21 March 1973

CABINET

PRICE AND PAY CODE: DRAFT WHITE PAPER

Memorandum by the Chancellor of the Exchequer

1. Since the Green Paper was published on 26 February there have been wide-ranging consultations at official and Ministerial level. A list of the main organisations which have offered comments on the document is annexed. In addition, Departments have had advice on the price and profit control from accountants and from the chairman-designate of the Price Commission.

2. The draft White Paper takes account of all these comments and of points made in Parliament. It incorporates decisions taken by the group of Ministers directly concerned under the chairmanship of the Prime Minister.

3. On pay, the only significant change from the Green Paper is to tighten up on the payment of increments in accordance with Confederation of British Industry (CBI) advice. Otherwise, various loose ends have been tied up, the drafting clarified and a number of relatively minor changes made to meet points made by employers. (The Trades Union Congress have unfortunately not responded to the Government's invitation to offer comments on the Green Paper). The essential features of the Pay Code for Stage 2 have thus remained substantially unchanged since they were set out in the January White Paper (Cmnd 5205).

4. On prices, there have been a number of alterations both of structure and of substance. The proposals for price and profit control in the Green Paper were more tentative than those on the pay side and had not been so fully worked out. As a result of the discussions with accountants and with various representative bodies a large number of changes have been made in order to make the system more workable and easier to understand.
5. There have also been some changes of substance designed to meet the CBI's criticism that the Green Paper as it stood would discourage investment. The most important of these are the widening of the definition of allowable costs to include bought-in services such as transport and maintenance; the dropping of the requirement to reduce prices whenever unit costs fall as a result of increased volume; and the introduction of a lower productivity deduction for labour intensive activities. These changes are incorporated in paragraphs 35, 31 and 40 respectively.

6. Subject to Cabinet approval, it is proposed to publish the White Paper on Monday 26 March, and to make the Order containing the Code on Sunday 1 April. This will activate the compulsory powers in Part II of the Counter-Inflation Act and bring to an end the standstill on pay. The standstill on prices will remain in being until 28 April.

7. I invite my colleagues to approve the draft White Paper and the timetable in paragraph 6 above.

A B

Treasury Chambers

21 March 1973
SECTION 1

Introduction

1. This White Paper deals with the operation of Stage Two of the counter inflation programme.

2. On 17 January the Government outlined its proposals for Stage Two in Cmd 5215, and on 23 January the necessary legislation was introduced in Parliament. On 26 February the Government published in Cmd 5247 a Consultative Document on the Price and Pay Code and this has since been debated in Parliament and has been the subject of intensive consultations with representatives of industry and commerce, of consumers and of the professions.

3. The Counter Inflation Act, 1973 received Royal Assent on 22 March. Under the powers it gives, the Price Commission and Pay Board have already been established. Their main function under the Act in Stage Two is to implement the Price and Pay Code. The statutory instrument containing the Code must therefore be made soon so that they can begin that task. Section 2 of this White Paper is a draft of the Code, in preparing which the Government have been able to take account of the consultations of recent weeks. The Government propose to make the order containing the Code in its final form on 1 April. This will supersede the draft in this White Paper and the proposals in the White Paper of 17 January and the Green Paper of 26 February. The 1 April order will activate Part II of the Act, with its powers for regulating prices and pay, and will mark the end of the pay standstill, though the standstill will continue until 28 April for prices. Both the Price Commission and Pay Board will be operational from 1 April.

4. This White Paper deals with more than the Price and Pay Code, however Section 3 describes the administration of dividend control which will be operated by the Treasury in Stage Two. Section 4 explains how Stage Two will be applied to a group of cases which are not within the statutory control powers of the Price Commission and
Pay Board. They include business and agricultural rents, prices and pay which are determined by the Crown or are already governed by statutory bodies and certain prices and charges such as insurance premiums which will be directly controlled by the Government. Section 5 deals with the arrangements for notification and reporting which, in the light of consultation, the Government now propose in order to support the work of the Commission and the Board.

5. Most of the matters referred to in paragraph 4 - notification dividends, business and agricultural rents - will require the making of separate Orders by Ministers under the Counter Inflation Act at the beginning of Stage Two.

The Objectives

6. The object of the programme is to bring inflation under control. It is now generally accepted that this is necessary if we are to achieve sustained growth, higher real incomes, especially for the low paid and pensioners; and the confidence required for higher industrial investment. Moreover inflation is fundamentally unfair and imposes severe strains on our society.

Progress in Stage One

7. A start has been made in Stage One in bringing inflation under control in spite of an exceptionally rapid rate of increase in world prices of foodstuffs and basic raw materials. While costs of basic materials and fuel purchased by manufacturers rose between November and February by almost 11 per cent, and costs of food manufactures rose by 16 per cent, prices for home sales of all manufactured products rose over the same 3 month period by only 1 per cent. The index of hourly wage rates remained almost steady between November and February, with the result that the percentage increase on a year earlier fell from 16.5 per cent to 13.5 per cent. However, it takes time for changes in pay costs to have their full effect on prices. Pay increases at pre-standstill rates will continue to put up costs and prices for some months yet, and the beneficial effects on prices of the pay standstill will not be felt in full till later in 1973.
8. Moderating the rate of cost and price inflation was one of the agreed objectives in the tripartite talks between the Government, the TUC and CBI last autumn. The Government have during Stage One continued to pursue the other two agreed objectives. The Budget reflected the Government's intention of maintaining a high rate of growth and included provision for a substantial increase in retirement pensions effective from 1 October. As a result of this, retirement pensions will have been increased by the present Government in 3 upratings by nearly twice as much as the increase in prices.

Stage Two and beyond

9. Stage Two moves on from the standstill. It is not an abandonment of restraint, or a return to the pre-standstill situation. It therefore contains price restraints which are still strict, but also realistic. There are no automatic percentage increases and every price increase has to be justified. On pay, Stage Two provides for an increase which is substantial by any normal standard, and it gives preference to the low paid and those who have been left behind the rest of the community on equal pay, on hours, on holidays and on occupational pensions.

10. Stage Two lasts only until the autumn. Subject to the process of consultation and any necessary Parliamentary approval, the Government at present envisage that the next stage of the policy will begin about the end of October. In Stage Two some inequalities of treatment unavoidable in any programme to control an inflation like that of last autumn are bound to remain, both on prices and on pay. It is the Government's intention during the summer to consult both sides of industry on the policy for Stage Three, and the decisions based on these consultations will, where necessary, be embodied in the Code, subject to the approval of Parliament.

11. In this way, the Code, can, for example, be altered to reflect as necessary whatever arrangements are eventually agreed for making progress towards the resolution of problems of pay relativities and anomalies in Stage Three, including the timing of any adjustments...
Similarly, it can be modified to take account of the growing requirements of investment in the private sector, and the needs of some nationalised industries to return to commercial viability.

12. The Government continue to hope that it will be possible to operate Stage Three on a voluntary tripartite basis and the consultations during Stage Two will be aimed at achieving this.

13. In the interests of the community as a whole, the Government seek the cooperation of all in industry and commerce in the operation of Stage Two. These are fair proposals designed to benefit everybody through the exercise of reasonable restraint.
15. The Code has a dual function. First, the Price Commission and Pay Board are required to exercise their powers so as to ensure that it is implemented. Secondly, all those concerned with the determination of prices and pay should have regard to it.

16. The Code is therefore addressed both to the Agencies and to all those concerned with price and pay determination. Part I deals with prices and Part II with pay.

Part I - Prices

General Principles

17. The general principles relating to prices are:

(i) to limit the extent to which prices may be increased on account of increased costs, and to secure reductions as a result of reduced costs;

(ii) to reinforce the control of prices by a control on profit margins while safeguarding investment;

(iii) to reinforce the effects of competition, and to secure its full benefits in the general level of prices.

Field of Application

18. With the exceptions specified in paragraphs 19 to 24 below, the prices of goods and services supplied to the United Kingdom home market are within the scope of the control.

19. The prices of goods and services exported (whether directly or through an agent) are not controlled.

20. The following are not controlled:

(i) prices paid to overseas suppliers for imported goods and services;

(ii) prices of goods and services where the application of the control would be inconsistent with an international agreement or arrangement. For this purpose, an inter-
national agreement or arrangement is one between states or organisations of states, not between firms;

(iii) prices at sales by auction, where such sales are a normal practice in the particular trade;

(iv) prices of goods sold on terminal commodity markets in the United Kingdom such as the London Metal Exchange or the price of which is directly determined by reference to such markets;

(v) prices of second hand goods (other than second hand road vehicles sold by distributors);

(vi) charges for the carriage of goods or passengers on international journeys; charges for air navigation and landing services and to ship, passenger and goods dues, provided that they relate wholly or mainly to such traffic; charges for international mail and telecommunication services;

(vii) prices of ethical medicines supplied to the United Kingdom market to the extent that regulation of their prices is within the scope of any agreement relating to those prices made between the Secretary of State for Social Services and representatives of manufacturers of those medicines; but only so long as such an agreement is in force; (1)

(viii) prices in contracts with the Secretary of State for Defence for warlike stores and services which are within the agreement between Her Majesty's Government and industry governing the pricing of, and control of profit from non-competitive contracts. (2) These prices will be subject to the controls provided in that agreement.

(ix) insurance premiums. These will be subject to restriction by the Secretary of State for Trade and Industry; (3)

(x) subscriptions to certain membership organisations as in paragraph 103.

(1)(2)(3) – See Appendix A
Application to Food and Farming Products

21. The prices of manufactured food and drink, like those of manufactured products generally, are within the scope of the control as are those of semi-processed foodstuffs such as butter, sugar and quick-frozen vegetables.

22. The prices paid to United Kingdom producers or producers' organisations or to overseas suppliers for fresh foods and similar products, which are subject to fluctuations on world and United Kingdom markets because of seasonal factors or changes in the relationship between supply and demand, are not controlled. This applies in particular to meat, including bacon and poultry, fish, eggs, fruit and vegetables. However, enterprises which resell these products, whether home produced or imported, at any subsequent stage will be subject to control.

23. The retail price of milk for liquid consumption and the margins of milk distributors, will continue to be subject to the existing controls by the Minister and the Secretary of State for Scotland. So long as these controls apply, the price of milk will not be subject to the Code.

24. What is said in paragraph 22 in relation to the prices paid for fresh foods applies also to prices of other primary products of animal or vegetable origin, which are subject to fluctuations from seasonal causes or causes external to the United Kingdom.

Charges

25. References in the Code to prices include references to charges, unless there is explicit provision to the contrary,
Definition of Enterprise for the purposes of the Code

26. For the purposes of the Code an enterprise means either an enterprise as a whole or a separate constituent company or sub-division provided that in the latter case separate accounts for such sub-divisions:

(i) are, or can be made, available for all relevant periods;

(ii) are not materially distorted by transactions conducted otherwise than on armslength terms;

(iii) would, if combined with one another and with the accounts of all other activities or transactions of the enterprise, produce results consistent with those shown by the accounts of the enterprise taken as a whole.

27. Where an enterprise is engaged in a combination of activities such as manufacturing and distribution, or either of these and the provision of services, these activities may be treated as separate units for the purpose of the Code provided that adequate accounts satisfying paragraphs 26 are or can be made available for each of them.

28. Any reference in the Code to an enterprise includes a reference to a separate constituent company or sub-division as defined in paragraph 26 or to a separate unit as in paragraph 27.

Costs and Prices

29. Prices which are within the control may not be increased unless there is an increase in total costs per unit of output. No increase may exceed the increase in total costs per unit.

30. Where there is an increase in total costs per unit, only certain increases, referred to in the Code as "allowable cost increases", may
be taken into account in arriving at the permitted price increase, and they will be subject to a productivity deduction.

Price Reduction

31. Prices should be reduced whenever possible. Where there is a fall in raw material prices or other allowable costs, this should be fully reflected in price reductions. Reductions are however not required to exceed the fall in total costs per unit of output. In addition prices should be reduced as required in paragraph 61 where an enterprise approaches or exceeds its profit margin reference level.

Base Date

32. The starting point for the calculation of permitted price increases is the level of costs per unit of output at 1 October 1972. In calculating permitted price increases, cost increases first incurred after 30 September 1972 may be taken into account, to the extent that they have not already been reflected in prices. However the permitted price increase may not include any element of recoupment of costs incurred before the date on which the price increase takes effect.

Calculation of Permitted Price Increase

33. A permitted price increase should be calculated by:

(i) expressing allowable cost increases per unit, as reduced by the productivity deduction, as a percentage of total costs per unit. For this purpose costs per unit should be those at the time of the price decision; and

(ii) applying this percentage to the current selling price.

34. Where price increases are being made on a group of related products (under paragraphs 48 or 49) the allowable cost increases, as reduced by the productivity deduction, shall be expressed as a percentage of the total costs of the product group at the time of the price decision, and this percentage should be applied to the current selling price.
Allowable Cost Increases

35. Subject to the following paragraphs, a cost increase may be regarded as an allowable cost increase for the purpose of paragraph 30 if:

(i) it was first incurred for any reason after 30 September 1972; and

(ii) it was incurred for one of the following:

(a) labour;
(b) materials, components, fuel and power;
(c) rent of premises or rates;
(d) interest charges, as defined in paragraph 38;
(e) certain bought-in services, that is transport, hire of equipment, maintenance, insurance, storage, contract engineering.

Pay not consistent with the Code

36. Increases in expenditure on pay or other conditions of service after 6 November 1972 are allowable cost increases only to the extent that, as appropriate:

(i) they were consistent with the policies set out in Cmd 5125, with the requirements at the relevant time of the Counter Inflation (Temporary Provisions) Act 1972 and of any notice or order under it; or

(ii) they are consistent with the Code or with the Counter-Inflation Act 1973.

37. Examples of increases in expenditure which are not allowable cost increases because they are inconsistent with the Code are:

(6) (7) (8) See Appendix A
any part of a pay increase which exceeds the pay limit; or

(ii) any part of increases in pay under settlements made at local or plant level which, when aggregated with increases under a national agreement, exceeds the pay limit for the group concerned; and

(iii) any part of increases in earnings arising from piecework or other payment by results schemes which exceeds the pay limit,

unless the increase is specifically exempted from the pay limit by Part II of the Code.

Interest Charges

38. Increases in interest charges payable by an enterprise are allowable cost increases, unless:

(i) they represent a distribution of profits rather than a true interest charge; or

(ii) they are interest charges of a kind not normally charged against the profit and loss account of the enterprise concerned; or

(iii) where they arise on loans between related undertakings, they relate to loans which are not strictly required for the business, or are at a rate of interest higher than would be charged in a transaction at arm's length.

Changes in indirect taxation

39. To the extent that changes in indirect taxes since 30 September 1972 have not already been reflected in prices, an appropriate reduction to allowable cost increases should be made. Where such taxes have been increased, an appropriate addition may be made.
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(ii) any part of increases in pay under settlements made at local or plant level which, when aggregated with increases under a national agreement, exceeds the pay limit for the group concerned; and

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40. In order to ensure that the benefits of increased productivity are passed on to the consumer, a deduction should be made from allowable cost increases which are to be passed on as price increases. Enterprises are required to absorb 50% of allowable cost increases arising from increases in labour costs, as defined in paragraph 40A, unless the share of labour costs in total costs exceeds 35%. In that case enterprises are required to absorb only an amount equal to the percentage of total costs which would apply if labour costs represented 35% of total costs.

40A. For the purpose of paragraph 40 labour costs exclude:­

- employers' national insurance contributions;
- training costs;
- the cost of improvements under paragraph 123 (equal pay), paragraph 134 (recognised terms and conditions), paragraph 135 and paragraph 137 (redundancy and incapacity benefits).
41. Allocation of costs to particular controlled goods or services for the calculation of allowable cost increases may be necessary where an enterprise:

(i) sells in both home and overseas markets; or

(ii) makes sales at home, some of which are within and some outside the scope of the control; or

(iii) makes sales of different products or groups of products which are within the control, and has to divide costs between them for the purposes of the Code.

Where such an enterprise:

(i) has made allocations which represent a fair division of costs in its circumstances, over part or all of the field; and

(ii) has done so on a consistent basis,

it should continue to use this basis for all calculations relevant to the Code. In other cases enterprises may make such allocations by dividing costs in proportion to the value of sales in each area, or on any other basis which represents good accounting practice, provided that it adheres to the chosen basis for all calculations relevant to the Code.

Stocks

42. In calculating the cost of current sales, enterprises may need to include an element for stocks of raw materials, of components or of finished goods, drawn on for those sales. When making such calculations in order to arrive at allowable cost increases, enterprises should adhere to the practice they have followed consistently for the treatment of such costs, for pricing purposes.
Transfer Prices

43. Where the Price Commission are satisfied that prices, either of purchases or of sales, which an enterprise proposes to regard as a basis for the calculation of allowable cost increases or of net profit margins, differ from what they would be if the goods or services had been transferred on an arms length basis, they may substitute modified cost increases or profit margins which in their judgement fairly reflect what would be appropriate on that basis.

Cost of certain small enterprises

44. Where the Commission are satisfied that:

(i) significant cost increases have occurred or are about to occur in a sector of industry or commerce which includes a considerable number of small enterprises, especially those providing services; and

(ii) the information available to them indicates that these cost increases are likely to be of broadly the same order for a substantial number of such enterprises, in respect either of some or of all the goods or services which they supply,

the Commission may calculate and publish average allowable cost increases for some or all of the goods or services supplied by that sector. These increases should then be taken as the allowable cost increases for the relevant goods or services.

45. Where the allowable cost increases of a particular enterprise differ from those published by the Commission under paragraph 44, that enterprise may apply the normal provisions of the Code relating to allowable cost increases. It will be the responsibility of the enterprise to satisfy the Commission if required that this was justified.

46. In calculating average allowable cost increases under paragraph 44 the Commission will take account of:
(i) all relevant information available to them on cost increases for the goods or services concerned, including information supplied by any trade association or other body which they consider is representative of the enterprises concerned; and

(ii) any other relevant provisions of the Code.

47. The Commission will publish information about any average allowable cost increases which they have determined under paragraphs 44 and 46, together with an indication of any price increases which they regard as justified under the Code on the basis of those average allowable cost increases.
Product Costs and Allowable Cost Increases

"Single Product" Enterprises

48. Where an enterprise makes a single product or a single range of products the calculations required by the Code may be carried out by reference to the costs and prices of that enterprise as a whole.

Multi-Product Enterprises: Related Products

49. This paragraph applies to enterprises making a variety of products. Where:

   (i) allowable cost increases arise from one or more of a range of related products; and

   (ii) a price increase in respect of them is permissible under the Code,

the enterprise need not relate the price increase for individual products within the range closely to the cost increase for each product, provided:

   (a) it has been established practice to treat the range of products in this way; and

   (b) the average increase in price, weighted by the value of sales in a recent period, will not exceed the sum of what the Code would permit on the products affected by the cost increases.

50. In cases not covered by paragraphs 48 and 49 the calculations required by the Code should be made by reference to individual products

51. In paragraphs 48, 49 and 50 "products" includes services.
Anticipation of Cost Increases

52. Prices may not be increased in anticipation of cost increases, except as described in this paragraph and paragraphs 53 and 54.

(i) An enterprise may determine and announce a price increase consistent with the Code which takes account of known future allowable cost increases, provided that the price increase is not implemented before the allowable cost increases are incurred.

(ii) An enterprise may seek the agreement of the Commission to a price increase consistent with the Code which takes account of known future cost increases, subject to the same proviso as in (i).

53. Where:

(i) a future allowable cost increase is already known; and

(ii) it is proposed to quote a price for supply on demand which will not be increased for at least 6 months from the date on which it takes effect,

an enterprise may average the future allowable cost increase over the period in (ii) provided that:

(a) the total amount raised will not be increased by the averaging; and

(b) the averaging is in accordance with a well established practice in the trade concerned.

54. This paragraph applies to tenders to the extent that they are at fixed prices. In framing such tenders, those concerned should have regard to the Code, but where tenders are the custom of the trade
(i) competitive tenders may provide for estimated future allowable cost increases.

(ii) non-competitive tenders may provide for estimated future allowable cost increases if the contract is to run for at least 6 months from the date on which work is to begin.

Escalation and Variation of Price Clauses

55. Price increases under escalation or variation or price clauses should be applied only to the extent that the increases are consistent with the Code. If however the application of the Code would cause or increase a loss on a particular contract, taken as a whole, the terms of the escalation or variation of price clauses may be applied to the extent necessary to avoid the loss, or the increase in it. In addition to new contracts, this paragraph applies to existing contracts, and to increases in prices under those contracts to the extent that they relate to cost increases after 5 November 1972.

Quantity or Quality Change, and New Products

56. A change in the quantity or quality of goods, or a change in a discount, is equivalent for the purposes of the Code to a change in the price.

57. Quality change in goods or services, quantity change in sales units, or artificial creation of new products should not be used as a means of avoiding the requirements of the Code. Where the Commission form the opinion that this has been done, they may seek price reductions or disallow cost increases.

Losses

58. This paragraph applies to enterprises which are making a loss, or are under the Code at risk of doing so:-

(i) where an enterprise is making a loss, it may increase prices to cover its costs, notwithstanding the provisions relating to allowable cost increases,
(ii) the provisions relating to allowable cost increases (including the productivity deduction) need not be applied to the extent that they would cause the enterprise to operate at a loss.

(iii) in all other cases, including low profit cases under paragraphs 69 and 70, the allowable cost increase provisions and the productivity deduction apply.

Prices and Profit Margins

59. Prices should be determined so as to secure that net profit margins do not exceed the average level of the best two of the last five years of account of the enterprise concerned ending not later than 30 April 1973 (the "reference level").

60. "Net profit margin" means the margin of net profit expressed as a percentage of sales or turnover. "Net profit" means the net profit, determined in accordance with generally accepted accounting principles consistently applied by the enterprise concerned, which arises from trading operations within the control after taking into account all expenses of conducting and financing them, including depreciation and interest on borrowed money, but before deducting Corporation Tax or Income Tax.

Action where Profit Margin likely to be exceeded

61. Where:--

(i) the reference level has been exceeded; or

(ii) in the light of interim accounts or other evidence, the reference level is likely to be exceeded, after taking account of seasonal and other distorting factors, abatements in allowable cost increases or price reductions should be made. The abatements or reductions should be sufficient to
eliminate the actual or anticipated excess over the reference level as soon as reasonably possible, and to offset any excess which has already arisen in a period subsequent to 30 April 1973. Abatements or reductions are however not required in respect of any excess arising in the period ending with that date.
Unit for Profit Margins

62. In calculating net profit margins under paragraph 59 enterprises may opt to use:

either (i) the profits of the enterprise as a whole
or (ii) the profits of separate constituent companies or sub-divisions as defined in paragraph 26 or 27

provided that they then adhere to the basis chosen for all the purposes of the Code to which net profit margins are relevant.

Allocation of Profits to Controlled Prices

63. Enterprises which opt for (i) in paragraph 62 may use the resultant profit margins for the determination of all their prices under the Code. Those which opt for (ii) in paragraph 62 must use the profit margin derived from the profits of the appropriate constituent company or sub-division for the determination of prices of those units.

64. Allocation of profits between prices within the control and those which are not may be necessary for the calculation of net profit margins. The requirements of paragraph 41 apply to such allocations of profits as they do to allocations of costs.

Profit Margins and Indirect Taxes

65. In making comparisons between net profit margins as a percentage of sales and the reference level, due account must be taken of the effect on percentage margins of changes in indirect tax on goods and services sold so that the comparison is not materially distorted. The comparison with earlier years should be made on a basis which excludes purchase tax from sales in the period up to the end of March 1973 and excludes VAT from 1 April 1973 onwards. Where excise duties have been included in the sales figures, these duties should be included throughout, adjusted as necessary to take account of the partial replacement of excise duties by VAT. (7)

65A. Where an enterprise does not already have accounts showing separately the purchase tax element in the turnover of previous years, that element should be estimated on the basis of the best

(7) - See Appendix
available information. Where total purchase tax can be ascertained from purchase invoices this total can be deducted from tax inclusive sales. Where such purchase invoices are not available the purchase tax element may be estimated by applying to the value of purchases of goods charged to different rates of purchase tax appropriate factors derived from those rates.\(^{7A}\) The Price Commission will publish information on the application of estimating methods for this purpose.
Modified Base Period for Profit Margin Calculation

66. Where an enterprise has traded for less than 5 complete years of account, or has traded at a loss in one or more of the last 5 years, the reference level for paragraph 59 may be calculated as follows:-

(i) if there have been 4 years of trading, the average of the best 2; if 3 or 2 years, the best year;

(ii) if there have been less than 2 years of trading the limitation on profit margins will not apply;

(iii) any year in which an enterprise made a loss may be treated as equivalent to a year of no trading and subparagraphs (i) and (ii) may be applied accordingly.

67. For a new enterprise formed from a reconstruction or amalgamation of existing enterprises the reference level will be calculated as defined in paragraph 59 by using the aggregate net trading profits of the constituent enterprises expressed as a percentage of their aggregate sales.

68. Where the Commission are satisfied that the reference level of an enterprise, calculated as in paragraph 59 or 66, requires modification, for example because of a substantial reconstruction of the enterprise during the base period, or a substantial change in the character of its business, they may agree or stipulate a modified reference level which in their judgement gives effect to the principles of paragraphs 59 to 66 and paragraphs 69 and 70.

Relief for Low Profits

69. Where the net profit calculated as described in paragraph 59 or paragraph 66 represents a return on capital of less than 5 per cent, the enterprise concerned may calculate the level of net profit needed to produce a return of 5 per cent on capital and may treat the corresponding net profit margin as its reference level.

"Capital" means the net assets employed excluding any part of them which is represented by borrowings, the interest on which is deducted in arriving at net profit as defined in paragraph 60.
70. At the option of the enterprise paragraph 69 may be read as referring to a net profit margin of 1 per cent on turnover rather than to a 5 per cent return on capital.

Investment

71. Where the Commission are satisfied that in a particular case it is necessary in order to encourage investment to modify the application of the limits on allowable cost increases or on profit margins, they may permit some departure from those limits. In deciding whether, and to what extent, to permit such a departure the Commission should have regard to the following criteria:

(i) whether there is satisfactory evidence that if this is done the investment will take place;

(ii) whether the application of the limits would:

(a) deprive the enterprise of funds essential for that purpose which it could not reasonably be expected, or would not be able, to raise in some other way; or

(b) reduce the prospective rate of return on the investment to a level which would deter the enterprise from undertaking it;

(iii) whether there is satisfactory evidence that the enterprise had absorbed cost increases to an exceptional degree as a result of voluntary price restraint and had consequently had abnormally depressed profit margins in the twelve months preceding 1 October 1972.

Particular Sectors

72. The paragraphs which follow deal with the application of this part of the Code to certain important sectors. Unless there is express provision to the contrary in those paragraphs, however, paragraphs 17 to 71 must be taken as applying to all enterprises.
Manufacturing

73. Paragraphs 17-71 above apply in their entirety.

Distribution

Limitation of gross percentage margins

74. In the determination of prices for sales of goods within the control, gross percentage margins of wholesalers, retailers or other enterprises engaged in distribution should not exceed the level of gross percentage margin in the last complete account year of the enterprise concerned ending before 1 May 1973 less, in either case, an appropriate reduction for the abolition of SET.

74A. For all the purposes of the Code "gross percentage margin" means the aggregate difference between the cost to the distributor of the goods he sells in a period and the value of his sales in that period, expressed as a percentage of the sales value. The difference should be calculated according to the normal accounting practice consistently applied by the enterprise. In arriving at sales and costs of sales indirect taxes should be treated on the same basis as for calculating net profit margins in paragraph 65.

75. The provisions of the Code relating to allowable cost increases do not apply to enterprises engaged in distribution.

Distributors' Stocks

76. In most cases prices determined by distributive enterprises will have to take account of the cost of goods drawn from stock for sale. Such enterprises should adhere to the practice they have followed consistently for pricing purposes in arriving at such costs, and at the relevant gross percentage margins.

Distributors making a Loss

77. Where an enterprise engaged in distribution is making a loss, it may increase prices to cover its costs, notwithstanding the limitation
on gross percentage margins.

78. Where the costs of any goods to wholesalers or retailers rise particularly sharply (that is to say, substantially out of line with the general movement in the price level), the Commission may:­

(i) consult any body or person whom they regard as representative of enterprises affected by the rise in costs and take into account information supplied by them; and

(ii) (having regard to the situation of the product group as a whole and to the volume of trade), consider whether the maintenance of existing gross percentage margins would disproportionately increase the profit margin on those goods; and whether the trade practice affecting the margins on the products in question therefore requires modification; and

(iii) issue guidance on the form which they consider such modification should take.

79. Where a distributor's net profit margin has exceeded the reference level, or where in the light of interim accounts or other evidence it is likely, after taking account of seasonal or other distorting factors, to be exceeded, price reductions should be made corresponding to any actual or expected excess in respect of a period after 30 April 1973.

Gross Percentage Margins and Indirect Tax

80. For the purposes of paragraph 74 to 79 the gross percentage margin should be calculated on the same basis as for net profit margins in paragraph 65.
Agriculture

81. Part I does not apply to agricultural enterprises engaged in the production and sale of unprocessed agricultural produce. Where such enterprises are engaged in manufacturing or processing however, their prices are controlled by reference to allowable costs and net profit margins. Where they are engaged in distribution, their prices are controlled by reference to gross percentage margins and net profit margins.

Nationalised Industries

82. Paragraphs 83 and 84 apply to the following nationalised industries:

- National Coal Board
- Electricity Council
- Area Electricity Boards
- Central Electricity Generating Board
- North of Scotland Hydro-Electric Board
- South of Scotland Electricity Board
- British Gas Corporation
- British Steel Corporation
- Post Office
- British Airways Board
- British Airports Authority
- British Railways Board
- British Transport Docks Board
- British Waterways Board

83. Part I of the Code applies to the nationalised industries listed in paragraph 82, according to the nature of the business of the industry, as it applies to private sector undertakings, except that:

(i) these nationalised industries, when in deficit, may not increase prices by more than allowable cost increases in order to reduce that deficit. Paragraph 58(i) will not therefore apply, but the other provisions relating to private sector enterprises making a loss will apply,
including in particular paragraph 58(ii) and the exemption from the productivity deduction: and

(ii) paragraph 71 will not apply.

84. The application of the Code is subject to paragraph 85 in the case of the National Coal Board and to paragraphs 85 and 86 in the case of the British Steel Corporation. In the case of the Post Office and those industries concerned with air and sea transport, it is subject to the exclusion from control under paragraph 20(vi) of charges for international traffic. The prices of subsidiary companies of nationalised industries, including subsidiaries of the National Bus Company, National Freight Corporation and the Scottish Transport Group, are governed by paragraph 88(ii). The prices charged for electricity by Area Electricity Boards and the Scottish Boards will be subject to the provisions of the Code applying to manufacturers.

Coal and Steel

85. Prices charged by producers for coal, coal-based solid fuels, and most iron and steel products are outside the scope of the control by virtue of paragraph 20(ii). They are subject to international obligations through United Kingdom membership of the European Coal and Steel Community. (10) Prices of non-ECSC iron and steel products, are controlled like those of other manufactured products. Prices of coal merchants and iron and steel merchants in the United Kingdom will be subject to the control on gross percentage margins and net profit margins applied to wholesaling and retailing.

86. Enterprises which produce both ECSC and non-ECSC iron and steel products will be subject to price control on the latter only. Where a non-ECSC product is made from an ECSC product, an increase in the price paid for the ECSC product will constitute an allowable cost increase. Where the non-ECSC product is made from an enterprise's own ECSC product, the price at which the enterprise offers the ECSC product for sale (or, if it does not offer it for sale, the prevailing market price in a comparable transaction) should be

(10) - See Appendix
used in calculating any allowable cost increase. For the purpose of calculating the limit on profit margins, only the profits from converting ECSC products into the final non-ECSC products will be relevant.

Other Public Sector Trading Enterprises

87. The Commission will apply to proposals for price increases which are referred to them by Government Departments engaged in substantial trading operations the same principles as to proposals by the nationalised industries.

88. The Code applies to the prices of the following enterprises, according to the nature of the business of the undertaking, as it applies to the prices of private sector enterprises:

(i) trading services of local authorities, local authority joint boards, public utility undertakings and other similar public sector undertakings (not being nationalised industries); and

(ii) companies registered under the Companies Acts which are wholly or partly owned by Her Majesty's Government, or by a nationalised industry.

Water Undertakings

89. Water undertakings, whether public or private, are subject to statutory limitations on deficits, on surpluses or profits, on profit distributions and on borrowing. They are also required by statute to provide an adequate supply of water. Their water rates are already controlled to a large extent through these limitations. They will be required to comply with the principles of the Code and in particular with the paragraphs relating to allowable cost increases, but not so as to over-ride their statutory obligations.

Services

90. In general, paragraphs 17 to 71 of the Code apply to the prices of service enterprises as they apply to those of manufacturers,

(11) – See Appendix
so that the system of allowable cost increases and the limitation on net profit margins per unit of sales or turnover apply to them. There will be an offset to allowable cost increases as a result of the abolition of Selective Employment Tax for service enterprises where this has hitherto been paid without refund. Paragraphs 44 to 47 permit the Price Commission to calculate average allowable cost increases for certain small service enterprises where the circumstances are appropriate. Paragraph 70 would permit service enterprises with low profits to calculate their reference level for the limit on net profit margins by reference to either turnover or capital employed. The following paragraphs deal with the application of the Code to some particular service sectors, and explain any modifications of the general principles which apply to them.

Banking

91. [Drafting not yet completed]
Construction

92. In determining prices construction enterprises should have regard to the Code as it applies to manufacturing enterprises, in particular, paragraph 54 which applies to tenders for construction work at fixed prices and paragraph 55 which applies to variation of price clauses in construction contracts.

Transport

93. The Code applies to transport undertakings as it does to other service enterprises. Charges for international freight and passenger traffic are outside the control under paragraph 20(vi). Charges of nationalised transport undertakings, passenger transport authorities, local authority transport undertakings and transport companies owned by nationalised industries are governed by paragraphs 82 to 84 and 88.

94. Charges of private road haulage undertakings are subject to the provisions relating to allowable costs and to the limitations on net profit margins.

Vehicle Sales and Services

95. Charges for repair, maintenance and servicing of vehicles are subject to the provisions relating to allowable costs and to the limitation on net profit margins.

96. The prices of vehicles sold by distributors, whether new or second-hand, are subject to the limitations on gross percentage margins and on net profit margins.

97. Paragraph 27 applies to enterprises which both sell and maintain vehicles.

Hotels and Catering Enterprises

98. What is said in paragraph 90 applies to these enterprises also, in respect both of charges for food and drink for accommodation.
Professional Services

99. Fees and charges for professional services by firms or by individuals who are self-employed are governed as prices by Part I. In general, what is said in paragraph 90 applies to them. The pay of professional staff who are employees is however governed by Part II, as is the remuneration from public funds of doctors and dentists.

100. Where scales or rates of charges of general application, whether calculated at an hourly rate or ad valorem, are in use in a profession under instructions or advice issued by a professional organisation, those scales or rates must be treated as maxima and may not be increased without the agreement of the Commission. Where rates above scale have normally been agreed and have become normal charges, such rates need not be reduced but the margin by which such rates exceed the scale may not be increased. The Commission will apply the provisions relating to allowable cost increases to increases in scales or rates and those provisions will also apply to increases in fees calculated on a time basis.

101. Where there are no scales or rates of general application, the rates or scales charged for a professional service may not be increased except to reflect increases in allowable costs. Increases in labour costs under paragraph 35(ii)(a) may not include any element in respect of proprietors' or partners', as distinct from employees', time.

102. The limitation on net profit margins will apply to profits of firms or individuals providing professional services irrespective of the method by which fees are determined. Where the number of partners in a professional practice has changed the reference level may be calculated by reference to the number of partners. In applying the allowable cost regime to scales or rates of charges the Commission will have regard, under the provisions of paragraph 61, to profit margins in the profession generally.
Membership Organisations

103. Subscriptions charged by organisations which:

(i) exist for charitable, representational or recreational purposes; and

(ii) are non-profit making; and

(iii) do not carry on a trade or business as their main activity,

will not be controlled.

104. Prices charged in any trading activity carried on by an organisation which meets the requirements of paragraph 103 are governed by the Code, unless the customers of the trading activity are confined to members of the organisation.
PART II: PAY

General Principles

105. The general principles relating to pay are:

(i) to limit the rate of increase in pay in money terms to a level more in line with the growth of national output, so as progressively to reduce the rate of price inflation and improve the prospects of sustained faster growth in real earnings;

(ii) to apply the limit fairly, irrespective of the form of any increase or the method of determining it;

(iii) to facilitate an improvement in the relative position of the low paid;

(iv) to leave to those who normally determine pay decisions on the amount, form and distribution of increases within the limit.

Field of Application

106. Part II of the Code applies to:

(i) all pay including wages and salaries at whatever level, allowances, payments by results, payments in kind, fringe benefits and lump sums;

(ii) all methods of determining pay whether at national, local, plant or any other level; and whether determined by collective bargaining, by arbitration, by statutory wage fixing bodies, on an individual basis, or by other means; and

(iii) all types of employment (except self employment covered in Part I); and to both full-time and part-time employees in whatever size of undertaking.
All those concerned with the determination of pay should have regard to the Code.

107. Throughout part II of the Code "pay" means remuneration (except self-employment incomes covered in Part I) and includes other terms and conditions of employment.

108. References throughout the Code to "settlements" include references to the determination of pay by any method.

109. Where the Code refers to a group, the group will normally be the same as that used for the purpose of determining pay in the preceding 12 months. It will, however, remain open to those concerned to vary the composition of their groups. Where pay is fixed on an individual basis, the Code applies to the individual as to the group.

Intervals between Increases

110. No group may receive an increase in pay under a settlement made after 6 November 1972 less than twelve months after the group last received a principal increase.

111. Paragraph 110 does not apply where:

   (i) an earlier date for such an increase was specified (other than by reference to changes in indices or rates of pay for other groups) in a previous settlement made before 6 November 1972; or

   (ii) the last increase was deferred as a result of the standstill under the White Paper (Cmd 5125), in which case the 12 months count from the date from which the last increase would have operated but for the standstill.

112. Pay increases which consist solely of one or more improvements of the kind described in paragraphs 123, 125, or 127, are not principal increases for the purpose of paragraph 82 and may be given within 12 months of any other increase.
The Pay Limit

113. The pay limit for a group represents the maximum amount by which the average pay per head of the group may be increased in a 12 month period. This amount is the sum of

(i) 4 per cent of the average pay bill per head of the group for the preceding 12 month period; and

(ii) £1 per week per head.

A precise method of calculation is set out in the Appendix. If insufficient information is available for this, the best available alternative method should be used (examples are given in the Appendix). Those concerned will be responsible for satisfying the Pay Board, if required, that the method used is the best available.

114. Subject to the individual limit in paragraph 121, it will be for negotiators and others concerned with pay determination to decide on the amount and distribution of increases within the pay limit, and on the division between increases in wages or salaries and improvements in other conditions of service. They should, however, have full regard to the objective of improving the relative position of the low-paid.

115. The pay limit applies to the 12 months following the first increase after 6 November 1972 which counts against the pay limit. But where a group in accordance with paragraph 111 (ii) wishes to return to its normal operative date, so that its settlement runs for less than 12 months, the limit will apply to the period of the settlement at the weekly or monthly rate that would have applied had the settlement been for 12 months.

116. In calculating the average pay bill per head

(i) the number in the group should be taken as the average over the preceding 12 months;
(ii) the pay bill should include the cost of all forms of pay increases which count against the pay limit and should be adjusted to offset the effect of absences from work due to absenteeism, sickness, short-time working or to stoppages from any other cause.

(iii) Part-time workers should be counted according to the proportion which their hours bear to the standard hours of the group. (They should be counted on the same basis in calculating the sum of £1 per week per head of the group.)

117. Employers' contributions in respect of their employees for national insurance, selective employment tax, pension schemes and redundancy payment schemes and (subject to paragraphs 119 and 120) the cost of overtime hours actually worked should be excluded from the pay bill and will not count against the pay limit.

118. With the exceptions specified in subsequent paragraphs of the Code, improvements in terms and conditions of employment other than wages and salaries should be costed and taken into account in determining whether the total cost of a settlement is within the pay limit.
Overtime, Shift, Rest Day and Weekend Working

119. All payments for work done in normal working hours within the meaning of Schedule 2 to the Contracts of Employment Act 1972 - which broadly includes any hours paid at overtime rates which the employee is required to work under the terms of his contract - should be included in the pay bill. The effect on such payments of any improvement in pay will count against the pay limit. For example, improvements in shift pay, whether related to improvement in basic rates or not, will count against the pay limit; as will improvements in night duty allowance where the night duty is a part of normal working hours.

120. If there is any widening of the percentage differential between the rate of pay for work done outside normal working hours (for example overtime, shift, rest day or weekend working) and the effective rate of pay for standard hours (11) (for example if the overtime multiplier is increased from time and a third to time and a half), the additional cost will count against the pay limit. In calculating the cost it should be assumed that the amount of such working in the 12 months from the operative date of the settlement will be at least as much as in the preceding 12 months.

Individual pay limit

121. Increases subject to the pay limit must not exceed £250 a year for any individual. If the individual works part time this limit must be reduced according to the proportion his hours bear to the standard hours of the group. Increases which are not subject to the pay limit (for example increases in this category arising from overtime or certain personal increments) do not count against the £250 limit.

Other improvements in pay and conditions

Equal Pay

122. Orderly progress towards achievement of the requirements of the Equal Pay Act 1970 may be made outside the pay limit on the basis set out below.

(11) See Appendix
123. Subject to paragraph 124, an increase for this purpose is outside the pay limit to the extent that, by the end of 1973, it reduces by up to one third any differential between men's and women's rates which existed at 31 December 1972 and which is required by the Equal Pay Act to be eliminated by 29 December 1975. Any increase in excess of this counts against the pay limit.

124. No increase outside the pay limit is allowable under paragraph 123 if any other increase affecting the group concerned has the effect of widening the percentage differential between men's and women's rates in question.

Hours

125. Reductions in standard working hours may be made outside the pay limit if they reduce standard working hours to not less than 40 hours a week, net of meal breaks.

126. Reductions in standard working hours other than as provided for in paragraph 125 count against the pay limit. The true cost should be set against the pay limit but the cost should not be treated as less than proportional to the reduction (so that for example a reduction of one hour in 40 should be treated as equivalent to not less than a 2½ per cent increase in pay), except where the Pay Board is satisfied in the light of the evidence that the true cost is less.

Holidays

127. Improvements in holidays do not count against the pay limit unless they increase the total holidays for any group to more than the equivalent of 3 weeks a year excluding:

(i) up to six occasional or public holidays
(ii) rest days taken in lieu of weekends or overtime; and
(iii) rest days granted before 6 November 1972 in lieu of a shorter working week.

128. Improvements in holidays other than as provided for in paragraph 127 count against the pay limit on the basis of their true cost.
Personal Increments

129. Where personal increments

(i) are part of a pre-determined range or scale; and

(ii) conform to defined principles and practice which before 6 November 1972 governed the exercise of any management discretion in individual cases

then, to the extent that they do not exceed those paid to individuals in similar circumstances in previous years and subject to paragraph 130, any net addition to the annual pay bill per head for the group concerned will not count against the pay limit and the increments do not count against the limit of £250 a year for the individual.

130. The following count against the pay limit and against the individual limit of £250:

(i) improvements in the ranges or scales in incremental systems covered by paragraph 102;

(ii) any net addition to the annual pay bill of a group resulting from the payment of types of personal increment other than those in paragraph 102; and

(iii) any element in personal increments which relates to factors not personal to the individual concerned, such as cost of living increases or company profits (other than under a profit sharing scheme as it existed before 6 November 1972).

Promotion and Regrading

131. Increases commensurate with greater responsibility may be given outside the pay limit to individuals or groups of individuals who are promoted or the level of whose work is reassessed by application of established procedures and criteria. Where this test
is not satisfied any increase in pay counts against the pay limit. Artificial regrading and changes of job specification should not be used as a means of avoiding the provisions of the Code.

New Employees and New Work

132. New recruits to existing jobs should not be paid more than those they replace or more than the rate paid currently by the employer concerned for the same job.

133. The rate for new work should not be more than the current rate paid for the same or most nearly similar work by the same or other employers. Where rates vary in different localities, the rate paid should not be more than the rate in the same locality.

Recognised Terms and Conditions

134. The cost of increases to meet the purposes of Section 8 of the Terms and Conditions of Employment Act 1959, the Road Haulage Wages Act, 1938 and similar legislation, and the Fair Wages Resolution of 1946 will not count against the pay limit.

Pensions

135. New or improved benefits under occupational pension or death benefit schemes which are tax approved, or under comparable schemes not requiring tax approval, and any reimbursement of a corresponding increase in employee contributions may, unless paragraph applies, be given outside the pay limit.

136. Where a change in a pension scheme has the effect of increasing the pay, net of any pension contribution of a substantial proportion of the group of employees covered by the scheme, that increase counts against the pay limit unless:

(12) See Appendix
(13) See Appendix
(i) a revaluation of the scheme, made in accordance with generally accepted principles for such revaluations, has shown a surplus in respect of those receiving the increase, the value of which equals or exceeds the increase; or

(ii) there has been a corresponding reduction in benefits to those receiving the increase; or

(iii) the change had been proposed before 6 November 1972.

Redundancy Payments

137. New or improved benefits under schemes for payments to workers who leave an employer's service because of redundancy (as defined for the purposes of the Redundancy Payments Act, 1965) are outside the pay limit, as are benefits which become payable after 6 months of incapacity.

Profit-sharing Schemes

138. Payments under the terms of profit-sharing schemes as they stood before 6 November 1972 will not count against the pay limit. Any other payments or benefits under such schemes must be counted against the pay limit.
Share Option and Share Incentive Schemes

139. If the rate at which shares or options had been acquired by individual participants under a scheme operating before 6 November 1972 was fixed, without managerial discretion, by a predetermined formula related directly to company performance or other quantified criteria, the operation of that scheme on the terms ruling before that date is outside the pay limit. In addition, the acquisition of shares through any arrangements by which employers facilitate the purchase of shares by employees is outside the pay limit provided

(i) there are no special restrictions attached to the shares;

(ii) the shares are purchased at a price equal to their market value; and

(iii) there are no related loans or deferred payment arrangements.

140. No options may be granted under other share option schemes or shares issued under other share incentive schemes. The terms of schemes under which shares already issued are still subject to restrictions, or options already granted remain unexercised, may not be improved.

Other Benefits

141. The cost of any new benefits and of any improvement or extension of existing benefits or other terms and conditions of service will count against the pay limit unless specifically exempted in the Code. These benefits include:

- Benefits in cash or kind, including the provision of cars partly or wholly for private use, living accommodation at less than economic cost, etc.

- Loans at below market rate, eg for house purchase.

- Lunch or other meal vouchers

- Seasonal and holiday bonuses
Responsibility allowances

London allowance or other geographical allowance

Overtime and shift premiums (see paragraphs 119-120)

Stand-by payments

Lay off and sick pay

142. Reimbursement of expenses incurred in the course of employment (including removal expenses) does not count against the pay limit. When expenses are reimbursed by fixed allowances, these may be increased outside the pay limit, provided that the increase can be fully justified on the ground of increases in the relevant costs.

Particular Methods and Systems of Payment

National, Local and Plant Increases

143. Where settlements or pay determinations for a particular group are concluded at more than one level (for example, a settlement at national or industry level is supplemented by settlements at local or plant level) the total increase for the group for the twelve months beginning with the first increase which counts against the pay limit should be kept within that limit. Paragraph 110 applies separately to each level of settlement.

144. When local or plant negotiations take place before national negotiations the recommended method of achieving the purpose of paragraph 143 is by including in the local or plant settlement an offsetting provision precluding employers from making subsequent payments as a result of a national agreement which would result in a total increase in the pay of the group concerned in excess of the pay limit. Those undertaking national negotiations should have regard to the requirement that any increase settled nationally, if not offset as above, should be taken into account in any subsequent local or plant negotiation, so as to ensure that the total pay increase of any group concerned does not exceed the pay limit for that group.
Payment by Results

145. Increases in pay under a scheme of payment by results, including piecework and commission payments, or under an arrangement linked to such a scheme will count against the pay limit except where they arise under the terms of the scheme from direct and measurable contributions by the employees to increased output. This applies to increased payments arising from changes in base rate, conversion rate or other calculator, piecework prices or times, the fixed element or from any other change in the terms.

146. For those covered by schemes of payment by results who do not benefit from a general pay increase the twelve month period referred to in paragraph 113 will be the twelve months following the end of the standstill.

147. For those covered by schemes of payments by results who also benefit from a general increase which counts against the pay limit, account must be taken in calculating the amount available for the general increase, of any increase under the scheme of which counts against the pay limit. For this purpose it must be assumed that the percentage of such increases in pay arising under the scheme during the twelve months following the general increase will be at least as great as in the preceding twelve months.

Productivity and Restructuring Schemes

148. Except as in paragraph 149, increases in pay under productivity or restructuring schemes introduced after 6 November 1972 count against the pay limit.

149. Where:

   (i) there was on 6 November 1972 an agreement to implement a programme of productivity schemes, or a restructuring, for specified groups of employees in which the amount of pay or the precise method by which it was to be calculated was clearly specified, leaving only the
practical details of application of the scheme to particular groups to be settled;

and

(ii) the employer or group of employers covered by the agreement had on 6 November already implemented the programme in respect of some of the employees concerned,

implementation of the programme in respect of the specified groups may proceed. Resultant increases in pay will not count against the pay limit.
Settlements reached before the Standstill

150. Settlements reached, but not implemented, on or before 6 November 1972 which provide for specified increases on specified dates (and not by reference to changes in indices or other rates of pay) may be implemented in full and, subject to the requirements of the standstill, from their due date or dates. The requirements of the standstill are that no such increase may be implemented with effect from a date earlier than 28 February 1973; that thereafter such increases may be implemented 90 days after their due date provided this is not less than twelve months after the previous settlement; and that no such increase need be deferred beyond the end of the pay standstill.

151. Where increases provided under such settlements are principal increases or have due dates after the end of the pay standstill they will count against the pay limit. In such cases the pay limit will apply to the 12 months following that increase. Where the total cost of the settlement within that 12 months equals or exceeds the pay limit it may not be added to, unless in ways which do not count against the pay limit.

New long-term agreements

152. Settlements may be made providing for staged increases at not less than twelve month intervals which are consistent with the Code but implementation of the later stages will be subject to the provisions of the Code at the time.
153. Where the Code cannot be directly applied to particular cases or sectors without modification, the Price Commission and the Pay Board will, in exercising their powers, apply the Code with such adaptations or modifications as appear to them to be necessary to give effect to its principles and objectives.
DIVIDENDS

Administration and General Principles

154. Dividend control will continue to be administered by the Treasury. The principles of this control set out in this section are not, therefore, included in the Code. Where appropriate, effect will be given to them in the Order that will be laid by the Treasury under Section 10 of the Counter-Inflation Act 1973 as soon as part II of the Act comes into force.

155. It is not envisaged that the Agencies will play a part in the administration of dividend restraint during Stage 2, but the Act makes this possible if it should be thought appropriate at a later stage and permits questions relating to dividends to be deferred to the appropriate Agency.

156. The control of dividends will, as in the standstill, operate on declarations; however the Act also gives power to control payments of dividends should this be necessary. Except as indicated in the following paragraph, companies incorporated in the United Kingdom will not be permitted, without the consent of the Treasury, to declare dividends for any company account year which exceed by more than 5% the amount of ordinary dividends declared by the company for the preceding company account year. Other analogous distributions out of the assets of the company will also be prohibited, except with the consent of the Treasury. Fixed rate dividends, however, since they cannot be increased, will not be subject to control.

Field of Application

157. Dividend control will apply to all companies incorporated in the United Kingdom except:-

(a) Investment trusts as defined in Section 359 of the Income and Corporation Taxes Act 1970;
(b) close companies to the extent that they increase distributions in order to comply with the special tax rules concerning such companies;

(c) companies entirely in the beneficial ownership of another company or companies (except those in the ownership of an investment trust) where ordinary dividend payments are exclusively inter-company transactions.

158. Effect will be given to the control for quoted companies by making an order applying the relevant provisions of the Act to such companies, except for those in the categories mentioned above. The order will specify in detail the coverage of the control, the basis of comparison for purposes of calculation and other relevant factors.

159. Companies other than quoted companies will not be covered by the order. They will nevertheless be subject to the same limitations on dividend declarations as quoted companies and will be expected to comply with them. If necessary, the restrictions will be applied to individual unquoted companies by means of a notice given under the Act.

160. The exemption for close companies will apply only to the extent that an increased distribution is necessary to avoid a shortfall assessment or an apportionment of their profits and companies will doubtless wish to consult their tax advisors about their position. Where a higher distribution is necessary it can be made at any time within a period from the end of the relevant accounting year which the Inland Revenue consider to be reasonable.

The Dividend Limit

161. In computing what dividends may be declared for a company's account year, the starting point will be the total amount of ordinary dividends declared for the last account year in respect of which a profit and loss account of the company laid before it in general meeting was compiled. The money amount of these dividends may then
be increased by 5 per cent to give the total amount of the ordinary dividends which may be declared for the succeeding company account year.

162. In the case of dividends to be paid after 5 April 1973, the basis of comparison will need to take account of the changes in corporation tax which will come into operation on that date. The comparison will be between:

(a) gross dividends paid before 6 April 1973; and

(b) franked payments (that is the aggregate of dividends and such proportion thereof as corresponds to the rate of advance corporation tax in force for the financial year in which the dividend is paid) made after 5 April 1973.

The 5 per cent increase applies to the amount of the gross dividend declared for the company's preceding account year.

163. Pro rata adjustments should also be made (i) to take account of changes of one month or more in the length of a company's accounting period; and (ii) where there has been a reduction in the company's share capital, or where a company's share capital has increased since the declaration of the final dividend (or its equivalent) for the preceding account year and the increase reflects the value of new cash subscribed or other real consideration. Normal capitalisation issues may be made, but an increase in capital which is the result of a capitalisation issue will not rank for increased dividend.

Application to Takeovers, New Companies, etc

164. The Act empowers the Treasury or one of the Agencies to issue consents to allow companies to declare dividends which are greater than the normally permitted level. Such consents will only be granted in exceptional circumstances, and any application for such treatment must be made in writing well before any relevant board meeting.
It is not possible to specify in advance precise rules applicable to all cases. The following however indicates the way in which the control will operate in particular circumstances:

**Takeover Defence**

Where the Treasury are satisfied that an actual takeover bid situation exists (i.e., where it is the intention to acquire more than 50% of the voting shares of the company subject to the bid), companies wishing to defend themselves from the bidder by increasing their dividends will normally be allowed to do so.

**New Companies**

New companies formed by the reconstruction or amalgamation of existing companies will normally be allowed to declare dividends not exceeding the aggregate of the dividends declared in the preceding account years by the parties to the merger, plus 5%; in such circumstances the new company will need to consult the Treasury about their dividend position. Other completely new companies will not be subject to control in respect of dividends declared for their first two account years.

**Newly Quoted Companies**

Former private or unquoted public companies will not be subject to dividend control in respect of the first account year during which they became a quoted company or the succeeding account year.

**Recoveries**

Companies which have recovered from an adverse trading position will normally be permitted to increase their dividends to the level of an earlier more typical year. They will not, however, be allowed the 5 per cent increase on top of this concession.
Pre-Standstill Commitments

Some companies may have issued formal document to investors (for examples, prospectuses or rights issue offer documents) before the Prime Minister's announcement of dividend restraint on 6 November 1972 in which they made statements of intent about future dividend declarations. Provided the Treasury are satisfied that a real commitment exists and that it was relevant to the actions of the people to whom the prospectuses were addressed, it is the intention to allow such commitments to be honoured.
Price and Pay Determination Outside the Code

166. This Section described how Stage Two will apply to prices, charges and pay in certain fields which are not automatically within the scope of the Price Commission or Pay Board under the Counter-Inflation Act 1973.

Pay of Crown Servants and Government prices and charges

167. The Government will apply the Code to pay settlements with which it is concerned, and will arrange notification of settlements to which it is a party to the Pay Board. The draft Code describes in paragraph 87 the principles which the Price Commission will be required to apply to proposals for price increases referred to them by Government Departments engaged in substantial trading operations. In relation to other prices and charges for which it has responsibility, the Government intend to follow the principles of the Code. In many important cases however the Government is already holding charges below the levels which the Code would permit.

Statutory Determination of Pay or Prices

168. Statutory bodies which determine pay or prices will be required to have regard to the Code. The Government propose to use the powers given by the Counter-Inflation Act to modify their Statutory obligations accordingly. The necessary orders will be made at the beginning of Stage Two.

169. In the case of bus fares and domestic air fares the right of appeal to the Secretary of State against a decision of the Traffic Commissioners and the Civil Aviation Authority respectively will remain, but in determining any appeals the Secretary of State will have regard to the Code and may consult the Commission. Rights of appeal to the National Ports Council against ship, passenger and goods dues will also be retained. In determining appeals it is intended that the National Ports Council should have regard to the Code.
Control of Prices and Charges by Ministers

170. The draft Code provides in paragraph 20 (vii), (viii) and (ix) that control through the Code will not apply to three categories of prices and charges, which are instead to be regulated by Ministers.

171. Prices of drugs ("ethical medicines") purchased wholly or mainly for use in the National Health Service have for a number of years been regulated by agreement between the Secretary of State for Social Services and his predecessors and the manufacturers. This system is effective and it is proposed that the prices of these medicines should continue to be regulated through this agreement, rather than through the Code, so long as it remains in force.

172. The second special category is prices in certain contracts with the Secretary of State for Defence for warlike stores or services. The pricing of non-competitive Government contracts in this field is regulated under arrangements agreed between Her Majesty's Government and the CBI in 1968. These arrangements provide for equality of information for purchasing Departments in the pricing process, and for the post-costing of fixed price contracts. There are also provisions governing the rate of profit. In the circumstances of these contracts the Government consider that the best course is to continue to regulate these prices under the agreed arrangements.

173. The third category is insurance premiums. They will be controlled by the Secretary of State for Trade and Industry under the Counter-Inflation Act. The Secretary of State already has statutory responsibilities for the protection of insured persons through his oversight of the solvency of insurance companies and, as was explained to Parliament, it would not be satisfactory to separate responsibility for controlling the level of premiums from responsibility for the companies' solvency.

Interest business of banks

174. [Drafting not completed]
Business and Agricultural Rents

175. The standstill on both business and agricultural rents will continue in Stage Two, and the necessary Orders will be made for this purpose. There will be minor changes in the arrangements which applied during the Standstill to business rents to remove certain unintended effects and anomalies. The control will not however be extended to new lettings. Studies relating to larger term policy for business rents have been put in hand and the Government's conclusions will be made known as soon as possible.
SECTION 5
MACHINERY AND PROCEDURE

Notification, reporting and record keeping: prices

176. There will be three different procedures for ensuring that the price policy is effectively monitored and implemented: pre-notification of proposed price increases to the Price Commission, regular reporting to the Commission and record keeping subject to spot checks by the Commission. The requirements for pre-notification, reporting and record keeping will be embodied in orders made under the Counter-Inflation Act. The Commission will not disclose information which is properly confidential except as printed in paragraph 4(2) of Schedule 4 on the Counter-Inflation Act.

177. The requirements for enterprises in different sectors will be defined mainly in terms of the value of sales in the domestic market during their last financial year ending not later than 31 December 1972. For this purpose the sales of an enterprise which is part of a larger group will be aggregated in the sales of the group as a whole notwithstanding the provisions in paragraph 181. Mixed enterprises are covered in paragraph 185 below. The definitions for different sectors are given in the table below.

<table>
<thead>
<tr>
<th>Category I</th>
<th>Category II</th>
<th>Category III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior notification and reporting</td>
<td>Reporting</td>
<td>Record-keeping</td>
</tr>
<tr>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
</tbody>
</table>

Manufacturing, mining, public utilities, transport, postal services and telecommunications
- over 50
- 5-50
- 1-5

Wholesalers, retailers, and other distributive trades
- over 10
- 0.25-10

Services
- over 20
- 5-20
- 0.25-5

Construction
- over 10
- 1-10

Professions
National scales or rates
over 0.5
0.1-0.5
178. Certain enterprises whose sales in the domestic market are below the figures in the first column of the table above, but which have a relatively large share, or are of special importance, in the market for particular goods will be required to pre-notify. These enterprises have already been told that they will be named in the first notification order. Any further changes in the notification requirements will also be embodied in orders.

Pre-Notification

179. Prenotifying enterprises will be required to provide full supporting data when they apply to the Price Commission for a price increase. If no reply is received within 28 days of the receipt of the application, the Price Commission will be deemed to have consented to the increase. If the Price Commission cannot complete its examination within 28 days it may, before the expiry of that period, inform the applicant that the application is still under consideration. The Commission must give a decision within a further 14 days (that is, a maximum of 42 days from the date of the receipt of the application) if it decides to modify or reject the proposed increase and therefore wishes to prevent it being implemented. This is because it must give 14 days notice of this intention to the applicant who may make further representations to the Commission within that period. If a price increase is approved, it can normally be implemented at once.

180. The Price Commission will deal with all notifications as speedily as possible. Where it is important because of the nature of a product (eg certain processed foods or other products heavily dependent on raw materials which fluctuate in price) that a decision is given in less than 28 days, every effort will be made to do so. It will be open to the Price Commission to make special arrangements for such products.

181. Category I enterprises will not be required to pre-notify price increases on every product or service. Provided that the price increases are consistent with the Code, pre-notification is not required where either of the following conditions is met:
a. Where the product or service is part of a range on which the total sales of the enterprise do not exceed £5m for manufacturing, mining, public utilities, transport; and £2m for service enterprises. For this purpose, the following definitions should be used:

(i) the "range" should be the minimum list heading of the Standard Industrial Classification within which the product or service falls.

(ii) The "enterprise" should be as defined in paragraph 177.

(iii) The "sales" should be the total receivable income from sales in the domestic market during the last accounting year ending before 31 December 1972.

b. Where an enterprise applies for or receives consent from the Price Commission for a price increase on a product and notifies the Price Commission in the application that it intends to increase the price of other products of its own manufacture incorporating that material. In this event it need not pre-notify, unless specifically requested by the Price Commission to do so, price increases on those other products which are wholly consequential on the approved increase in the price of the material.

182. Other enterprises required to pre-notify under the provisions of Paragraph 178 will pre-notify all price increases on the goods or services specified in the Order.

183. Applications for the Commission's approval by pre-notifying enterprises will be required to include information about the enterprise's profit reference level and current profit margin and about the increases in total and allowable unit costs on which the proposed price increase is based.
184. All enterprises, whether or not otherwise required to pre-notify, must pre-notify any proposal to increase prices which would not be consistent with the Code except under the provisions of paragraph 71.

185. Mixed enterprises (that is, those engaged in wholesale, retail or service operations as well as manufacturing) will be required to pre-notify increases in the price of their manufactured products where the sales of these products in the domestic market (including sales through their own wholesale or retail outlets) exceed £50 million. Mixed enterprises are also required to pre-notify increased charges for service activities where the turnover exceeds £20 million. Paragraph 184 will apply to these enterprises as to other pre-notifiers.

186. Where nationalised industries have statutory Consumer Councils, they will notify those Councils of proposals for price increases at the same time as they notify the Price Commission. The nationalised industries will be able, where appropriate, to modify their proposals to the Commission in the light of comments from the Councils.

**Reporting**

187. Initially notifying and reporting enterprises will be required to provide the Commission with sufficient information to establish the reference level for the profit margin limit including where available audited accounts for the reference level period. If a firm so wishes because of seasonal or other distorting factors, it may submit a quarterly breakdown of this information. The initial information provided by distributors will in addition need to be sufficient to establish the base period gross margin.

188. Notifying and reporting enterprises will be required to provide the Price Commission with quarterly reports on total domestic sales, on profit margins, and, where any prices have been raised in the quarter and have not been pre-notified, full information about the basis for these price changes. Where audited financial accounts are not available, figures derived from management accounts may be used.
provided that these can in due course be reconciled with audited financial accounts. Distributors will not need to provide information on prices but will need to cover gross margins. The first of these reports, which will be described in an Order under the Counter-Inflation Act, will be made by these enterprises for a quarter ending between 25 May 1973 and 28 July 1973. This will enable companies to report for the quarterly periods they normally use. All reports should be made not more than 6 weeks after the end of the period to which they relate.

Record keeping

189. Those required only to keep records need not submit them to the Price Commission except on request, but should have available comparable records quarter by quarter of sales and profit margins and of costs relevant to any price increases made in the quarter. They will also need to have available sufficient information to establish the reference level for profit margins. Smaller concerns need not keep records.
Notification, Reporting and Record Keeping: Pay

190. The general procedures for ensuring that the pay policy is effectively monitored and implemented will be as follows:

(a) major settlements affecting 1,000 employees or more, whether or not in a single undertaking, will be reported to the Pay Board and will require the approval of the Board before they can be implemented (subject to the initial exceptions in paragraph 195 below);

(b) settlements affecting 100 employees and less than 1,000 will be reported to the Board but can be implemented without the Board's prior approval;

(c) employers of 10 or more employees will be required to keep pay records in any suitable form from which information to check compliance could if necessary be extracted.

The Commission will not disclose information which is properly confidential except as provided in paragraph 4(2) of Schedule 4 of the Counter Inflation Act.

191. In all cases the information required, will be limited to what they need to determine whether the settlement is consistent with the Code. It will include the numbers and categories of employees concerned, the terms and operative dates of the settlement and other settlements affecting the pay of any of the employees concerned in the preceding 12 months, and estimates of the pay bill for the 12 months before the settlement, calculated in accordance with the Code, of the pay limit for the group, and of the effect of the settlement on the pay bill for the following 12 months.

Settlements subject to Pay Board consent

192. Settlements covering 1,000 employees or more (other than those reached and due for implementation before 8 April) which are referred to in paragraph 195 below, will be required not to be implemented
until after the Board have given their approval. Subject to the Board's approval these settlements can be implemented from their due date, retrospectively if necessary.

193. If employers or their representatives who have notified a settlement to the Board in accordance with the arrangements in paragraph 192 do not receive a reply within 28 days, the Board will be deemed to have given its approval. If however the Board so inform the applicant they may extend the period for consideration by up to a further 28 days. The Board will of course give its decisions within shorter periods wherever possible, particularly to reduce any period of retrospection to a minimum and taking account of the need to give 14 days warning notice of its intention to issue an order or notice restricting pay. This will be made easier if the parties voluntarily keep the Board informed about negotiations in advance of reaching a settlement.

194. The provisions of the Wages Councils Act 1959 and the Agricultural Wages Acts will be modified so to require Councils or Boards to have the approval of the Pay Board before notifying employers of proposals to increase statutory minimum remuneration. Once the Pay Board's approval has been obtained the normal statutory procedure for making Wages Regulation Orders will proceed as at present.

Major settlements reached and due to be implemented before 8 April 1973

195. The requirement to obtain the Board’s approval before implementation of settlements covering 1,000 or more employees will not apply to settlements reached and due to be implemented before 8 April 1973, whether they are settlements deferred by the standstill or settlements for which a date before 8 April is the normal operative date. Such settlements must however be reported to the Board, in the same way as smaller settlements (see paragraph 196 below) and will be subject to restriction if they do not conform with the Code. Where such settlements have already been reported to the Department of Employment, arrangements will be made with the
consent of those concerned to pass the information on to the Board so as to avoid duplication.

Reports of Settlements Reached

196. Employers or their representatives, who conclude settlements covering 100 employees or more, whether or not in a single undertaking, will be required to notify the Board within 7 days of the terms of the settlement and other prescribed information. This requirement will apply immediately to all settlements reached since 6 November 1972 and to other settlements as they are reached.

197. Apart from the larger settlements covered by paragraph 192 above such settlements can be implemented without the prior approval of the Board, but will be subject to restriction by the Board if they do not conform with the Code.

Special arrangements for certain sectors

198. Orders or notices will be made at a later date requiring certain special notification arrangements covering for example large construction sites and the operation of payment by results schemes.

Record keeping

199. Employers of 10 or more employees will be required to keep for at least 12 months any form of record from which information sufficient to check compliance with the Code could if necessary be abstracted. Existing records will suffice provided they meet this requirement.

Special Arrangements

Food

200. The draft Code makes it clear that prices of manufactured food will be controlled, both directly and through the profit margins of the manufacturers; and that the prices charged by whole-salers and retailers for all food, whether fresh or manufactured,
will be controlled through their gross margins and profit margins.

201. As announced in the Consultative Document (Cmnd 5247), a special panel of the Price Commission will be set up to deal with prices of food and drink. This panel will carry out the Commission's functions in relation to the prices of semi-processed and manufactured foods, which will be controlled in the same way as manufactured products generally. The Commission will also be able to carry out special inquiries into the circumstances affecting the price of any fresh food.

Construction

202. As announced in the Consultative Document, the Government propose that a special Construction Panel should be established to consider how the requirements of the Price and Pay Code can most effectively be applied to the construction industry, taking account of the special features of this industry. The intention is that the panel should include members of both the Pay Board and the Price Commission and the Government hope that both sides of the industry will be willing to be represented on it.

203. Most construction work is done on the basis of competitive tenders and such tender prices will not be subject to prior approval by the Price Commission. Construction firms with a turnover of more than £10 million a year will be required to submit to the Commission reports of their costs, prices, turnover and profits at 3 monthly intervals. Firms with a turnover of between £1 million and £10 million a year will be required to maintain adequate records of their costs, prices and profits and to make them available to the Commission if called upon to do so.

204. Firms engaged on or receiving contracts for construction services which are worth individually more than £5 million, and which include clauses providing for variation of prices, will be required to provide the Commission with an outline description of the work, a copy of the contract, the items to which variation of price applies, and where applicable the amount of money received in
payments under the variation of price provisions during the last three months.

205. On the pay side the Secretary of State or the Pay Board will be making an order covering special notification arrangements for large construction sites at a later date.
[ Appendix A

On lines of Appendix to Cmd 5247]

[ Appendix B

Examples of calculations under Price and Pay Code ]