CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 5 NOVEMBER 1974
at 10.00 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor (Items 1 and 2)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment
(Items 1 and 2)

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services
(Items 1 and 2)

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
THE Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Judith Hart MP
Minister of Overseas Development (Item 2)

Mr Joel Barnett MP
Chief Secretary, Treasury (Item 2)

SECRETARIAT

Sir John Hunt
Mr P Benner (Items 1 and 3)
Mr J A Hamilton (Item 2)
Mr K R Stowe (Item 1)
Mr J A Marshall (Item 2)

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LATE IMPLEMENTATION OF THE HOUSING FINANCE ACT

Previous Reference: CC(74) 8th
Conclusions, Minute 2

1. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(74) 124) about late implementation of the Housing Finance Act 1972.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that in England and Wales 18 local authorities had defaulted in 1972-73 over the implementation of the Housing Finance Act and some 400 councillors were now liable to surcharges in respect of losses totalling £1.5 million. There were 3 courses open to the Government to deal with this situation. They could legislate to make good the losses from Exchequer funds; he would strongly oppose this, since it would condone defiance of the law at the taxpayers' expense, and the Government were in any case pledged against it. Secondly, they could let events take their course: this would, however, result in about 2 years of legal proceedings for recovery, leading to Court Orders, bailiffs and bankruptcies but with little prospect of recovering more than a few thousand pounds. It would distress many councillors of standing, including some who had genuinely believed that the Government of the day would have responded to their actions in England, as they had in Wales, by putting in Housing Commissioners to take over responsibility for the rent increases. He did not believe that such a policy of inaction would be acceptable. The final course was the compromise which had been considered by a meeting of Ministers under the Prime Minister's chairmanship. This would put responsibility for recovering the losses back on the councils that had incurred them, by requiring them to recover the sums by way of increases either in rents or in rates over the next 5 years. This would mean that surcharges and disqualifications for these councillors would not then arise. Because of local government reorganisation since 1972, however, many of the councils had been absorbed into bigger authorities and he thought it right to empower these authorities to increase rents or rates differentially so as to recover the money only from where it had been lost. Clay Cross was in a different position in that surcharges had already been made and had been the subject of Orders of the Court, and the councillors had been disqualified. He thought it right in these circumstances that the surcharges should stand and not be met in any way from public funds but the Government were committed to removal of the disqualification and, with reluctance, he would propose to legislate for this purpose. He considered that taken as a whole these proposals, although not ideal, were a practicable and humane solution to a difficult problem, although it was inevitable that they would be heavily criticised from both sides. If the Cabinet agreed he proposed to announce them on Wednesday 6 November.

In discussion it was agreed that the breaches of the law which had occurred should not be condoned by the Government and that the terms of the Secretary of State's announcement should make this very clear. It should also be made clear that if councils...
chose to recover the money from the rates, this would not attract Rate Support Grant. The solution proposed for England and Wales would not, however, be appropriate for Scotland, since surcharges could only arise there when, following an auditor's report of a loss, the Secretary of State imposed them. There were some 170 councillors responsible for losses reported for 1972-73 totalling £1.6 million; and since the sums involved were plainly beyond the councillors' means to pay it was proposed that the Local Government (Scotland) Act 1947 should be amended so as to give the Secretary of State a power, in respect of surcharges arising from 1972-73, to have regard to all the circumstances of the case, including ability to pay, and to be able to reduce the surcharge accordingly. This power already existed for 1974-75 onwards under the previous Administration's legislation for local government reorganisation in Scotland.

In further discussion it was argued that the Government would do better to wipe the slate clean, as the National Executive Committee and the Conference of the Labour Party had desired, by paying the Clay Cross surcharges from the Exchequer. The councillors concerned had felt that they were defending the interests of their supporters, as they had promised to do, and that they were defending the rights of local authorities to fix their rents; they had led the opposition to the Housing Finance Act, which had been to the Government's advantage electorally. Moreover, retrospective legislation was not objectionable if it was beneficial to the individuals affected; and breaches of the law had been forgiven in other situations, for example, in respect of illegal Pakistani immigrants. As against this it was argued that the Government's supporters in Parliament were not expecting a general amnesty for the Clay Cross councillors, while their supporters in local authorities, especially in London and the Midlands, who had stood up to criticism for applying the law as it then stood, would be outraged if those who had broken it were to have their penalties met by the taxpayer.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the proposals put forward by the Secretary of State for the Environment and congratulated him and his officials on the ingenuity shown in meeting the Government's commitments while ensuring that responsibility for recovering the losses should be put upon the rent-payers and ratepayers in the areas where they were incurred. The fact that these proposals did not meet fully the views expressed by the National Executive Committee and by the Labour Party Conference was recognised; but it was important to understand that the Government's authority rested not upon resolutions of the Party Executive and Party Conference but upon the support of the Parliamentary Labour Party in the House of Commons. There was no doubt that the majority of the latter were very far from thinking it right for the taxpayer to meet
the financial liabilities of the Clay Cross councillors. The
Government's commitment was to remove the disqualification on
them and, under the Secretary of State for the Environment's
proposals, this would be done from the date when the legislation
had been given Royal Assent. As regards the other councils
concerned, the proposals put forward for England and Wales and
for Scotland would be regarded as fully meeting the Government's
undertakings. The Secretary of State for the Environment and
the Secretary of State for Scotland should announce the
Government's proposals on Wednesday 6 November, the proposals
for Scotland being referred to in the Secretary of State for the
Environment's statement or published in reply to an arranged
Question, as seemed most appropriate. The Secretary of State
for the Environment should clear the text of the announcement
urgently with members of the Cabinet.

The Cabinet -

Took note, with approval, of the Prime Minister's
summing up of their discussion and invited the
Secretary of State for the Environment and the
Secretary of State for Scotland to be guided accordingly.
2. The Cabinet had before them memoranda by the Chancellor of the Exchequer (C(74) 120), by the Secretary of State for Social Services (C(74) 122 and 123) and by the Minister of Overseas Development (C(74) 121), on public expenditure from 1974-75 to 1978-79.

THE PRIME MINISTER, introducing the discussion, reminded the Cabinet that they had already reached a broad decision on the overall allocation of resources, whereby public expenditure should be allowed to grow at 2.5 per cent a year in demand terms over the period under consideration. They had not however completed their discussion of priorities within this overall ceiling, and at their request the Chancellor of the Exchequer had put forward an illustrative scheme. Members of the Cabinet would no doubt wish to suggest variations but this should be on the basis of a switch in resources and not simply proposals for additions.

THE CHANCELLOR OF THE EXCHEQUER said that there were two points of special urgency. The first was to settle the arrangements for next year's Rate Support Grant, which would be considered later as a separate item. The second was to agree public expenditure figures for 1975-76 for incorporation in the Budget he would be presenting on the following Tuesday: so long as firm agreement was reached on the total, some switching between programmes would be possible later, but it was also necessary to move towards decisions on the years up to 1978-79 to facilitate the preparation of the public expenditure White Paper, publication of which would almost certainly now slip to January. Public expenditure was under enormous pressures and he was grateful for the understanding he had had in his bilateral talks. The last published figures for 1975-76 had appeared in the Conservative Government's White Paper the previous December. Allowing for the increases likely to be necessary in the forthcoming Rate Support Grant settlement, and for the increases contemplated in his own paper for housing, health and education, the total for 1975-76 would show an increase of some £3,000 million compared with the figure given last December. The main areas of increase were housing (£1,170 million), social security (£768 million), trade and industry (£547 million) - mainly for price restraint - and agriculture and food (£534 million) - mainly food subsidies. For 1978-79, the programmes in the 1974 Public Expenditure Survey were some £3-400 million above the 2.5 per cent guideline; and he was suggesting the addition of a further £135 million for social security improvements, being in his view the minimum necessary for family support. Table 3 of his paper identified further claims totalling £456 million, of which £165 million were distinguished for special consideration. He also drew attention to the prospective claims in Table 4, which included £3,000 million for public ownership; and although the resource effect of much of this would be small, it did create financing problems,
especially in 1975-76 when the borrowing requirement would be
unprecedentedly high. In spite of these difficulties he had tried
to help the spending Ministers; he had for example agreed to two
upratings of social security benefits next year; to an increase in
family allowances of 60p for the first qualifying child and 50p for
the others; and to a substantial increase in the Rate Support Grant.
He had also accepted that in 1975-76 expenditure on price support
would have to be as high as in 1974-75. But it would be important
by 1978-79 to get rid of all subsidies to nationalised industry prices,
and to halve food subsidies, unpleasant though the political
consequences might be. In his view the major priorities were
housing, industrial and manpower policies and regional development.
The phasing out of subsidies was essential to accommodate these,
and he proposed to indicate this in his Budget speech. While
housing investment was a priority, housing subsidies must not be
allowed to grow above their present size, and this meant that there
would have to be rent increases to this end. He emphasised also
the need for the Government to take greater control over local
authority current expenditure, the rate of increase in which must be
reduced. Even if everything he had said about subsidies and local
authority expenditure was accepted, there was still a need for
reducing the planned expenditure in some other programmes. On
Defence, he would be prepared to accept the figures for 1975-76
already discussed by Ministers but it could well prove necessary to
reduce the amounts for later years faster and further than at present
foreseen. Certain other programmes, all making heavy demands
on goods and services, and mostly in the local authority field,
would need to be cut, although even after cutting they would still be
growing at a rate higher than public expenditure as a whole. In
1975-76, in view of the special problems facing some Ministers, he
would wish to add £149 million to expenditure on local authority
mortgages, the Housing Corporation, health, education and overseas
aid. In 1978-79 he would favour an additional £100 million for local
authority mortgages and £65 million for the Housing Corporation;
but such increases in that year must mean offsetting cuts elsewhere,
perhaps on the roads programme. He hoped the Cabinet would agree
broadly with his illustrative scheme. He recognised the matter was
a complex one, and he would try to find a simpler and more
satisfactory way of presenting it next year. Meanwhile, he warned
his colleagues that if they agreed to his general approach, they would
be committing themselves to modifying both central and local
government spending policies to turn it into a reality.

THE SECRETARY OF STATE FOR SOCIAL SERVICES, introducing
her papers, said that it was necessary to consider where the
proposed priorities would take the Government by 1978-79. In the
field of family support, including nursery education, they would find
that they had actually reduced financial support to families; there
was a fall of £170 million between 1975-76 and 1976-77, partly
because the proposed increases in family allowances did not restore
the earlier real level, and partly because the Chancellor proposed to postpone the introduction of child allowances to 1977, with no further uprating of family allowances before then. She felt it essential that some way be found of helping the first child of one-parent families. In the field of health, current expenditure would grow at an annual rate of only 2.8 per cent, where the Conservative Government had achieved 4.2 per cent. The programme as a whole would grow less rapidly than roads, which under the Chancellor's illustrative scheme would grow at a rate of 3.2 per cent. Turning to the Law and Order programme, she thought it was a wrong set of priorities which allowed a 40 per cent increase in capital expenditure on police, prisons and courts, while the services for young offenders ground to a halt for want of money. An urgent reassessment of overall priorities was necessary. She had reached agreement with the Chancellor of the Exchequer on the improvements in social security benefits to be made in 1975-76. Social security benefits had of necessity to keep pace with earnings, and this made the uprating next April essential. This would cost an extra £200 million next year, but even then, because she had agreed to the "historical" basis for assessing the increases in relation to the relevant movements in earnings and prices, beneficiaries would be receiving a smaller proportion of average national earnings next April than last July. She had agreed with the Chancellor that a second uprating in December would mean that there would be no Christmas bonus in 1975. Her other proposals were a modest improvement in some other benefits and in supplementary benefit disregards - the only thing which was being done for one-parent families. Family allowances would be increased from April 1975 but the introduction of the full scheme of child allowances would be postponed until 1977; she had accepted that the corresponding rate need not be settled now. Even with these improvements she doubted whether it was acceptable to reduce food subsidies as the Chancellor had suggested, and she urged on her colleagues the need for some gesture of support for one-parent families in 1976.

THE MINISTER OF OVERSEAS DEVELOPMENT said she recognised the problems which the Chancellor faced, and that her own request was a difficult one in the present situation. But it was unavoidable. In her view the proposed increase of £9 million in 1975-76 was not enough: the figure should be £30 million. She was, however, prepared to accept the proposed Survey figures for later years with the exception of the cut of £10 million in 1978-79. For 1975-76, the Chancellor's proposed addition of £9 million would mean - and would be seen to mean - no more than a standstill in the aid programme. Her own proposal would offer a recognisable increase. In the past the Cabinet had been motivated by a desire to help developing countries; but today the situation was one of crisis, with the possibility of a world slump. The developing countries represented some 18 per cent of the United Kingdom's trade and an
important part of that of other countries too. Their ability to continue that trade was thus directly linked with the United Kingdom's own economic self interest. Analyses by such bodies as the United Nations and the Organisation for Economic Co-operation and Development had shown that the countries which would be hardest hit by a world recession would be those who were traditionally recipients of British aid, such as India and Bangladesh, where political as well as economic breakdown was threatening. The aid programme had to be fixed in the light of the commitments in the Party Manifesto and in The Queen's Speech. The reference in the latter was being taken by voluntary organisations as a precise commitment to show some increase next year. The United States was unlikely to do more next year than in 1974-75, and this put a greater burden on other countries. The hope was that next year would begin to see the involvement of the Arab oil-producing countries in the provision of development aid; but this would take time, and in her judgment an additional £30 million next year was essential if the United Kingdom was to play its proper part.

In discussion there was general acceptance of the analysis presented by the Chancellor and of the approach represented by his illustrative scheme. There was broad agreement that housing - which had been referred to by every Labour speaker in the debate on The Queen's Speech - was a first priority. On overseas aid, there was also a general view that more money should be made available - both on grounds of moral commitment and because it would be important to mobilise the support of the developing countries in coping with the potential threats to international economic stability. There was no dissent from the argument that nationalised industry price subsidies should be phased out and the cost of food subsidies gradually reduced. Concern was expressed at the difficulty of making collective decisions on fundamental questions of priority on the basis of the present form of public expenditure survey; before the next survey Ministers should be able to discuss priorities in depth and the figures should be given in a way that would allow this to be done sensibly.

In further discussion, the following points were made:

a. Expenditure on roads had already been switched to a very low priority. The rate of increase of 3.2 per cent which had been quoted was a measure of increase, not in capital expenditure on roads, but of the whole roads and transport programme, and was largely attributable to the subsidies to British Rail and to local passenger transport undertakings. In Wales the construction of roads was lagging badly behind England, most of the money in 1976-77 being required for the M4, which was of crucial importance for the Principality.
b. The proposals for education meant that some expectations could not be fulfilled. There was no prospect of restoring free school milk in primary schools. In higher education it meant a target of only 640,000 students compared with the 750,000 which had been the aim of the Conservative Administration (although there was some evidence of falling demand). It meant no resources to cater for the recommendations of the Russell Report, the James Report or the Bullock Report; and no additional resources for the youth service, the libraries service or the arts or basic scientific research. The large cuts proposed were feasible partly because of reduced demographic forecasts; but some increase in capital expenditure was desirable - additional starts of £5 million for nursery education and £10 million for improvements in primary and secondary schools adding some £7-8 million to expenditure in 1975-76.

c. On expenditure on Law and Order, while capital expenditure, as had been noted, was planned to increase, hardly any of this was for the expansion or improvement of accommodation for adult offenders. Some £40 million had been taken out of the prison programme, and to go further would have serious repercussions on prison building. Much of the increase was devoted to the needs of the under 21's - the age group which showed the most disturbing increase in criminal activity.

d. The Secretary of State for the Home Department had agreed to a cut in the building programme for courts under his control; but it was for consideration whether there should not be a larger cut than agreed so far in the court building programme controlled by the Lord Chancellor.

e. Private productive investment could be stimulated in three ways - by generalised fiscal measures, through the Budget; by easing the price Code; and by direct selective support for industry. Only the third of these, which was favoured by the TUC, impinged directly on public expenditure. There were obvious difficulties in trying to correlate these three different ways of tackling the same problem. Thus, the Investment Bank which was contemplated, and the National Enterprise Board, might require some £1,500 million, but there was no way of relating that to help which could be given through Budget easements. This was a question that needed further study.
In subsequent discussion, it was pointed out that events beyond the control of Ministers might well make it necessary to look again at any general pattern of priorities agreed now. If a recession became a reality the preservation of employment might well need to assume top priority. Similarly if the world moved into a new and emergency food supply situation, it could mean that there would need to be increased expenditure on the fostering of home-based agricultural production; but that would be a new situation which would have to be considered at the time. The Contingency Reserve - £300 million next year rising to £1,000 million in 1978-79 - was meant to cope with unforeseen expenditures on a modest scale, but clearly a major crisis such as a threatened breakdown in the trade and monetary system would require fundamental reconsideration. Even within the existing scheme, the prospective commitments listed in Table 4 of the Chancellor's paper should not be viewed lightly. If the Cabinet were to be stringent about public expenditure which directly or indirectly, made demands on goods and services, it must be prepared to be equally tough towards expenditure with little or no demand effect - as with the purchase of assets on nationalisation - since their implications for the public sector borrowing requirement could be very serious. It could well be that the main Opposition attack on the Government's scheme would be focused on the borrowing requirement itself. Nor was it to be assumed that the demand effects of many of these prospective payments would be negligible. In considering priorities it would not be enough to confine attention to the public sector simply because that was the area under Ministerial control, and it was necessary to work out a means of reining back inessential private expenditure so as to minimise the public sector cuts needed.

The Government would have to consider the problem of the presentation of their policies to the Party and the country. The Budget Speech would be an occasion for a comprehensive presentation of strategy, but early opportunities should be taken to reinforce it. It was suggested that there might be merit in drawing up a declaration for issue after the Cabinet's meeting at Chequers on 17 November which would set out the relationship between the world scene and the United Kingdom's own problems, and relate public expenditure policy to economic strategy generally. On the other hand it was pointed out that the Chequers' meeting was to allow a wholly free and uninhibited discussion between Ministers. Even if such a declaration was appropriate its drafting could only be put in hand subsequently.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet gave general approval to the approach proposed by the Chancellor of the Exchequer to the problems of public expenditure. The Chancellor should now consider the points made in discussion, both those of a general character and those concerned with departmental programmes; and should consult further with the Ministers concerned to decide what adjustments could be made in order to accommodate desired changes within the agreed guidelines. As far as possible he...
should reach agreement with his colleagues, and then circulate a
definitive version of his paper, which could set out any unresolved
points for the Cabinet to settle at a further meeting. He should note
the general view that there should be an increase in the overseas aid
programme, as part of the United Kingdom's approach to the world
problem. Ministers had quite rightly pressed their departmental
points, but he thought there had been a noteworthy willingness to accept
the general economic limitations and the problems of other Ministers.
The Chancellor should now take the initiative with all the Departments
concerned to work out a tighter system for the control of local
authority current expenditure, with particular reference to the need
for monitoring that expenditure in view of the proposed increases
in local authority manpower, not all of which could be going to
priority programmes. On presentation, the Budget speech would
relate public expenditure to the national and, to some extent, the
world crisis, and would provide part of the background for the
Cabinet's discussion on 17 November. This would be timely given
the fact that the main forum outside Parliament for the presentation
of Government policies to the Party and the Nation in the near future
would be the Party Conference later in the month.

The Cabinet -

Took note, with approval, of the summing up of their
discussion by the Prime Minister.
3. The Cabinet had before them a memorandum by the Secretary of State for the Environment (C(74) 125) about Rate Support Grant in 1975-76.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Prime Minister had recently chaired a meeting about Rate Support Grant in 1975-76 with the Ministers immediately concerned, and the outcome of the discussion was reflected in the memorandum which he had circulated. Four main issues had to be considered. The first was the acceptable level of local government expenditure for rate support grant purposes. Local authorities had been generously treated in recent years; their expenditure had been increasing by about 8 per cent a year in real terms and the number of staff employed by about 80,000 (though about half of these were part-time). This rate of increase could not be allowed to continue, and it was proposed that, for 1975-76, expenditure should be held at its 1974-75 level, plus an allowance for inescapable commitments amounting to about 4 per cent. The local authorities were expecting measures on these lines; but the effect on services would be painful - Metropolitan bus fares would, for example, have to be increased by 30 per cent next year and fares in London by 50 per cent. The second question was the tolerable level of increase in rates. This year the original target of an average increase of 30 per cent had proved unacceptable and had subsequently had to be reduced to about 10 per cent. In his view a figure of 25 per cent was the most that could be accepted politically and from the point of view of preserving the social contract. This should be adequate to discourage local authorities from increasing expenditure, particularly bearing in mind that Metropolitan district elections would be taking place in April. Thirdly there was the question of how the grant should be distributed amongst local authorities. This was a matter on which he would be circulating proposals to the Cabinet. Finally there was the need to exercise greater control over local authority spending and, in particular, staffing. Monitoring arrangements would have to be established, and the Government would have to accept general responsibility for reductions in services and to give guidance on priorities.

THE CHANCELLOR OF THE EXCHEQUER said that he agreed broadly with what was proposed for 1975-76. It was, however, important to make clear to local authorities that this was only the first step in a continuing process and that severe restraint on expenditure would have to be exercised throughout the Public Expenditure Survey (PESC) period. The Government would have to give clear guidance on priorities and on charging policy, and to establish effective monitoring machinery. As regards the level of rate increases, he favoured a figure of 35 per cent, which would represent an increase of only 20 per cent in the target which had originally been adopted this year. A target of 25 per cent would increase the Exchequer cost by £250 million but would only reduce the retail price index by 0.25 per cent. Moreover, the lower the average increase in
rates, the weaker would be the restraints on local authority expenditure. He agreed that there should be some increase in the grant payable to local authorities this year, but in order to discourage profligate expenditure it would be desirable not to meet the local authorities' deficits in full, still less to enable them to build up the balances which had been run down. He favoured an arbitrary figure of £250-300 million in terms of current values.

In discussion, it was argued that the public found rate increases perhaps the most objectionable of all the increased charges they were called upon to pay, and that this was a ground for keeping the increases to the minimum. It was, moreover, undesirable that the rate increase should exceed by too much the likely rate of inflation; but an average increase of even 25 per cent would involve some much larger individual increases - indeed, some 5 per cent of the population would be faced with increases of 50 per cent or more. It was, however, not proposed to impose an upper limit to permissible individual increases. It also had to be borne in mind that there would be substantial increases in water and sewerage charges, which in Wales would amount to about 60 per cent on average. On the other hand, it was argued that substantial rate increases were the most, perhaps the only, effective way of controlling expenditure by local authorities, whose excessive spending during the current year it was now proposed to allow for the purpose of calculating grant. In the light of past experience it was doubtful how effective monitoring would be.

In further discussion, it was argued that within an overall manpower ceiling it was important that some increase should be allowed in the number of teachers. Without this there would be a decline in the pupil/teacher ratio and significant unemployment amongst newly qualified teachers. The Government would be obliged to indicate their intentions as to the prospective number of teachers to be employed, and it was important to avoid the implication that they were deliberately adopting policies which would produce unemployment amongst teachers who were about to complete their training.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the approach proposed by the Secretary of State for the Environment. The aim should therefore be to hold expenditure by local authorities in 1975-76 at its 1974-75 level, plus a 4 per cent allowance for inescapable commitments. Continuing restraints in expenditure would be necessary throughout the PESC period; and although it might not be practicable to give the local authorities targets for the years after 1975-76, the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer, should consider urgently how the continuing need for severe restraints could best be impressed on local authorities. The Government should accept general responsibility for the effects on services and should issue detailed guidance to local authorities on priorities. The total number of staff employed by local authorities should be held at its present...
level and detailed monitoring arrangements should be established. Detailed arrangements for these purposes should be worked out on the lines agreed at his recent meeting with the Ministers immediately concerned. There should be flexibility within the staffing ceiling; and the Secretary of State for Education and Science was free to make clear that the Government were not planning for unemployment amongst newly qualified teachers. In view of the strength of public resentment caused by increases in rates, and the harmful implications for counterinflationary policies, the Cabinet agreed that the maximum tolerable level of average rate increase was 25 per cent, despite the increased demands which would thus be made on the Exchequer. They agreed also that some extra grant should be paid this year by way of a Rate Increase Order. The precise amount should be settled by the Secretary of State for the Environment in consultation with the Chancellor of the Exchequer, who had expressed a preference for limiting it to some £250-300 million so as to avoid any impression that the Government were condoning profligate expenditure.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer, to proceed accordingly.

Cabinet Office

5 November 1974