove tolerable. On the other hand the issue of principle would not be evaded even in relation to the abatement of pension, since the half per cent contribution for earnings-related short-term benefits would, for technical reasons, qualify the contracted out for a small graduated pension also. The difficulty of negotiation on abatement could therefore not be avoided.

(c) If any concession were to be made to mitigate the effect of the Minister's proposals on public service employees, this would have to take the form of a modification of abatement rather than of compensating improvements in pay.

(d) There might be some precedent in the arrangements made in 1948 whereby abatement in respect of the flat rate national insurance pension was applied only to civil servants becoming established after that date.

(e) The Chief Secretary's alternative proposal represented a major change in the Minister's proposals on which she had already consulted the Trades Union Congress (TUC) and other interested bodies. It was arguable whether the intrinsic advantages offered by the Minister's proposals should be set aside by reason of difficulties expected in negotiation, especially since these would not be entirely avoided by the alternative proposal.

(f) It would not be practicable to achieve an economy in the Minister's proposals, in order to compensate for the cost of any negotiated settlement with employees' associations, by omitting provision for earnings-related widow's allowance, since the latter had been mentioned in The Queen's Speech.

The Prime Minister, summing up the discussion, said that the Cabinet appeared to be faced with a choice between two courses. The Minister's proposals for changing the basis of contracting out had certain clear advantages; but the extent of their attendant disadvantages depended on the degree to which it might be possible or necessary to make concessions in negotiation with employees in order to achieve a fair settlement, possibly on the lines of the concession made to existing civil servants in 1948. On the other hand, the Chief Secretary's alternative proposal, i.e., to leave the contracted out arrangements unchanged and to charge only the additional \( \frac{1}{2} \) per cent for short-term benefits, while raising the difficult issue of abatement in a less acute form, would be accompanied by its own disadvantages; and these also required further study. The Social Services Committee should accordingly consider urgently what concessions might have to be made in order to achieve a settlement with the employees' associations if the Minister's proposals were adopted. They should also consider the implications of the Chief Secretary's proposal and should report to the Cabinet where the balance of advantage lay.
The Cabinet—

Invited the Chancellor of the Duchy of Lancaster to arrange for the Ministerial Committee on Social Services to consider urgently the relative advantages of the alternative proposals for those contracted out of the graduated pension scheme, in accordance with the Prime Minister’s summing up of their discussion.

3. The First Secretary of State informed the Cabinet of the current position as regards the dispute in the bakery industry. A proposal by the industry to increase the price of bread had been referred earlier in the year to the National Board for Prices and Incomes. At that time the Bakers’ Union had already put forward a claim for higher wages. The Board had reported that the proposed increase in the price of bread was not justified; and with considerable difficulty it had subsequently been agreed with the industry that the present price should be maintained for a period of six months ending on 6th March, 1966, subject to review on 6th December. It was probably in consequence of this agreement that the bakery firms were resisting any increase of wages in response to the Union’s claim. The Union had resisted the proposal that their wage claim should be referred to the Board; and, although there had at one stage been indications that they might be prepared to consider abandoning the present strike if a Court of Enquiry were appointed, they had finally proved unwilling to do so. Nor had repeated subsequent discussions between himself and the Minister of Labour on the one hand and the President and the General Secretary of the Union on the other enabled any agreement to be reached on a reference to the Board. The Union’s current demand was that they should receive an immediate increase of 20s. a week on basic rates, before they were even willing to start negotiations. This would entail an interim wage increase of between 8½ and 9 per cent; and total earnings might be substantially higher in view of the amount of overtime which was normally worked in the industry. In these circumstances he had decided, in agreement with the Minister of Labour, to take the initiative in referring the wage claim to the Board despite the Union’s opposition; but it seemed clear that, if the Union’s claims were not conceded, there would be an extension of the current strike to a large part of England and Wales.

In discussion there was general agreement that the Government should not at this stage take any further initiative to resolve the dispute or promote emergency arrangements to increase available supplies of bread, save that in accordance with normal practice the Minister of Labour would ask the Executive of the Union to discuss with him whether means could be found of bringing the strike to an end.

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The Cabinet—

(1) Took note of the statement by the First Secretary of State.
(2) Agreed that no special measures should be taken by the Government at this stage to increase the supplies of bread which would be available to the public in the areas affected by the strike in the bakery industry.

4. The Cabinet considered memoranda by the Chancellor of the Exchequer (C (65) 160) and the Minister of Housing and Local Government (C (65) 159) on the rate rebates to be provided in the forthcoming Rates Bill.

The Chancellor of the Exchequer said that there were two outstanding questions of policy; (i) whether the "threshold" of rate liability above which the amount payable would be abated by two-thirds should be £6 10s. or £7 10s.; and (ii) whether the income limit for relief for a single person should be £7 or £8 a week. With the higher threshold and the lower income limit there would be savings of £3-£4 million to the Exchequer and of £1-£1½ million to the rates. The reduction in the relief given to individuals by raising the threshold to £7 10s. would be 13s. 4d. a year or only 3d. a week. As to the income limit, £8 a week would imply a substantially larger differential between the level for the single person and that for the married couple than applied in the fields of income tax, national insurance and national assistance; and it was significant that, while the Committee on the Impact of Rates on Households (the Allen Committee) had said that rates pressed particularly hard on single retired householders, they had quoted figures to show that the average income of all retired single householders was substantially below £7 a week. In relation to the substantial relief which either set of proposals would give to the individual ratepayer the difference between them was not sufficient to justify additional expenditure at a time when economy in public expenditure was particularly important.

The Minister of Housing and Local Government said that the purpose of the rebate scheme was to reduce the proportion of household income which was absorbed by rates in the lower income groups, where rates bore particularly heavily. The original proposal had envisaged the threshold at a level of £5; but, in deference to the views of the Chancellor of the Exchequer, he had agreed that it should be raised to £6 10s. This would reduce the numbers who qualified for relief by some 150,000; but to raise the threshold to £7 10s. would exclude a further 100,000. As regards the income limit, the greater differential in favour of the single person could be justified by the fact that it was on single persons, particularly widows and widowers of retirement age, that the burden of rates fell most heavily. Under the Chancellor of the Exchequer's proposals a single person with an income of £8 a week and a rate bill of £40 would be devoting...
7.5 per cent of income to rates, compared with an average of 2.6 per cent for all income groups. To reduce the income limit from £8 to £7 would debar a further 150,000 householders from relief—with the result that nearly 400,000 of an estimated 2.4 million beneficiaries would be excluded from the scheme. It was not worth creating an additional category of hardship in order to save £3–£4 million out of a total cost of £23 million to the Exchequer.

In discussion it was suggested that it would be wise to fix a relatively low income limit at the outset in view of the power which the Rating Bill would confer on the Minister of Housing and Local Government to vary the limit by Order and of the fact that the scheme would be open to the criticism that it operated unfairly as between one individual and another because the test of income took no account of capital resources. Moreover, the reliability of the figures quoted by the Allen Committee was open to doubt. In particular, it was not clear that there were large numbers of people at the lower end of the income range who would be eligible for rebates, because most of those with incomes of about £6 a week would be in receipt of national assistance. On the other hand elderly people with small incomes, whom the scheme was designed to assist, constituted the section of the community whose needs appeared to be greatest and for whom, given the deferment of the income guarantee scheme, little relief was being provided. The publication of the Survey of Retirement Pensions in January would reactivate pressure on behalf of the considerable numbers who were now living below national assistance level but were unwilling to claim assistance; and it would be desirable that the Government should be in a position to point to some effective means, such as the present proposals, for helping them.

After further discussion it was suggested that the income limit would have greater significance for the single person of small means than the figure set for the threshold of rate liability. The saving of £2 million resulting from raising the threshold to £7 10s. should therefore be made; but the income limit should be fixed at £8 a week for a single person.

The Cabinet—
Agreed that, for purposes of the Rating Bill, the minimum rate liability should be £7 10s. a year and the income limit for full relief for a single person £8 a week.

5. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C (65) 155) on the establishment of a Public Schools Commission.

The Secretary of State for Education and Science recalled that the Queen's Speech on the Opening of Parliament had stated the Government's intention of setting up a Public Schools Commission to advise on the best way of integrating the public schools with the State system. It remained to consider the scope and terms of reference of the Commission. It was proposed to define public schools for this
purpose as independent schools in membership of the Headmasters’ Conference, Governing Bodies’ Association or Governing Bodies of Girls’ Schools Association. The effect of this would be to exclude direct grant schools and private schools not in membership of the bodies in question. It was desirable to exclude the direct grant schools because they were already in a sense part of the public sector and their role in local schemes for comprehensive education should be worked out in direct negotiation with the local education authorities. The private schools presented no urgent problem, but it was proposed that the Commission should be asked in general terms to recommend whether any action was needed in respect of them. The tasks explicitly laid on the Commission would be to collect information about the schools, with an emphasis on the provision and the need for boarding education; to work out with those concerned the part which individual schools should play in national and local schemes of integration; to initiate, if it so wished, but subject to the approval of the Minister, experimental schemes; and to recommend a national plan for integrating the public schools with the maintained sector. In order to obviate the risk of the Commission making unacceptable recommendations, it was desirable also to specify the objectives to which they should have regard. These should include satisfying the need for boarding education; reducing the divisive influence of the schools by providing for a socially mixed entry and a progressively wider range of academic attainment; and ensuring that in the long run entry to public schools should cease to be dependent on parental means.

It was proposed that the Commission should consist of a paid half-time Chairman, and possibly Deputy Chairman, and about twelve others drawn from, but not representing, the interested parties, with one or two independent members. The servicing of the Commission by the Department of Education and Science might cost some £55,000 a year. The cost of the experiments—perhaps £100,000 in the first year and not more than £400,000 in the second—was expected to be borne by the local authorities. Expenditure resulting from the Commission’s recommendations could not arise for two or three years. As to other measures in relation to public schools, there appeared to be little to be gained by applying the teacher quota, although the Commission should be asked to examine this possibility. The question of eliminating tax privileges was under discussion with the Treasury; but the abolition of the relief from rates which those public schools which were charities enjoyed in common with other charities would appear to be invidious. The question of persuading the Oxford and Cambridge colleges to give fewer places to students from public schools would be pursued in the light of the report of the Commission of Inquiry into Oxford University, under the chairmanship of Lord Franks.

In discussion the following main points were made:

(a) It would be important to make clear, as paragraph 4 (e) of the proposed terms of reference did, that the Government would not consider acceptable recommendations which amounted to no more
than an extension of the scheme for the entry to public schools of a proportion of pupils from State schools recommended by the Committee on Public Schools (the Fleming Committee).

(b) The questions of tax privileges and of rating relief raised issues of policy which would need to be considered in a wider context. Rating relief for public schools might be considered in conjunction with the problem of the re-rating of the Oxford and Cambridge colleges.

(c) It would be desirable to include among the members of the Commission persons from outside the educational system with practical experience of administration.

The Prime Minister, summing up the discussion, said that the Cabinet were in agreement with the terms of reference and the guiding principles which it was proposed to give the Public Schools Commission. The Secretary of State for Education and Science should show them in confidence to the prospective Chairman of the Commission and feel free to accept any minor amendments of drafting which he might suggest; but any major amendment would need to be referred to the Cabinet.

The Cabinet—

Approved, subject to minor amendments of drafting, the terms of reference for the Public Schools Commission set out in the Annex to C(65)155.

Cabinet Office, S.W.1
25th November, 1965