CABINET

THE PROGRAMME FOR CONTROLLING INFLATION: STAGE 3 -
DRAFT WHITE PAPER

Note by the Secretary of the Cabinet

1. By direction of the Prime Minister, the attached proof of the Stage 3 White Paper is circulated for consideration by the Cabinet.

2. The proof does not deal with some major policy issues which were still under consideration by Ministers when the draft was sent to the printers on 30 September.

3. It will require amendment to take account of some further decisions on the Price Code taken by Ministers since then. A note listing these amendments, and describing if necessary any important unresolved issues, will be circulated separately.

Signed JOHN HUNT

Cabinet Office

2 October 1973
The Programme for
Controlled Infestation: Stage 3

Permitted in pursuance of the Commission on the Reclamation
of the Soil of Her Majesty's
Crown Lands

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THE PROGRAMME FOR CONTROLLING INFLATION: STAGE 3

Introduction

This White Paper is in two parts. The first describes the Government's main proposals for the next stage of the counter inflation programme and relates them to the position we have now reached in that programme. In the absence of an agreed voluntary programme, some of these would need to be reflected in a revised Price and Pay Code. The second part therefore explains the amendments to the Code which would be necessary and contains a draft of a revised Code.

The Government have already had extensive discussions with the TUC and CBI in the period of preparation of their proposals for the next stage. Other organisations have given the Government their views. The Government hope that further discussions can now take place with the TUC and CBI on the whole range of their proposals. There will also now be wide consultation about the amendments to the Code set out in the second part of this White Paper, in accordance with the specific statutory requirement. The next step will be for the Government to seek the approval of Parliament for its proposals.
PART I

THE GOVERNMENT'S PROPOSALS

1. The objectives of the programme for controlling inflation are unchanged. They are: to maintain a high rate of growth and to improve real incomes; to improve the position of the low-paid and pensioners; and to moderate the rate of cost and price inflation. These objectives are held in common by the Government, the TUC and the CBI. In the Government's view, it is abundantly clear that policies to control inflation and to achieve these objectives are still needed. The Government are therefore bringing forward in this White Paper proposals for the next stage of the programme.

2. The Government hold to their view that agreed voluntary arrangements for the control of inflation would be better than statutory measures. They will continue to seek an effective voluntary agreement with both sides of industry. The terms of the Counter-Inflation Act 1973 would permit a change to control based on voluntary agreement at any time. The Government will seek the highest possible measure of agreement over parts of the field even if full agreement cannot for the time being be attained.

3. However, agreement over the whole field would, in the Government's view, require acceptance that there must be restraint, in a form which guarantees its effectiveness not only on prices but also on increases in pay. We cannot return to pay settlements giving increases at the rate of 15 per cent or more of the kind which happened in the autumn of 1972. Of the costs which lead to price increases and which are within our own control, the biggest is pay. Accordingly, the Government now present for Stage 3 proposals for restraint on price and pay increases which are firm and fair.

Stages 1 and 2

4. In Stages 1 and 2 we have succeeded in restraining the domestic causes of inflation. But we have had to face a surge in world prices of a kind which has not struck the United Kingdom for over 20 years. World price increases have pressed on the prices in our shops, both directly and through the sterling exchange rate. They have turned the terms of trade sharply against us at heavy cost to the balance of payments, and the effect of this on the exchange rate has added to the pressure on prices.

5. Nevertheless, the price and pay controls, with the the expansion of production, have helped us to avoid piling a full-scale domestic inflation on top of an imported one. Import prices rose by 24 per cent between November 1972 and August this year. But the wholesale prices of manufactured products sold on the home market rose by only 4·6 per cent (6·2 per cent excluding the effect of the VAT changeover). As a result of the restraint we have exercised on pay increases and the rapid increase in production, we have kept down our costs of production with benefit to our own price level, and to the prices of our exports. At the same time, increases in earnings have kept ahead of price increases. The index of earnings per head increased between November 1972 and July 1973 by 8·1 per cent compared with an increase over the same period in the retail price index of 6·1 per cent.

6. Most important of all, Stages 1 and 2 of the counter-inflation programme have enabled us to continue a high rate of economic growth. We would have had to cut back growth if pay had continued on the run-away course of the autumn of 1972. That would have brought the recovery of industrial investment to a halt, with further long-term damage to national prosperity.
Economic Background to Stage 3

7. In his 1973 Budget the Chancellor of the Exchequer aimed at a growth rate of about 5 per cent between the second half of 1972 and the first half of 1974, with some slowing down in the later part of the period as the economy approached full use of capacity. The Government expect that this growth rate will be achieved and that growth will continue during 1974 at a rate of about 3½ per cent broadly in line with the long-term rate of growth of the economy's productive potential. The economy is expanding at a sustainable rate, there are favourable opportunities for exports, and the counter-inflation programme gives industry confidence that growth can be maintained. All these factors favour a continuation of the rise in industrial investment and give a prospect of permanent improvement in the capacity of the economy.

8. But if this improvement is to be achieved we shall have to leave room during Stage 3 not only for the rising investment planned by manufacturing industry but also for the continuation of the rise in export volume required to improve the balance of payments. The reduction in public expenditure announced by the Chancellor on 21 May had this objective in view. The Government expect that, provided we do not suffer from a further surge in world commodity prices, it will be possible, consistently with the needs of exports and investment, for consumers' expenditure to rise in Stage 3 at a rate not far from the growth in GDP.

9. Realisation of this depends on the course of world commodity prices. As explained above, we are suffering a charge on our living standards from the rise in world commodity prices during Stages 1 and 2 which as a community we cannot avoid. That burden has still to be borne as more of our output has to go as exports to pay for imports at higher prices. The full impact of some world price increases, especially of wheat and other cereals, has yet to show itself in our domestic prices. However, it seems reasonable to expect that the increase in world prices will now slow down substantially. If this happens, and if we keep control of the domestic causes of inflation, we can expect to see the benefit of our restraint in a lower rate of increase in our prices in Stage 3.

THE POLICIES

10. Against the background of the consultations with the TUC, the CBI and others, of experience in Stage 2, and of the likely development of the economy in Stage 3, the Government propose the policies for Stage 3 which are summarised below.

Prices and profits

11. The Government's policies described below have two themes: they give a wide assurance to those in employment and their families that they can be safeguarded against excessive price increases; and they give special selective help to particular categories in need:

(a) Provision for a safeguard against high price increases by means of a "threshold" scheme under national rules is included in the Government's pay proposals.

(b) Strict control of manufacturing and retail prices and profits through the Price Code will be maintained.

(c) Milk prices will be held at their present level. This will bring the cost of the milk subsidy in the current financial year to some £70 million.

(d) Nationalised industry prices, including those for electricity, gas, coal, fares and posts, will continue to make a major contribution to price restraint.
Charges for school meals will be kept at their present level in spite of increased costs.

A special scheme of assistance for many first-time home buyers will be introduced; and steps will be taken to secure greater stability in the flow of mortgage funds.

For rented homes, the further increase in the needs allowance for calculating rent rebates and allowances announced in July took effect on 1 October.

High interest rates have increased substantially the profits of the banking sector. The Government propose that the interest they pay to the banks on special deposits should be reduced by over £30 million a year.

Pay

The aims of the Government’s pay policy for Stage 3 are:
- to be fair
- to continue special help for the low paid
- to provide for greater flexibility in negotiations
- to protect living standards against a high rate of increases in prices.

The Government therefore propose provision for:

(i) Groups to negotiate pay increases up to 7 per cent or, if they prefer, up to £2.25 a week per head, with an individual maximum of £500 a year.

(ii) A flexibility margin of a further 1 per cent which will be available to negotiators for use in settlements which remove anomalies and obstacles to the better use of manpower.

(iii) Scope for extra payments under new efficiency schemes when they show genuine savings and contribute to stabilising prices.

(iv) Bringing premium payments to those working “unsocial” hours up to a minimum standard.

(v) Dealing with anomalies created by the standstill.

(vi) Further progress towards equal pay.

(vii) Increases in certain types of London allowance outside the pay limit.

(viii) The threshold safeguard to enable pay to be increased up to 40p a week if, in Stage 3, the increase in the Retail Price Index reaches 7 per cent and by up to another 40p a week for every 1 per cent rise above that level.

(ix) 1 January to be a bank holiday in England and Wales and arrangements to be made for an additional public holiday in Scotland.

In addition, the Government will carry further the consultation with the TUC and CBI on their proposal for a new body which would help improve the capacity of industry to raise pay levels for the lower paid.

These policies are described in more detail below.

PRICES

Food Prices

The Government action will help to restrain the prices of three important foods in the coming months.

The Government are holding the retail price of milk steady at 5½p per pint. The Government propose that the price should continue to be held at this level for the time being. This will require a subsidy of some £35 million
in the period up to 1 April 1974, bringing the total for the present financial year to £70 million. The necessary provision will be made in estimates presented to Parliament.

19. For butter, the United Kingdom alone of EEC countries has introduced a general subsidy, which is now reducing prices by about 2p per lb, in addition to the butter token arrangements for social security beneficiaries. For potatoes, where the crop is expected to be good, the Government will be able, given adequate supplies, to ensure that the marketing arrangements give the consumer the benefit of reasonable prices throughout the season.

School Meals

20. The charge for school meals will for the present remain at the level of 12p, which it has been held since 1971, in spite of increased costs.

Nationalised Industry prices

21. The nationalised industries have helped to keep down prices to the consumer and to industry for a period of years, covering a much longer period than Stages 1 and 2 of the counter-inflation programme. Prices of electricity, gas, coal, fares and postal charges, all of which are important items of household expenditure have been held well below the levels which would have been commercially justifiable, making a significant contribution to the reduction of the price level. The Government have accepted the need to forgo important trading surpluses and to finance substantial deficits. Over and above the subsidy which the railway and coal industries would in any case have needed, the compensation payable for price restraint to the other nationalised industries is costing upwards of £150 million a year.

22. In the longer term it will certainly be desirable to enable these industries to restore their profitability, so that they can make a greater contribution to financing their essential investment programmes, which represent a major part of national industrial investment, and thus reduce their requirements for borrowed funds. Nevertheless, for the present priority must be given to the restraint of prices in this sector of industry. The nationalised industries will continue to be subject to the requirements of the Price Code. There will be some clarification of the provisions on the containment of deficits, and an anomaly which has arisen on gas and electricity two-part tariffs will be rectified; but, apart from this, the provisions of the Code relating to the nationalised industries will remain substantially as in Stage 2. As a result, a number of important nationalised industries which have had limited price increases in Stage 2 will not be seeking further increases for some time, and the Government will be prepared to continue to meet their essential financial requirements. The position of the gas industry, which has had no price increase since January 1972, will require special consideration, while the Code does not of course apply to those products whose prices are determined by the coal and steel industries within the framework of the ECSC régime.

Manufacturers' and Retailers' Prices

23. A strict control of manufacturers' and retailers' prices through the Price Code will be maintained in Stage 3. Since the Code limits the extent to which cost increases may be passed on as price increases, it is likely in general to have a heavier impact on manufacturers in Stage 3 than in Stage 2, because the scope for reducing costs through fuller utilisation of existing plant will be more limited. Nevertheless the control of cost increases which may be reflected in prices, and the control of profit margins, will be retained and in certain respects strengthened.
Control of Profit Margins

24. Subdivision of enterprises has been used in some cases to avoid the restraint of the profit margin control and extend the scope for price increases. The Government propose that subdivision for profit margin control should be discontinued, except where there was before 30 April, 1973 a separate management and accounting unit reporting to the main board. Except in these cases therefore margins will in general be calculated for the whole enterprise or group.

Investment

25. The Government propose three changes in the Code which have a bearing on investment. The first is a special relief for capital intensive companies which have undertaken major new investment but where the new plant was substantially under-utilised at the base date. The second permits firms earning profits representing less than a five per cent return on capital to increase prices, without restriction to allowable cost increases, so as to reach that level of return. The third amendment makes it clear that in order to qualify for the special relief in favour of investment in paragraph 63 of the Code, a firm must state expenditure on the investment within 12 months of the date of the price increase or of the modification of the profit margin limit, but need not complete the investment. Details of these relaxations are given in Part II of this White Paper.

Wider notification of price increases

26. The Government propose to take steps to enforce the Code more strictly in relation to Category 2 companies and an order will be made requiring such companies to report price increases in Stage 3 as they are made. It will not apply to companies in distribution and construction where there is at present no pre-notification. The companies to which the order applies will not be required to get approval from the Commission before making the increase, but prices will be rolled back if the Commission find they are inconsistent with the Code. New orders will also be made classifying the information required from companies which are affected by the restrictions in paragraph 27 or will be submitting quarterly reports for a period falling partly in Stage 2 and partly in Stage 3.

First-time house purchasers

27. The Government is proposing to the Building Societies Association and to other mortgage lenders, with a view to early legislation, a scheme of assistance to those about to purchase a house for the first time. Loans will be made by the Government to reduce the cost to qualifying first-time purchasers of their mortgage in the first year to 8½ per cent, with a progression to the full rate chargeable under the mortgage over a period of five years.

28. The Government propose to make the loans available to first-time purchasers to whom the lender is prepared to grant a mortgage, if their income and the purchase price are within the limits specified below. Those eligible for partial assistance will receive loans at half rate.

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<th><strong>Income</strong></th>
<th><strong>House price</strong></th>
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<td><strong>SE of England</strong></td>
<td></td>
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<tr>
<td>(i) Full assistance</td>
<td>Up to £3,000</td>
</tr>
<tr>
<td>(ii) Partial (50%) assistance</td>
<td>£3,000-£3,500</td>
</tr>
<tr>
<td><strong>Remainder of Great Britain</strong></td>
<td></td>
</tr>
<tr>
<td>(i) Full assistance</td>
<td>Up to £2,300</td>
</tr>
<tr>
<td>(ii) Partial (50%) assistance</td>
<td>£2,300-£2,800</td>
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29. The Government have also completed discussions with representatives of the Building Societies Association on stabilising mortgage finance. Subject to acceptance by the Council of the Association a Joint Advisory Committee consisting of Government and Association representatives will be set up forthwith. The Committee will regularly provide the Council of the Association with an analysis of the current situation of the societies. They will also provide forecasts of what would be appropriate levels of investment in the building societies, and of lending by them, to achieve the agreed objectives of supporting the growth of owner occupation with a reasonable choice for purchasers, maintaining a high and stable level of housebuilding and ensuring that house prices do not increase at an unreasonable rate. The Council will be ready to recommend to member societies a more flexible use of interest rates and liquidity, and selective lending policies designed to achieve the agreed objectives.

**Rents**

30. The second increase this year in the needs allowance for calculating rent rebates and allowances for tenants in both the public and the private sector was announced in July and took effect on October 1. This increase was £2.50 for a married tenant plus 25p for each dependent child, and £1.50 for a single tenant. The effect of the two increases in the needs allowance during 1973 is that a married tenant with two children living in a council house with an average rent whose income before Stage 2 was £35 a week and who received the average pay increase under Stage 2, will normally pay only 10p more rent by the end of October 1973 than he was paying in March 1973, even after the rent of his dwelling has been increased. If the tenant's income before Stage 2 had been £25 a week, he would normally after his Stage 2 pay increase pay 48p less rent at the end of October 1973 than at the end of March 1973.

**Bank charges and profits**

31. Non-interest business (fees, commissions, charges etc.) will continue to be controlled under the Code as in Stage 2. New arrangements will, however, apply in respect of interest earning business. Because of the special conditions created by high interest rates and the growth of the banks' resources the Government propose that during Stage 3 no interest should be paid on that proportion of each bank's special deposits which corresponds to the proportion which their current accounts represent of their total sterling deposits. The reduction in interest payments, at present rates, will be over £30 million in a full year. In the case of other financial institutions, the present arrangements for interest earning business will continue to apply.

**Business and Agricultural Rents**

32. Business rents have been subject to a standstill in Stages 1 and 2; and earlier White Papers referred to the Government's intention to consider in the course of Stage 2 their longer term policy for business rents. The Government have concluded that it is not practicable or desirable to introduce long-term control of business rents. The present standstill will be continued until the end of May 1974, and during the ensuing 12 months rents affected by the standstill will be permitted to rise, by successive groups in turn on a first-in-first-out basis, to the market level as it was at 5 November, 1972. Consultations over the methods of phasing to be adopted will take place with professional and other interests concerned. There will be some relaxation of the standstill on agricultural rents when Stage 3 begins to assist landlords in meeting the increased costs of their maintenance obligations. Representatives of landlords and tenants will then be invited to discuss arrangements for establishing thereafter a proper level of agricultural rents.
Operation of Price Code changes

33. It would not be right, now that the Government's proposals for Stage 3 are known, for price increases to be made in the interval between publication of this White Paper and the date on which the revised Code takes effect, with the intention of anticipating the revised Code and establishing a new price level to continue in operation well into Stage 3. The Government therefore propose that, apart from the exceptions mentioned below, it would be open to the Price Commission to roll back price increases made after the date of publication of this White Paper if necessary after the operative date of Stage 3 to the level which would be justified by the Stage 3 Code.

The exceptions would be:

(i) price increases approved by the Price Commission but not implemented before the date of publication;

(ii) increases approved by the Commission after the date of publication on the basis of applications received before publication. These would be dealt with in accordance with the Stage 2 Code.

The necessary provisions would be included in the Stage 3 Code.

PAY

34. The overall objective of the Government's policy for pay is to reduce the rate of cost and price inflation and to improve the prospects of sustained further growth in real earnings. To achieve this objective the Government have formulated proposals which are both fair and as flexible as is consistent with containing the costs which lead to price increases.

35. In the interests of fairness, the Government propose to make special provision to help the low paid and women workers and to remove anomalies identified by the Pay Board; and to see that their policies apply to everyone.

36. To be flexible, the Government propose to give negotiators a choice of pay limit and to give them greater scope over and above the pay limit in two important ways—by setting aside a further 1 per cent of the pay bill for this purpose, and by providing for extra payments under schemes which demonstrably improve efficiency and reduce costs.

37. The choice of pay limit described below, plus the margin for flexibility, will allow increases in the pay bill of rather less than 9 per cent on average and within this negotiators will be able to give increases at higher rates to the low paid. In proposing a limit at this level, the Government have taken account of the prospect that the growth in earnings is likely to be significantly higher (perhaps by 2 per cent) because of increases over and above the pay limit for such things as anomalies, equal pay and overtime.

38. The Government have also taken into account the increase in incomes arising from a higher level of employment. More people will benefit because the Government's policies for continued expansion, which the pay proposals are designed to underpin, are likely to increase employment by perhaps 250,000 people as firms increase their manpower to raise production.

39. The proposed new pay arrangements will therefore allow on average higher increases than in Stage 2. The Government consider that they strike a fair balance between the control of inflation and the need for pay increases to protect living standards during Stage 3. A higher figure would add unacceptably to cost inflation and so produce the very price increases that the counter-inflation programme is intended to prevent.
40. However, the Government recognise the public anxiety about the possible effect on prices at home of any future increases in the world prices of commodities that we have to import. They therefore propose to provide a safeguard, and the proposals below include arrangements for threshold agreements under which additional payments could be made if there were an excessive increase in prices. Such arrangements run the risk of adding to domestic inflation if import prices rise unexpectedly fast. But the Government think it right, in the interests of fairness, to accept this risk for the next 12 months in the (special) circumstances of Stage 3.

41. The details of the Government’s proposals on pay are set out below.

The Pay Limit

42. The next stage of policy will run from 7 November, 1973 until the autumn of 1974. During that period negotiators and others concerned with pay determination will have a choice of pay limits.

43. Under the first alternative the maximum amount by which the average pay bill per head of the group may be increased in a 12 month period will be seven per cent of the average pay bill per head of the group for the preceding 12 month period.

44. Under the second alternative the pay limit would be a straight cash sum of £2.25 per week per head of the group.

45. It is important to recognise that these are limits and not entitlements, whether for the group or for individuals within it. It is for negotiators to determine the appropriate increase and conditions of settlement within the limit and to decide on the distribution within the group, whichever form of pay limit is chosen.

Fairness

For the low paid

46. The Government continue to believe that the low paid should get special treatment and expects negotiators and others concerned with settlements to have regard to this. Of the alternative forms of pay limit, the straight cash limit of £2.25 is particularly helpful to the lower paid because it gives them proportionately more than better paid employees. The proposal that compensation under threshold agreements should be paid on a flat cash rate, regardless of the level of income, will also give greater assistance to the low paid. Furthermore, the draft Code provides for further progress towards equal pay and for holiday and hours to be improved up to specified minimum standards outside the pay limit. Again, these proposals are of particular benefit to the less privileged in our industrial society. The Government have also placed before the TUC and CBI a proposal to set up a body to improve the capacity of industries to raise pay levels for the lower paid and await their views.

By eliminating anomalies

47. The Government’s proposals are founded on the principle that the pay arrangements should be applied fairly. The TUC and CBI are being consulted on the Pay Board report on anomalies created by the standstill, and subject to those consultations, the Government propose to enable action to be taken in Stage 3 to deal with anomalies created by the standstill on the basis recommended by the Pay board. The draft Code provides for this to be done, with staging of the increases for the higher paid, and would enable similar treatment to be
given to civil servants covered by pay research due in 1974. The Government are now giving urgent consideration, as the Board recommended, to the future of the pay research system within the context of the counter-inflation programme.

48. In addition, further progress in removing or alleviating other anomalies in pay structures will be facilitated by the one per cent flexibility margin which can be added to the pay limit for this purpose.

49. Following the report on standstill anomalies the Pay Board is due to provide a further report to the Government by the end of this year on other problems of pay relativities which may arise both within and between groups of employees. The Government intend to have further consultations with both sides of industry on the basis of that report.

In operation

50. The Pay board will continue their basic job of scrutinising settlements notified to them and all settlements involving increases under the new anomaly provisions and under the provisions for new efficiency payments schemes will have to be notified to the Board for prior approval. The Board are already stepping up their spot checks on the implementation both of the larger settlements already notified to them and of the smaller settlements which are outside the notification categories. The Government are considering with the Board whether additional notification requirements in certain areas, such as the construction industry, would assist them in this task.

Flexibility for Efficiency

51. Within the overall objective of holding down prices, the Government wish to encourage the maximum flexibility in negotiations on pay to secure the better use of manpower and productive resources generally. By expressing the pay limit as an addition to the pay bill for the group of employees concerned, the Government are continuing to leave scope for negotiation and for flexibility in applying the overall sum to the circumstances of particular workers. But there are three important new provisions which are intended to afford greater scope for negotiators and others concerned with pay determination to secure the more efficient management of our productive resources on which the achievement of a higher rate of growth depends.

52. First, in addition to the pay limit, there will be a special flexibility margin of 1 per cent of the pay bill for the group. This can be used to raise pay in settlements which make improvements leading to greater efficiency and which resolve anomalies and other problems. Negotiators and others concerned with pay determination will be free to use the margin in ways they consider most appropriate to their particular case, within the broad scope defined in the Code.

53. Secondly, the Government propose that in Stage 3 there should be provision for agreements which increase efficiency. These efficiency payment schemes will be subject to very strict criteria in order to ensure that they make a definite contribution to price stabilisation, and extra payments under them will not become due until genuine savings have been achieved. Every such scheme will need prior approval by the Pay Board. Before approving payment under a scheme, the Board will require evidence from three months' operation that the savings have been achieved. To allow preparation to be made for proper scrutiny of such schemes, the Code provision would not come into force until 1 January, 1974.

54. Finally, the Government propose that payments outside the pay limit should be allowed in order to bring premium payments to those who work "unsocial hours"—i.e., at night or during weekends—up to a minimum standard.
This provision should help encourage the introduction and maintenance of shift working for the fuller utilisation of existing plant and enable sources of labour to be tapped which are not available in normal working hours.

Safeguards against a higher rate of price increases

55. Although unforeseeable increases in import costs outside the Government's control have pushed up prices during Stage 2, there are good reasons for believing that the rate of increases in prices generally will slow down during Stage 3. However, the Government propose that the draft Code should provide for the negotiation of threshold agreements to help safeguard employees' standard of living against a high rate of price increases during Stage 3.

56. The base date for the purpose of these agreements would be the date of publication of the Retail Price Index (RPI) figure for October 1973 and the agreements would run for 12 months from that date. They would allow payments of up to 40p to be made if the RPI reached 7 per cent above the base figure and a further payment of up to 40p for every percentage point rise in the RPI above that during the currency of the agreement. Payments would be outside the pay limit and would be treated as special supplements on an individual basis which would not count for calculating overtime or other premia. Where agreements were negotiated in accordance with the Code, full compensation would be payable to full-time employees and pro rata to part-time employees working 21 hours or more a week.

57. The Government are asking the Pay Board to carry out a review of allowances designed to compensate for the additional cost of accommodation and travel in London compared with the rest of the country. This will include reviewing the formula recommended by the National Board for Prices and Incomes (NBPI) in 1967. Meanwhile, in the context of the other proposals for Stage 3 the Government believe that it is right to provide for increases in London allowances to be made outside the pay limit for those who were receiving them before 6 November, 1972, on the basis of the NBPI formula, and for police. The draft Code accordingly provides for such increases to be made outside the limit provided that they are made on the basis of that formula.

Share Option and Share Incentive Schemes

58. The Finance Act 1973 provides for the introduction of a new kind of share savings scheme. Employees in a company operating such a scheme will be able to purchase shares in their employing company on advantageous terms, paying for any shares they choose to buy with the proceeds of a Save as You Earn contract. It is a requirement of the Finance Act 1973 that the Share Savings Scheme should be available on the same terms to all employees of the Company who qualify by age and service, and that the amount applied should be limited to what can be saved through SAYE contracts under the terms of the SAYE Scheme. The Government propose that these schemes should be allowed to operate without restriction in Stage 3 and arrangements will be made to enable such schemes to be implemented from 1 December, 1973. The present restrictions on the operation of other share option and share incentive schemes will continue.

An additional public holiday

59. We are now the only country in the European Economic Community where 1 January is not a public holiday. The Government intend therefore that 1 January should be made a bank holiday in England and Wales and that arrangements should be made for an additional public holiday in Scotland. The cost of this would not count against the pay limit.
Dividends will continue to be controlled in Stage 3. As in Stage 2, United Kingdom companies will not be permitted without the consent of the Treasury to declare dividends which exceed in total by more than 5 per cent the amount declared in respect of the previous account year. There will be some minor modifications in the administration of control designed to remove anomalies and codify existing practice. Among these one new rule gives the Treasury some latitude on the dividend level where a company has to raise new capital. Two others are aimed at removing the difficulties which current controls cause where a company never declared a dividend in the past, or where a company is almost entirely owned, but not quite, by a parent to which the controls apply. The Treasury will issue separately a note of guidance on these changes.
PART II
AMENDMENTS TO THE PRICE AND PAY CODE

A CONSULTATIVE DOCUMENT

This part of the White Paper is prepared in a form designed to assist the statutory consultations on amendments to the Pay and Price Code which the Government are required to undertake by Section 2 of the Counter Inflation Act 1973. It is in two Sections. Section I is a commentary on proposed amendments to the Code, Section II is a complete draft of the Price and Pay Code revised so as to include the amendments in heavy type.

Section I: Commentary on amendments

PRICES

Paragraph 6 (vi): International giro and remittance services are put in the same position as the other international postal and telecommunications services.

Paragraph 6 (x): This adds taxi fares in Scotland to the list of exemptions. Like taxi fares in England and Wales which are already exempt under this subparagraph, these fares are subject to Ministerial control.

Paragraph 9A: This clarifies the basis on which the Code will apply to price increases in milk for manufacture.

Paragraph 13: This makes it clear that the amendments in paragraphs 50-62 mean that subdivision for net profit margin control will be allowed on a more restricted basis than for price control.

Paragraph 14: Notwithstanding the amendment proposed to paragraphs 53 and 54 which provides for subdivision for profit margin control purposes, this leaves it open to an enterprise with mixed activities, i.e. activities subject to different control regimes (e.g. manufacturing and distribution) to treat these parts separately for both price and profit margin control.

Paragraph 15: Consequential on the changes made in paragraph 13. The additional sentence clarifies the position of Co-operatives, partnerships and sole traders under the Code.

Paragraph 18: This makes it clear that the requirement to reduce prices applies in the case of distributors where they exceed or are likely to exceed their gross percentage margin.

Paragraph 19: The base date for allowable cost increases is moved forward to 30 April, 1973 (the beginning of Stage 2), except where there has been no price increase on a product since the Stage 2 base date of 30 September, 1973. In this case cost increases first incurred since that date can be taken into account in the first price increases in Stage 3.

Paragraph 20: The additional sentence makes it clear that the limitation in paragraph 16 (which restricts the permitted price increase by reference to the increase in total costs per unit) is overridden where the price increase includes an element for the retrospective recovery of costs under this paragraph.

Paragraphs 21 and 22: Consequential on the change of the base date in paragraph 19.

Paragraph 25 (i): Consequential on the change of the base date in paragraph 19.

Paragraph 25 (ii)(f): Commission processing and similar arrangements are added to the list of allowable cost increases.
Paragraph 26: Consequential on the revision of the Pay Code, to ensure that pay increases which were consistent with the pay policy, whether the Stage 2 or Stage 3, in force at the time they were made, will be allowable cost increases, subject to the productivity deduction under paragraph 29.

Paragraph 27: Consequential on the revision of the Pay Code to ensure that pay increases which were consistent with the Stage 2 Code at the time they were made will continue to be allowable cost increases in Stage 3.

Paragraph 29: This would enable the Price Commission to authorise a productivity deduction of less than 50 per cent in particular cases by reference to criteria relating to the productivity record of both the industry and the particular enterprise changes in the sales or the industry and the impact of capital investment on productivity.

Paragraph 31: This makes it clear that the rules for allocating costs apply to the calculation of total cost increases as well as of allowable cost increases.

Subhead before paragraph 34: The change in heading is intended to clarify the fact that paragraphs 34-37 can be applied where sectors include both large and small enterprises.

Paragraph 34: In appropriate circumstances the Commission would be able to announce average cost (and hence price) reductions for a sector including small enterprises as well as average cost increases.

Paragraphs 35, 36 and 37: Consequential on the amendment of paragraph 34.

Paragraph 44: The existing paragraph 44 provides that where manufacturers who are dependent on raw materials which fluctuate frequently in price anticipate future estimated cost increases, they must hold the price so determined for six months. The amendment relaxes this requirement by substituting three months for six months in the light of recent rapid movements in raw material prices.

Paragraph 46: This clarifies the intention of paragraph 46 by putting into specific terms the requirement to make the productivity deduction.

Paragraph 46A: This paragraph is intended to make it clear that the productivity deduction in the Code applies to prime cost contracts.

Paragraph 47: This new paragraph clarifies the rule on discounts in the existing Code.

Paragraph 48: Consequential on the treatment of discounts in paragraph 47. It makes no change of policy in relation to paragraphs 47 and 48 of the Stage 2 Code.

Paragraph 48A: This exempts test-marketing for a limited period from the normal rules under the Code: the "test price" need not be regarded as a base price to which future price changes must be related.

Paragraph 49: The amendment in subparagraph (ii) clarifies the treatment of loss-making companies by providing that the restriction of price increases in paragraph 16 (by reference to increases in total cost per unit) does not apply to the extent that it would cause the enterprise to operate at a loss. The additional sentence makes it clear that this paragraph exempts enterprises making a loss, or at risk of doing so, only from the price controls in the Code and not from the net profit margin controls.

Paragraph 50: Consequential on the amendments to paragraph 53-4 which restrict subdivision for net profit margin control.

Paragraph 52: Where an excess in Stage 2 over the Stage 2 reference level becomes apparent in Stage 3, only the excess over the Stage 2 reference level need be offset.

Paragraphs 53 and 54: These amended paragraphs restrict subdivision for net profit margin purposes. They impose more stringent conditions on the extent to which enterprises may apply the reference level other than on a group basis. It will still be possible under paragraph 14 for a group to have more than one reference level where its activities fall under different control régimes. May also apply to the provisions for relief for low profits in paragraphs 61-62.
Paragraph 58: This makes the profit margin controls more effective. Treating years of loss as years of no trading allows the net profit margin reference level to be raised artificially or makes it impossible to calculate a reference level.

Paragraph 60: An amalgamated enterprise may take advantage of the modification of the profit margin reference level permitted by this paragraph.

Paragraph 61: The relief for enterprises with low profits is extended to give exemption from price and gross percentage margin control as well as from net profit margin control.

Paragraph 63: This clarifies the application of the criteria in this paragraph, in particular, the fact that the qualifying investment does not have to come on stream within a specified period but that the expenditure on the investment which was the occasion of the price increase or relaxation of profit margin controls must begin within 12 months. It more closely reflects the time scale of investment decisions.

Paragraph 63A: This is a new provision to deal with capital-intensive industries which had abnormally high unit costs at the base date because of a major investment that had not yet come on stream.

Paragraph 67: The gross percentage margin control applies to all home sales, includes sales of products exempted from the Code by paragraph 6.

Paragraph 70: The additional sentence makes it clear that this paragraph exempts enterprises making a loss only from the gross percentage margin controls and not from the net profit margin control.

Paragraph 71: The amendments make it clear that when distributors exceed their gross percentage margin reference level, or are likely to do so, they should take the same action to reduce prices as when their net profit margin reference level is exceeded. The additional phrase in brackets provides that where an excess in Stage 2 over the Stage 2 reference level becomes apparent in Stage 3, only the excess over the Stage 2 reference level need be offset.

Paragraph 72:

Paragraph 75 (i): This subparagraph, together with the additional sentence at the end of the paragraph, clarifies what is meant for a nationalised industry by being “in deficit”. They reflect current policy. They also define the units to which the provision of the paragraph will apply.

Paragraph 75 (ii): The extent to which a nationalised industry may benefit under the provisions dealing with loss-making enterprises in the private sector is clarified.

Paragraph 75 (iii): Consequential on the amendment to paragraphs 61–62 extending the relief for low profit enterprises. The low profit test would not be appropriate for the nationalised industries.

Paragraph 75A: This new paragraph is intended to make it possible to apply the Code to multi-part tariffs in the gas and electricity industries where the structure of the tariffs is such that as sales increase, average revenue per unit falls. It also makes provision for the statutory requirement on these industries to meet peak demand.

Paragraph 79: This clarifies the application of paragraph 75 to these trading enterprises, many of whom have had no increase during Stage 2.

Paragraph 80: This clarifies the distinction between nationalised industries and other public sector trading enterprises.

Paragraph 89: Consequential on the inclusion of paragraph 46A.
Paragraph 100A: This new paragraph is intended to ensure that where applications are received by the Commission before publication of this White Paper containing the Government’s proposals for Stage 3, the Commission will consider them under the Stage 2 rules even if the decision is given after the operative date of Stage 3.

Paragraphs 100B+C: These new paragraphs are intended to ensure that price increases are not made in the interval between the publication of this White Paper and the date on which a revised Code takes effect with the intention of anticipating the revised Code and establishing a new price level before Stage 3. It does this by providing that in Stage 3 such anticipatory increases should be reduced to the level which would be justified under the Stage 3 Code. These paragraphs would not apply to increases implemented after publication of this White Paper where either the increase had been approved by the Commission following an application received by them before publication of this White Paper or where a price increase by an enterprise not required to pre-notify had been publicly announced before then.

Paragraph 100D: This amendment enables unjustified price increases which were made during Stage 2 but which do not come to the Commission’s notice until after the start of Stage 3 to be reduced according to the Stage 2 rules. In the absence of this provision an unjustified price increase made in Stage 2 could become the “base price” for further increases in Stage 3.

PAY

Paragraph 101 (ii): This principle has been expanded in accordance with the new provisions in the Code for the remedying of anomalies.

Paragraph 101 (v): This principle has been added to emphasise the importance of the new provisions for encouraging the better use of productive resources, notably the provisions for efficiency schemes and the flexibility margin.

Paragraph 107 (iii): This amendment allows increases which do not count against the pay limit to be paid less than 12 months after the group last received a principal increase, subject in some cases to the special rules on timing set out in later paragraphs.

Paragraph 108: New types of increase which are not principal increases have been added.

Paragraph 109 sets out the new pay limit. It gives negotiators and others concerned with pay determination a choice in the case of each group between 7 per cent of the average pay bill per head of the group for the preceding 12 months and £2.25 per week per head.

Paragraph 109A: This amendment allows groups who do not negotiate but have settlements for another group automatically applied to them to continue to do so in respect of settlements for the other group within the pay limit under this Code.

Paragraph 111: The date has been revised as necessary and the last sentence of the previous Code dropped as the circumstances will no longer arise.

Paragraph 113: This amendment brings up to date the requirements of paragraph 113 in the previous Code.

Paragraph 117: This amendment is to make clear how the pay limit should be applied as a monthly or weekly increase.

Paragraph 118A: This refers to the new option of a straight cash pay limit.

Paragraph 118B allows fees for occasional work, which may have not been reviewed for some time, to be increased by the equivalent of the pay limit applied at an annual rate for the period since they were last increased up to a maximum of three years.
Paragraph 120: A definition of standard working hours has been added.

Paragraphs 120A–D complement the existing provisions on hours and holidays in paragraphs 125 and 127 by allowing improvements outside the pay limit in terms of employment relating to night and weekend working where these are below the standard applying in industry generally.

Paragraph 121: Increases within the new flexibility margin (except new personal increments) are excluded from the individual pay limit, which is raised to £500.

Paragraphs 121A and B allow the pay limit to be increased by 1 per cent where negotiators need a margin of flexibility to reach agreement (i) on changes in pay and grading structures or systems of payment designed to increase efficiency or remedy anomalies or (ii) on improvements in holidays, holiday pay or sick pay.

Paragraph 123: The special provision for progress towards equal pay to be made outside the pay limit has been extended to make clear that it applies to cases where women's jobs, though different from those of men, have been given an equal value to men's jobs under a job evaluation scheme which satisfies the specified conditions.

Paragraph 125: The amendment makes clear that the concession does not apply where there has been an agreement in the past to consolidate overtime payments into a higher basic wage for a longer working week.

Paragraph 127 (i): The increase from six to seven occasional or public holidays allows for the addition of 1 January (or in Scotland an alternative day).

Paragraph 127A provides that the extra cost of a holiday on 1 January will not count against the pay limit even for those who already have seven or more occasional or public holidays.

Paragraph 128: This amendment sets out the method for determining the cost of increases in holidays where this is required to be counted against the pay limit.

Paragraph 133A: Allows payment outside the pay limit of allowances for temporary work during the currency of the revised Code by those involved in the statutory reorganisation of local government i.e. Local Authority Chief Executives and Chief Officers and equivalent grades in the NHS and police.

Paragraph 137: This paragraph has been amended to apply to schemes which benefit redundant workers who are redeployed within the same enterprise as well as those who are dismissed, provided in either case that the scheme requires at least a year's continuous service.

Paragraph 138: This amendment clarifies the position where the terms of profit sharing schemes operating on or before 6 November, 1972, are not in writing.

Paragraph 139: The additional first sentence enables share savings schemes of the kind announced in the 1973 Budget to proceed outside the requirements of the Code. The provisions relating to other types of share option and share incentive schemes are unchanged.

Paragraph 141A: Enables increases in London allowances conforming to NBPI Report No. 44 and police pay differentials for London to be paid outside the pay limit.

Paragraph 142 (ii): The amendment is to make clear that reimbursement of removal expenses should be treated in the same way as expenses incurred in the course of employment.

Paragraph 142 (iii): This addition covers rent allowances paid to those, for example policemen who are required to live in particular locations as part of their conditions of service.
Paragraphs 143 and 144: These amendments clarify the way in which the pay limit should be applied where settlements or pay determinations are concluded at more than one level.

Paragraph 146: This amendment will facilitate monitoring of earnings from existing payment by results schemes by providing that as from July 1974 increased earnings arising from increased output will be outside the pay limit only under schemes providing adequate management control information.

Paragraph 147: This updates the corresponding provision in the previous Code.

Paragraphs 148-9: The amendments make clear that where the new schemes introduced under these limited arrangements (which also applied under the previous Code) are schemes of payment by results, the provisions of paragraph 146 apply.

Paragraphs 149A and B: Provide for the negotiation and introduction of efficiency schemes under strictly controlled conditions which will ensure that additional payments, limited to 50 per cent above what is allowable within the pay limit, are made only after a minimum trial period of three months has demonstrated to the satisfaction of the Pay Board that the savings outweigh the costs by at least as much again as the cost of the pay increases, and make a definite contribution to cost reduction. It will also be a condition that the employer should maintain full and detailed control information to enable the Pay Board to monitor, in such ways as may be appropriate, the continuing operation of the scheme.

Paragraphs 150 and 151: These amendments bring these paragraphs up to date.

Paragraph 152A: Provides transitional arrangements for settlements relating to a date prior to, but not implemented before, the coming into operation of the revised Code.

Paragraph 152B: Allows payments to be made under threshold agreements, as described in Part I.

Paragraphs 152C to K: Provide for the remedying of anomalies as described in Part I.
SECTION II

Draft of a Revised Price and Pay Code

1. 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.

2. The Code is therefore addressed both to the Commission and the Board 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

3. 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

4. With the exceptions specified in paragraphs 5 to 10 below, the prices of goods and services supplied to the United Kingdom home market are within the scope of the control.

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

6. The following are not controlled:
   (i) prices paid on first sale into the United Kingdom of 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 international 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 at the point of sale on a commodity market in the United Kingdom such as the London Metal Exchange or prices 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, landing and related services and ship, passenger and goods dues, provided that they relate wholly or mainly to such traffic; charges for international mail, Giro and remittance services 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;
(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. These prices will be subject to the controls provided in that agreement;

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

(x) taxi fares, where subject to control by the Home Secretary or the Secretary of State for Scotland;

(xi) prices determined by a statutory body which, as a result of an order made under section 8 of the Counter-Inflation Act 1973, is required to apply the Code to the determination of those prices;

(xii) subscriptions and certain prices charged by non-profit-making organisations as in paragraphs 98 to 100.

Application to Food, Farming and Forestry Products

7. 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, cheese, sugar and quick-frozen vegetables.

8. 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.

9. 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 of Agriculture, Fisheries and Food and the Secretary of State for Scotland. So long as these controls apply, the price of milk for liquid consumption will not be subject to the Code.

9A. The prices of milk for manufacture will, however, be subject to the following requirements. Except where the Milk Marketing Boards incur additional allowable cost increases in marketing the milk:

(i) the price of milk for butter and skimmed milk powder may not be increased above current levels (adjusted as necessary to reflect changes in the intervention prices); and

(ii) for other milk products, the price of milk may not be increased above the prices of milk for butter and skimmed milk powder (adjusted by not more than the average premium received by the Boards for milk for the product concerned over the butter and skimmed milk prices in the year ending 30 April, 1973).

10. What is said in paragraph 8 in relation to prices paid for fresh foods applies also to prices of other primary products of animal or vegetable origin which are subject to similar fluctuations.

Charges

11. Reference in the Code to prices include references to charges, unless there is explicit provision to the contrary.

Goods and Services

12. References in the Code to goods include references to services, unless there is explicit provision to the contrary.
Definition of Enterprise for the purposes of the Code.

13. For the purposes of the Code other than for net profit margin control set out in paragraphs 50–62 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 arm's length 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.

14. Where the activities of an enterprise are not confined to manufacturing, distribution, or the provision of services, but include more than one of these, each of these activities may be treated separately for all the purposes of the Code including the calculation of net profit margins under paragraphs 50–62 provided that adequate accounts satisfying paragraph 13 are or can be made available for each of them. Where these activities are not treated separately, the main activity of the enterprise will determine whether the provisions of the Code relating to manufacturing, distribution or services apply.

15. Any reference in the Code to an enterprise includes a reference to an activity of an enterprise which is to be treated separately under paragraph 14. A reference to an enterprise includes a reference to a co-operative, a partnership or to an individual carrying on a business.

Costs and Prices

16. 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.

17. 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

18. 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 paragraphs 50 and 71 where an enterprise exceeds, or is likely to exceed, its profit margin reference level, or in the case of a distributor, its gross percentage margin.

Base Date

19. The starting point for the calculation of permitted price increases is the level of costs per unit of output at 30 April, 1973. In calculating permitted price increases, cost increases first incurred after 30 April 1973, may be taken into account, to the extent that they have not already been reflected in prices. Where the price of a particular product has not been increased since 30 September 1972, cost increases first incurred after that date may be taken into account and that date should be substituted for 30 April in paragraphs 21 and 25 below. However, except as in paragraph 20, the permitted price increase may not include any element of retrospective recovery of costs incurred before the date on which the price increase takes effect.

20. A permitted price increase made after 30 April, 1973, may include an element of recovery of costs incurred between 30 April, 1973, and the date of the permitted price increase provided that:—
(i) the amount included in respect of such costs does not exceed what would be necessary to recover the costs over a period of 12 months beginning with the date of implementation of the permitted price increase; and

(ii) in the calculation of any subsequent price increase under the Code, the “selling price” referred to in paragraph 21 (iii) should exclude any element which represents a recovery of costs under this paragraph.

Where a price increase includes such an element of recovery of costs, the increase may exceed the increase in total costs per unit by the amount necessary to permit the recovery of those costs.

Calculation of Permitted Price Increase

21. The maximum permitted price increase should be arrived at as follows:

(i) calculate the change in total costs per unit and allowable cost increases per unit (as reduced by the productivity deduction) between the base date and the date of the price increase; cost increases which have already been reflected in prices should be excluded;

(ii) express allowable cost increases per unit as a percentage of total costs per unit at the base date;

(iii) apply the resulting percentage to the selling price at the base date in order to establish the new permitted price level.

In (i), (ii) and (iii) above, “base date” means 30 April, 1973, or at the option of the enterprise, the date of any subsequent price increase.

22. The calculation of the level of costs per unit referred to in paragraph 21 (i) should be based on the levels of pay and other costs ruling at 30 April, or at the date of the subsequent price increase if used as the base date, and on the level of output over the most recent representative period completed by that date (e.g., the previous quarter) for which adequate records are available. Similarly the calculation of costs per unit at the date of the price increase may take account, in accordance with the normal practice of the enterprise, of increases in raw material prices and other allowable cost increases up to the date of the price increase and should reflect the output level achieved in the most recent representative period (e.g., the quarter preceding the date of the price increase).

23. The levels of unit costs calculated in this way will not necessarily be the same as the average figures recorded for the whole of the period chosen, e.g., if pay or other costs changed during the period. If output in the period was materially affected by abnormal factors such as holidays, an appropriate adjustment should be made. If this is impossible, the previous normal operating period should be chosen with appropriate adjustments to allow for changes in the level of pay or other costs.

24. Where price increases are being made not on a single product but on a range of related products (under paragraph 38 or 39) the procedure in paragraphs 21 to 23 still applies. But in this case the group of related products should be considered as a single product; the costs per unit can be expressed either as costs per unit of volume of output or if a volume measure is impracticable as costs per £ of sales value. Where the calculated permitted percentage price increase is not applied uniformly to the whole range of products, the weighted average percentage price increase made on the selling prices of the products within the group may not exceed this percentage.

Allowable Cost Increases

25. Subject to the following paragraphs, a cost increase may be regarded as an allowable cost increase for the purpose of paragraph 17 if:

(i) it was first incurred after 30 April 1973; 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 28;

(e) certain bought-in services, that is: transport, hire of equipment, insurance, storage, maintenance and engineering services not of a capital nature;

(f) commission processing and other payments for operations on materials or components incorporated into the product where there is no change of title; and

(iii) it has not already been reflected in prices.

Pay not consistent with the Code

26. Cost increases arising from increases in pay (as defined in paragraph 103) 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 the White Papers Cmd. 5125 and Cmd. 5205 (and do not contravene an order or notice, under the Counter-Inflation (Temporary Provisions) Act, 1972):

or

(ii) as regards the period commencing on 1 April 1973, they were consistent with the provisions of the Code in force at the time of the pay increase (and do not contravene an order or notice under the Counter-Inflation Act 1973).

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

(i) 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 or was specifically exempted from the pay limit by Part II of the Code.

Interest Charges

28. Increases in interest charges payable by an enterprise are allowable cost increases, unless the charges or the increases in them:

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

(ii) where they arise on loans between related undertakings, relate to loans which are not strictly required for the business, or represent interest in excess of that which would be charged in a transaction at arm’s length; or

(iii) represent interest which would properly be regarded as capital expenditure in the period in which it is incurred.

Productivity Deduction

29. 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 per cent of allowable cost increases arising from increases in labour costs, with the exclusions listed in paragraph 30, unless:

(i) the share of labour costs as a whole in their total costs exceeds 35 per cent. 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 per cent of total costs, or

(ii) the Price Commission are satisfied that a lower productivity deduction would be justified which would reflect:

(a) the record of growth or labour productivity of the industry concerned, and of the particular enterprise;
(b) past or estimated future changes in the volume of the industry's sales affecting the opportunities for increasing productivity; and
(c) the likely impact on the productivity of the enterprise of any relevant capital investment undertaken or committed.

30. The deduction for productivity under paragraph 29 need not be applied to increases in:
- employers' national insurance contributions;
- training costs;
- the cost of improvements under paragraph 123 (equal pay), paragraph 134 (recognised terms and conditions), paragraph 135 (pensions) and paragraph 137 (redundancy and incapacity benefits).

Allocation of Costs to Controlled Prices

31. Allocation of costs to particular controlled goods or services for the calculation of allowable costs increase or increases in total costs 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:
(a) has made allocations which represent a fair division of costs in its circumstances, over part or all of the field; and
(b) 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

32. In calculating the cost of current production or sales, enterprises may need to include an element for stocks of raw materials, of components or of finished goods, used for production or sales. When making such calculations in order to arrive at costs per unit of output and at any allowable cost increases, enterprises should adhere to the practice they have followed consistently for the treatment of such costs for pricing purposes.

Transfer Prices

33. 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 arm's length basis, they may substitute modified cost increases or profit margins which in their judgment fairly reflect what would be appropriate on that basis.

Costs of Sectors including small enterprises

34. Where the Commission are satisfied that:
(i) significant reductions or increases in allowable costs 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 changes in costs are likely to be of broadly the same order for a substantial number of such enterprises, in respect either of some or all of the goods or services which they supply,
the Commission may calculate average allowable cost increases or reductions for the relevant goods or services. In the case of cost increases, these increases should then be taken as the allowable cost increases for the relevant goods or services; in the case of cost reductions, the Commission may specify reductions under paragraph 18 in the prices of the relevant goods or services which should then be made by all the enterprises concerned.

35. In calculating average allowable cost changes under paragraph 34 the Commission will take account of:—
   (i) all relevant information available to them on cost changes 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.

36. The Commission will publish information about any average allowable cost changes which they have determined under paragraphs 34 and 35 together with an indication of any price changes which they regard as justified or required under the Code on the basis of those average allowable cost changes.

37. Where the allowable cost changes of a particular enterprise differ from those published by the Commission under paragraph 36, that enterprise may apply the normal provisions of the Code relating to allowable cost increases or price reductions. It will be the responsibility of the enterprise to satisfy the Commission if required that this was justified.

Product Costs and Allowable Cost Increases

"Single Product" Enterprises

38. 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

39. This paragraph applies to enterprises making a variety of products. Where:
   (i) allowable cost increases arise on 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.

40. In cases not covered by paragraphs 38 and 39 the calculations required by the Code should be made by reference to individual products.

41. In paragraphs 38, 39 and 40 "products" include services.

Anticipation of Cost Increases

42. Prices may not be increased in anticipation of cost increases, except as described in paragraphs 43 to 45. However:
   (i) an enterprise may determine and announce a price increase consistent with the Code which takes account of future allowable cost increases which are already known as to both date and amount, provided that the price increase is not implemented before the allowable cost increases are incurred; and
(ii) an enterprise required to pre-notify an intended price increase to the
Commission may seek the agreement of the Commission to a price
increase consistent with the Code which takes account of such known
future cost increases, subject to the same proviso as in (i).

43. Where:
(i) a future allowable cost increase is already known, as to both date and
amount; and
(ii) it is proposed to quote a price for supply on demand which will not
be increased for at least six months from the date on which it takes effect,
an enterprise may average the future allowable cost increase over the period
of not less than six months for which it quotes the price in arriving at a price
increase for that period, 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.

44. Paragraph 43 (i) may be read as applying to an estimated future cost
increase if:
(i) it relates to a raw material which fluctuates frequently and unpredictably
in price; and
(ii) the use of estimates of such cost increases is a well-established practice
of the trade; and
(iii) in framing the estimates the enterprise adheres to the methods it has
consistently used for the treatment of such costs for pricing purposes.

The other conditions of paragraph 43 apply but with reference to three months
substituted for the references to six months.

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

**Escalation and Variation of Price Clauses**

46. Where a price increase is made under an escalation or variation of price
clause the productivity deduction specified in paragraph 29 should be applied
to the element relating to labour cost increases, and no price increase should be
made in respect of a labour cost increase which was not consistent with the
Code. But if the application of the productivity deduction causes or increases
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 increase in prices under those contracts, to the
extent that they relate to cost increases after 6 November 1972.

**Prime cost and cost reimbursement contracts**

46A. Where a claim for payment by a contractor under any form of prime
cost or cost reimbursement arrangement includes an element for increased labour
cost levels since the start of the contract or (if later) 6 November 1972, the
claim for this element should be made and settled in accordance with the
following provisions:
(i) the increases in labour cost levels must have been consistent with the
Code;
(ii) the productivity deduction specified in paragraph 29 must be applied. But if the application of the productivity deduction causes or increases a loss on a particular contract, taken as a whole, the terms of the contract may be applied to the extent necessary to avoid the loss, or the increase in it. This paragraph applies to new and existing contracts.

Discounts

47. The withdrawal or reduction of a discount, including a discount to a particular customer, is equivalent for the purposes of the Code to an increase in the price.

Quantity or quality change and new products

48. A change in the quantity or quality of goods is equivalent for the purposes of the Code to a change in the price. 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 or reduce price increases.

48A. However, where a new product is marketed at the retail level on an experimental and restricted basis for a period of not more than six months the price charged by the manufacturer need not be treated for the purposes of the Code as establishing a price for the product.

Losses

49. 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;

(ii) the provisions relating to allowable cost increases and to increases in total costs (including the productivity deduction) need not be applied to the extent that they would cause the enterprise to operate at a loss;

Price increases may not be made under this paragraph if they cause the profit margin reference level referred to in paragraph 50 to be exceeded.

Prices and Profit Margins

50. Prices should be determined so as to secure that net profit margins, as defined in paragraph 51, do not exceed the average level of the best two of the last five years of account of the unit to which net profit margin control applies ending not later than 30 April 1973, (the "reference level").

51. "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, with the exclusions listed in paragraph 28, but before deducting Corporation Tax or Income Tax.

Action where Profit Margin is likely to be exceeded

52. 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, though for the purposes of any period before 1 November 1973, the reference level shall be taken to be "the reference level" as defined in paragraph 50 of the Counter-Inflation (Prices and Pay Code Order) 1973.

**Unit for Profit Margins**

53. In calculating the net profit margin under paragraph 50, the unit for profit margin control shall be either:

(i) the enterprise as a whole; or

(ii) a separate activity, as defined in paragraph 14; or

(iii) a unit of the enterprise, being a separate constituent company or subdivision, provided that the Price Commission are satisfied that:

(a) the unit reports direct to the main board of the enterprise as a whole; and

(b) it was the practice of the enterprise before 30 April 1973, to treat the unit separately for management and accounting purposes (except where the enterprise has undergone substantial reconstruction since that date); and

(c) the accounts of the unit, if combined with one and other, can be reconciled with those of the enterprise as a whole; and are not materially distorted by transactions conducted otherwise than on arms-length terms.

54. For the purpose of paragraph 53 (i), where the enterprise is a company,

(i) "the enterprise as a whole" means the company or (where the company is a member of a group) all the companies in the group; and

(ii) "company" includes any body corporate; and

(iii) "group" means the person (including a company) having control of a company together with all companies directly or indirectly controlled by him but does not include any person or company not carrying on business in the United Kingdom.

**Allocation of Profits to Controlled Prices**

55. 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 31 apply to such allocations of profits as they do to allocations of costs.

**Profit Margins and Indirect Taxes**

56. 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 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.

57. Where an enterprise does not already have accounts showing separately the purchase tax element in the turnover of previous years, or which permit the precise calculation of the amount of excise duty abatement from records of duty paid, such elements should be estimated on the basis of the best 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. The Price Commission will publish information on the application of estimating methods for this purpose.
Modified Base Period for Profit Margin Calculation

58. Where an enterprise has traded for less than five complete years of account, or has traded at a loss in one or more of the last five years, the reference level for paragraph 50 may be calculated as follows:

(i) if there have been four years of trading, the average of the best two; if three or two years, the best year;
(ii) if there have been less than two 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 profit and sub-paragraphs (i) and (ii) may be applied accordingly.

59. For a new enterprise formed from a reconstruction or amalgamation of existing enterprises the reference level will be calculated as defined in paragraph 50 by using the aggregate net trading profits of the constituent enterprises expressed as a percentage of their aggregate sales. The same principles may be applied to an amalgamation of partnerships.

60. Where the Commission are satisfied that the reference level of an enterprise, calculated as in paragraphs 50, 58 or 59 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 judgment gives effect to the principles of paragraphs 50 to 59 and paragraphs 61 and 62. In applying this paragraph, the Commission should as far as possible have regard to the profit history of the main parts of the business which now make up the enterprise; including the profits of any substantial parts of the business acquired or added to the enterprise during the base period, and excluding any such parts which have been disposed of or discontinued.

Relief for Low Profits

61. Where the Commission are satisfied that the net profit margin as defined in paragraphs 50–54, 58 or 59 represents a return on capital of less than 5 per cent, the limitations in the Code on increases in total costs and in allowable costs and on gross percentage and net profit margins need not be applied so as to restrict the return below 5 per cent. In such cases the net profit margin which would correspond to the net profit needed to produce a return of 5 per cent on capital may be treated as the 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 51.

62. At the option of the enterprise paragraph 61 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

63. Where the Commission are satisfied that in a particular case it is necessary in order to encourage or ensure 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) Where there is satisfactory evidence that if this is done expenditure on the investment will begin within 12 months of the date of the price being increased or the profit margin limit being modified; and
(ii) the application of the limits would—

(a) deprive the enterprise of funds essential for investment which it could not reasonably be expected, or would not be able, to raise in some other way; or
reduce the prospective rate of return on the investment to a level which would deter the enterprise from undertaking it;

(iii) or there is satisfactory evidence that the enterprise had absorbed cost increases to an exceptional degree as a result of voluntary price restraint and in consequence had significantly reduced profit margins in the 12 months ending 30 September 1972.

63A. When the Price Commission are satisfied that in an industry where capital (as defined in paragraph 61) represents more than 40 per cent of turnover the following conditions apply:

(i) new plant has come into operation since 1 January 1971; and
(ii) the output from this plant accounts for more than 25 per cent of the total turnover of the enterprise; and
(iii) the capacity utilisation of the plant was less than 50 per cent at the base date but has since risen to more than 75 per cent

the Commission may, on application from the enterprise, modify the calculation of allowable and total costs per unit at the base date, by substituting the figures for unit costs that in the Commission's view would have applied at that time if the plant had been operating at 66\(\frac{2}{3}\) per cent of capacity.

Particular Sectors

64. 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 3 to 63 must be taken as applying to all enterprises.

Manufacturing and Mining

65. Paragraphs 3 to 63 above apply in their entirety.

Distribution

66. In the determination of prices for sales within the United Kingdom, wholesalers, retailers and other enterprises engaged in distribution should ensure that their gross percentage margins do not exceed the level of the gross percentage margin in either:

(i) the last complete account year of the enterprise ending on or before 30 April, 1973; or
(ii) a 12-month period ending between 30 October, 1972, and 30 April, 1973, for which separate accounts are or can be made available,

less in either case an appropriate reduction for the abolition of SET. Where an enterprise has not traded long enough to establish a gross percentage margin under (i) or (ii), the margin for a complete quarter's trading before 30 April will apply.

67. For all the purposes of the Code "gross percentage margin" means the aggregate difference between the cost to the distributor of all the goods he sells in a period and the value of his sales in the home market of those goods 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 56.

68. The provisions of the Code relating to allowable cost increases do not apply to distribution.

Distributors' Stocks

69. In most cases prices determined by distributive enterprises will have to take account of the cost of goods used 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

70. 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. Price increases may not be made under this paragraph if they cause the profit margin reference level referred to in paragraph 50 to be exceeded.

Profit margins in distribution

71. Where a distributor's net profit margin as defined in paragraphs 50-51 and 58-60 or gross percentage margin as defined in paragraphs 66 and 67 has exceeded the level allowed under this Code, or where in the light of interim accounts or other evidence that level is likely, after taking account of seasonal or other distorting factors, to be exceeded, price reductions should be made. The reductions should be sufficient to eliminate the actual or anticipated excess over the permitted level as soon as reasonably possible, and to offset any excess which has already arisen in a period subsequent to 30 April 1973 (though for the purposes of any period before 1 November 1973, the reference level shall be taken to be "the reference level" as defined in paragraph 50 of the Counter-Inflation (Price and Pay Code) Order 1973). Reductions are however not required in respect of any excess arising in the period up to 30 April 1973.

Agriculture

73. Part I of the Code 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 cost increases 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

74. Paragraphs 75 to 77 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
- Northern Ireland Electricity Service
- British Gas Corporation
- British Steel Corporation
- Post Office
- British Airways Board
- British Airports Authority
- British Railways Board
- British Transport Docks Board
- British Waterways Board

75. Part I of the Code applies to the nationalised industries listed in paragraph 74, according to the nature of the business of the industry, as it applies to private sector undertakings. However:

(i) a nationalised industry when in deficit on controlled activities may not apply paragraph 49 (i). In these circumstances it may not increase prices by more than allowable cost increases, calculated without any deduction under paragraph 29, except
(a) in the case of a proposal to increase prices from a date after 31 March 1974, or

(b) in the case of a proposal to increase prices from a date after 31 December 1973 (where this is the end of the industry's normal accounting year),

to the extent necessary to avoid an increase in its deficit on those activities in the accounting year in question compared with in the case of (a) the level in 1973-74 or, in the case of (b) the level in 1973. A nationalised industry may apply this sub-paragraph separately to the deficits of subdivisions as defined in paragraphs 14 or 53 (iii) even if the industry as a whole is not in deficit;

(ii) as with a private sector enterprise, where an industry is not in deficit, the provisions relating to allowable cost increases and to total cost increases (including the productivity deduction) need not be applied to the extent that they would cause the industry to operate at a loss;

(iii) paragraphs 61–63 will not apply to a nationalised industry.

In (i) and (ii) above, a nationalised industry is in deficit if it incurred a deficit on revenue account in the previous accounting year, after providing for interest and depreciation calculated in accordance with the accounting principles consistently applied by the industry concerned.

75A. If the operation of a system of multi-part tariffs in the gas and electricity supply industries has reduced average revenue per unit the following provisions apply. Where since the base date the average revenue per unit has fallen faster than average costs per unit, tariffs may be increased by the amount necessary to restore the cash margin per unit of output to the level which applied at the base date. The calculation of allowable cost increases for these industries should have regard to the likely maximum demand imposed on them by their statutory obligations to meet such demand.

76. Where the responsible Minister notifies the Commission that a price increase resulting from the application of paragraph 75 would have an unacceptable effect on the general level of prices, the Commission will limit the permitted price increase to the amount specified as acceptable by the Minister, but not so as to reduce the increase below what is needed to reflect the allowable cost increases of the industry.

77. The application of the Code is subject to paragraph 78 in the case of the National Coal Board and 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 6 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 80 (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

78. 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 6 (ii). They are subject to international obligations through United Kingdom membership of the European Coal and Steel Community. Prices of non-ECSC iron and steel products are controlled like those of other manufactured products. Enterprises which produce both ECSC and non-ECSC iron and steel products will be subject to price control on the latter only. 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 enterprises.

Other Public Sector Trading Enterprises

79. 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,
except that in the case of a proposal to increase prices before 30 March 1974, and where there has been no price increase since 30 April 1973, the restriction on price increases under paragraph 75 (i) shall apply to the deficit level in the year 1972–73.

80. 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 a nationalised industry listed in paragraph 74); 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

81. Statutory water undertakers, whether public or private, are subject to 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 and charges 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 conflict with their statutory obligations.

Services

82. In general, paragraphs 3 to 63 of the Code apply to the prices of service enterprises as they apply to those of manufacturers, so that the system of allowable cost increases and the limitation on net profit margins as a percentage 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 34 to 36 permit the Price Commission to calculate average allowable cost increases for certain small service enterprises where the circumstances are appropriate. Paragraph 62 would permit service enterprises with low profits to calculate their reference level for the limit on net profit margins by reference either to 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.

Banks, Finance Houses and Similar Enterprises

83. Most banks, finance houses and similar financial enterprises are engaged partly in business for which the charge is a rate of interest and partly business for which the charge is of a different nature. Interest charges are not within the control. The other charges of these enterprises are subject to control. It will therefore be necessary to allocate costs and profits between the two classes of business for the purpose of the control on non-interest charges. Paragraph 31 applies.

84. For the purposes of the Code the enterprises described in paragraph 83 may treat as goods and services exported:

(i) transactions in sterling with any person or body corporate resident outside the United Kingdom; and

(ii) dealings in foreign currencies.

85. The provisions of the Code relating to allowable cost increases and to the limitation on net profit margins, defined in the case of these enterprises as in paragraphs 87 and 88, apply to their non-interest charges. These include commissions, fees and all similar charges. Where ad valorem rates are charged and these rates are charged generally, they must be treated as maxima. Enterprises will, however, be free to adjust their rates to match the credit status of a client provided such adjustments are in accordance with normal
practice in such cases. In calculating charges these enterprises should take fully into account all factors including customers' balances which enter the costing of the class of transaction for which the charge is made. They should treat changes in those factors as the basis for increases or reductions in the charges in accordance with the Code.

86. The provisions of the Code will apply in full to charges in hire purchase, conditional sale and plant and machinery leasing agreements. Changes in the monthly Finance Houses Base Rate may be taken as the measure of increases or reductions in interest costs for the calculation of allowable cost increases, provided that rate is used consistently for all the purposes of the Code.

87. For the purposes of paragraph 50 “net profit margin” means:

(i) in the case of enterprises undertaking hire purchase, conditional sale or plant and machinery leasing contracts, where either the greater part of the business of the enterprise consists of such contracts, or separate accounts can be produced for such contracts, net income from charges for this business less associated costs, including overheads, expressed as a proportion of average resources employed.

(ii) in the case of all other enterprises of the kind described in paragraph 83 net income from charges (that is, gross income less costs, including associated overheads) expressed as a percentage of gross income (that is, total income from the transactions concerned).

88. In comparing net profit margins, as defined in paragraph 87, with the reference level, account should be taken of the total profitability of the non-interest business of the enterprise concerned in determining the permitted level of charges.

Construction

89. In determining prices for construction contracts enterprises should have regard to the Code as it applies to manufacturing enterprises. Of particular relevance to construction are paragraph 45, which applies to tenders for construction work to the extent that they are at fixed prices, paragraph 46, which applies to variation of price clauses in construction contracts and paragraph 46A, which applies to prime cost and cost reimbursement arrangements.

Transport

90. 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 6 (vi). Charges of nationalised transport undertakings, passenger transport authorities, local authority transport undertakings and transport companies owned by nationalised industries and their subsidiaries are governed by paragraphs 74-77 and 80.

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

Vehicle Sales and Services

92. Charges for repair, maintenance and servicing of vehicles are subject to the provisions relating to allowable cost increases and to the limitation on net profit margins. 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. Paragraph 14 applies to enterprises which both sell and maintain vehicles.

Hotels and Catering Enterprises

93. What is said in paragraph 82 applies to these enterprises also, in respect both of charges for food and drink and for accommodation.
Professional or Other Services

94. Fees and charges for professional or other services by firms or by individuals who are self-employed are governed as prices by Part I. In general, what is said in paragraph 82 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.

95. Where scales or rates of charges of general application, whether calculated per item, 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.

96. 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 25 (ii) (a) may not include any element in respect of proprietors’ or partners’, as distinct from employees’, time.

97. The limitation on net profit margins will apply to profits of firms or individuals providing professional or other services irrespective of the method by which fees are determined. Where the number of partners in a professional practice has changed as a result of the substitution of a partner for an employee, or of an employee for a partner, the reference level may be recalculated by reference to the changed number of partners. Paragraph 59.

Non-Profit-making Organisations

98. Subscriptions charged by organisations which:
   (i) exist for religious, charitable, educational, 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.

99. The Code will not apply to prices charged by an organisation satisfying the tests in paragraph 98, or by any properly authorised person acting on behalf of that organisation, if they are charged in order to raise funds for the purposes of the organisation, and involve no substantial or continuing competition with trading enterprises.

100. Except where they are outside the control under paragraph 99, prices charged in any trading activity carried on by an organisation which meets the requirements of paragraph 98 are governed by the Code, unless the customers of the trading activity are confined to members of the organisation.

Transitional and related provisions

100A. Where, as respects a proposed increase in a price or charge which was notified to, and received at the offices of, the Commission before 3.30 p.m. on 8 October 1973, the Commission have not given their decision before 1 November 1973, the Commission shall, for the purpose of giving their decision on the proposed increase, continue to implement the Code set out in the Counter-Inflation (Price and Pay Code) Order 1973.

100B. Subject to paragraph 100C, where an increase in a price or charge has been implemented after 3.30 p.m. on 8 October 1973, and the increase (although permissible under the Code set out in the Counter-Inflation (Price and Pay Code) Order 1973) would not be permissible under this Code, the price or charge should be reduced accordingly.
100C. Paragraph 100B does not apply to:

(i) an increase which has been approved by the Commission and of which, prior notification was received at the offices of the Commission before 3.30 p.m. on 8 October 1973; or

(ii) a specified increase in the price of a specified product which was fully in accordance with the provisions of the Code set out in the Counter-Inflation (Price and Pay Code) Order 1973, although it did not require prior notification to the Commission and which was announced publicly by the enterprise in question (even though not implemented) before 3.30 p.m. on 8 October 1973.

100D. Where an increase in a price or charge

(i) was implemented after 30 April 1973, and before 3.30 p.m. on 8 October 1973; and

(ii) was not permissible under the Code set out in the Counter-Inflation (Price and Pay Code) Order 1973, the price or charge in question should be reduced to the level that would have been permitted under that Code, and this lower price should then be taken as the "selling price at the base date" in calculating any price increase permitted under paragraph 21 of this Code on account of subsequent cost increases.

Part II—Pay

General Principles

101. 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 cost and 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, while providing for the remedying of anomalies;

(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;

(v) to encourage the better use of productive resources.

Field of Application

102. 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.

103. Throughout the Code "pay" means remuneration (except self-employment incomes covered in Part I), including other terms and conditions of employment.

104. References throughout the Code to "settlement" include references to the determination of pay by any method.
105. 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

106. No group may receive an increase in pay under a settlement made after 6 November, 1972, less than 12 months after the group last received a principal increase.

107. Paragraph 106 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 (Cmnd. 5125), in which case the 12 months may count from the date from which the last increase would have operated but for the standstill;

(iii) the increase does not count against the pay limit or is covered by paragraph 121A; (some of these increases are, however, subject to special rules about timing set out in the relevant paragraphs of the Code).

108. Pay increases which consist solely of one or more improvements of the kind described in paragraphs 123 (equal pay), 125 (hours), 127 (holidays), 149A (efficiency payments schemes) or 152C (anomalies) are not principal increases for the purpose of paragraph 106.

The Pay Limit

109. The pay limit for a group represents the maximum amount by which the average pay bill per head of the group may be increased in a 12-month period.

This amount is either 7 per cent of the average pay bill per head of the group for the preceding 12-month period or £2.25 per week per head. Negotiations and others concerned with pay determination may choose which of these limits to apply to the group.

109A. Where before 6 November 1972 a group has regularly received by automatic application and without further negotiation, the same absolute amount or the same percentage increase as one other clearly identified group, it may receive (in place of any increase which counts against the pay limit in its case) the same absolute or percentage increase as that other group receive under the provisions of this Code within the pay limit.

109B. A precise method of calculation is set out in paragraph 117. If insufficient information is available for this, the best available alternative method should be used; examples are given in paragraph 118. Those concerned will be responsible for satisfying the Pay Board, if required, that the method used is the best available.

110. 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.

111. The pay limit applies to the 12 months following the first increase after 6 November 1973 which counts against the pay limit.

112. The pay limit applies to the total of all pay increases for the group, other than those specifically exempted by other paragraphs of this Code, in respect of the 12-month period in question, irrespective of whether they are paid during that period or at a later date.
113. No payment should be made after 6 November 1973 in respect of periods before that date if the effect would be to circumvent the requirements of the White Papers Cmd. 5125 (A Programme for Controlling Inflation: The First Stage), Cmd. 5205 (A Programme for Controlling Inflation: The Second Stage), and The Counter-Inflation (Price and Pay Code) Order 1973. Any such payments will count against the pay limit to the extent that they have not already been offset against the pay limit applying in the period before 7 November 1973.

114. 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 in 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 £2.25 per head of the group).

115. Employers' contributions in respect of their employees for national insurance, Selective Employment Tax, pensions 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 increases in them will not count against the pay limit.

116. Subject only to the exceptions specified in the Code, the cost of all increases in pay, including improvements in terms and conditions of employment other than wages and salaries, must be taken into account in determining whether the total cost of a settlement is within the pay limit.

Calculation of the Pay Limit

117. A precise calculation of the pay limit of seven per cent should be made as follows:
   (i) determine under paragraph 105 the group to be covered by the settlement;
   (ii) ascertain the total pay bill for that group over the 12 months preceding the operative date;
   (iii) deduct payments for non-contractual overtime working, and employers' contributions in respect of their employees for pensions and redundancy payments schemes, national insurance and SET; and adjust to offset the effect of absences from work;
   (iv) divide by the average number of workers in the group over the 12 months preceding the operative date.

This gives the average pay bill per head over the previous year, less overtime. Next:
   (v) take seven per cent of that and divide by 52 for a weekly basis or 12 for a monthly basis.

This gives the maximum increase in the weekly or monthly pay bill per head allowable within the pay limit for the group for the next 12 months.

118. It may not always be necessary to carry out this calculation in full. For example:
   (i) where rates of pay are equal, or nearly equal, to earnings (excluding overtime), it may be convenient to calculate the pay limit by adding seven per cent or £2.25 to rates. The cost of any other improvements in pay which count against the pay limit would then need to be calculated separately and the new rate reduced commensurately;
   (ii) in other cases it may be possible to base the calculation on a typical sample period of e.g. one month or one quarter or on typical sample periods for different parts of the year.
118A. Where the alternative pay limit of £2.25 per head is chosen the maximum increase in the weekly pay bill allowable within the pay limit for the group is calculated simply by multiplying £2.25 by the number currently in the group.

118B. Where an individual undertakes occasional work for the equivalent of not more than 30 days a year the rate of remuneration for such work may be increased outside the pay limit by up to 7 per cent applied at an annual rate to the period since the rate was last increased, up to a maximum of three years.

Overtime, Shift, Night, 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, save as provided in paragraphs 120A to 120D below.

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, rest day or weekend working) and the effective rate of pay for standard hours (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, save as provided in paragraphs 120A to 120D below. For this purpose standard working hours are those recognised either by collective agreement or by custom and practice as being those beyond which overtime payments at premium rates are made. 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.

120A. Premium rates for time worked between certain hours and at weekends may, however, be introduced or increased outside the pay limit with effect from the date of a principal increase for the group concerned subject to paragraphs 120B, C and D. Payments or increases under paragraphs 120B and 120C may not be added to basic rates on which overtime is calculated.

120B. Premium payments (other than overtime payments) may be introduced or increased outside the pay limit for any hours worked on Saturday or Sunday or between 8 p.m. and 6 a.m. on other days subject to the conditions in paragraph 120D and provided that:

(i) the hours in question do not attract overtime payments at premium rates for the workers concerned;

(ii) those concerned have standard working hours as defined in paragraph 120, spread over a six or seven-day week; or work on shifts involving regular weekend rostering as part of their standard working hours; and

(iii) the average hourly rate of premium payment, including the new or increased payments, in each of the periods mentioned above does not exceed the equivalent of one-fifth of the appropriate basic time rate for hours outside such periods for the workers concerned.

120C. Premium payments for any hours worked between 8 p.m. and 6 a.m. on any day including Saturday and Sunday may be introduced or increased (additional to any overtime payable) subject to the conditions in paragraph 120D and provided that the average hourly rate of premium payment (including the new or increased payments but excluding premium payments for overtime) does not exceed the equivalent of one-fifth of the appropriate basic time rate for hours outside such periods for the workers concerned.

120D. For the purpose of calculating the payment or increase permissible under paragraphs 120B and 120C:

(i) all existing premia (including shift premia but in cases falling under paragraph 120 excluding overtime premia) payable in respect of the qualifying hours must be included in calculating the average hourly rate of premium payment, whether they are separately identified or have been consolidated into basic rates since 6 November 1972.
Where an existing shift premium covers work outside as well as within the qualifying hours, or where a variable premium is paid for hours within the qualifying hours, the existing hourly premium should be calculated by dividing the total premia by the number of qualifying hours involved.

**Individual Pay Limit**

121. Increases subject to the pay limit should not exceed £500 a year for any individual. If the individual works part time this limit should be reduced according to the proportion his hours bear to the standard hours of the group. The following do not count against the £500 individual pay limit:

(i) increases which do not count against the pay limit for the group; and

(ii) increases contained within the flexibility margin in paragraph 121A unless these take the form of personal increments not covered by paragraph 129.

**Flexibility Margin**

121A. Where the terms of a settlement include one or more of the features specified below, the pay limit applicable to the settlement may be increased by 1 per cent of the average pay bill per head of the group covered by the settlement for the preceding 12-month period or by the cost of such features whichever is the less. Groups which are separate for the purposes of paragraph 109 may be combined for this purpose. The features are:

(i) changes in pay or grading structures or in systems of payment designed to remedy anomalies or secure specific improvements in efficiency;

(ii) improvements in holidays which count against the pay limit, where this would not increase the total holidays for the group concerned (subject to the same exclusions as in paragraph 127) to more than the equivalent of four weeks a year; the cost of such improvements to be calculated as in paragraph 128;

(iii) the introduction or improvement of holiday pay;

(iv) the introduction or improvement of sick pay schemes.

121B. The changes or improvements referred to in paragraph 121A may not be implemented with effect from an earlier date than the first principal increase after the coming into operation of this Code for those benefiting under the settlement, unless they implement in whole or in part a settlement reached before 1 April 1973, and the cost does not exceed the 1 per cent margin.

**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 in paragraphs 123 and 124.

123. Subject to paragraph 124 an increase for this purpose is outside the pay limit to the extent that by the end of 1974 it reduces by up to one-half:

(i) any differential between men’s and women’s rates which existed at 7 November 1973 relating to work of the same or broadly similar nature and which is required by the Equal Pay Act to be eliminated by 29 December 1975; or

(ii) any differential between women’s rates existing at 7 November 1973 and the pay for the grade in which they are placed by job evaluation complying with the following criteria:

(a) The method of job evaluation used and the rules of application are specified in writing and have been agreed in advance with the employees concerned or their representatives.

(b) The rules specify the form of job description to be used as the basis for evaluation; provide for the evaluation within an agreed specified period of all new jobs within the area covered by the scheme, and for the re-evaluation of changed jobs within a similar period; and provide for appeals by employees against values given to their jobs.

(c) The process of evaluation is distinct from the related process of determining pay.
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 in percentage terms the differentials to which paragraph 123 refers.

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. This does not apply where standard working hours have at any time been increased by agreement to more than 40 a week.

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 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 three weeks a year excluding:

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

127A. The cost of the additional holiday on 1 January (or an alternative date where 1 January is already observed as a holiday) does not count against the pay limit.

128. Improvements in holidays other than as provided for in paragraph 127 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 increase (so that for example an increase of one day per year should be treated as equivalent to not less than a 0.4 per cent increase in pay) except where the Pay Board is satisfied in the light of the evidence that the true cost is less.

Personal Increments

129. Except as in paragraph 130, 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; and
(iii) do not exceed those paid in similar circumstances in previous years by more than results directly from any improvement to the range or scale which has been made within the pay limit and counted against it,

any net addition to the annual pay bill per head for the group concerned will not count against the pay limit. Increments which satisfy these conditions do not count against the limit of £500 a year for the individual.

130. The following count against the pay limit and against the individual limit of £500:

(i) improvements in the ranges or scales in incremental systems covered by paragraph 129;
(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 129; 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 who are promoted or the level of whose work is reassessed by the application of procedures and criteria established before 6 November, 1972. Where this test is not satisfied any increase in pay counts against the pay limit and against the individual limit of £500. Artificial regrading and changes of job specification should not be used as a means of avoiding the provisions of the Code.

Recruitment 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.

133A. Where before the statutory reorganisation of public services on 1 April 1974 (16 May 1975 for local government in Scotland) an individual temporarily undertakes work appertaining to the establishment and functions of a new authority or authorities which:

(i) is additional to and wider in scope than his continuing work with his current employer;

(ii) involves additional hours (not subject to overtime payment) or additional responsibility, and,

(iii) continues for a period not less than three months.

payment may be made for such work after 6 November 1973, and during the period concerned outside the pay limit at rates which do not exceed those allowable for new work in accordance with paragraph 133.

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 136 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:

(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 which
(i) provide payments to employees who, because of redundancy in the circumstances described in (a) and (b) of S1 (2) of the Redundancy Payments Act 1965 leave an employer's service or are redeployed, and
(ii) require a minimum of at least 52 weeks continuous service as a condition of such payments,
are outside the pay limit, as are benefits which become payable after six months of incapacity.

Profit-sharing Schemes

138. Payments under the written terms of profit-sharing schemes as they stood on or before 6 November 1972, will not count against the pay limit. Where the terms are not written, payments should not exceed what has customarily been paid. Any other payments or benefits under such schemes must be counted against the pay limit.

Share Option and Share Incentive Schemes

139. The provisions of the Code do not apply to the operation of a savings-related share option or share incentive scheme under the scope of Schedule 8 to the Finance Act 1973 and approved by the Inland Revenue. In addition if the rate at which options or shares had been acquired by individual participants under a share option or share incentive scheme operating on or before 6 November 1972, was fixed or related directly, without managerial discretion, to quantified criteria by a pre-determined formula the operation of that scheme on the terms ruling before that date is outside the pay limit.

139A. Except as in paragraph 139 no options may be granted under share option schemes or shares issued under 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.

140. The acquisition of shares through any arrangements, not involving options, by which employers facilitate the purchase of shares by employees is outside the pay limit provided that:
(i) the shares are purchased at a price equal to their market value (the market value being assessed without regard to any restrictions attached to the shares, or to the employee's rights as a shareholder, which do not attach to all shares of the same class, or to the rights of all shareholders); and
(ii) there are no related loans or deferred payment arrangements.

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, e.g. for house purchase
Lunch or other meal vouchers
Seasonal and holiday bonuses
Responsibility allowances
Geographical allowances other than London allowances covered by paragraph 141A
Overtime and shift premia
Stand-by payments
Lay off and sick pay

141A. Improvements to an allowance or differential rate of pay designed to compensate for the additional cost of accommodation and travel in London compared with the rest of the country may be increased outside the pay limit provided that the
allowance or differential was being paid on or before 6 November 1972, on the basis of the formula given in Cmd. 3436 (NBPI Report No. 44 of 1967) and that any increase is made on the same basis. Improvements to police pay differentials for London may be made outside the pay limit on the basis of the same formula.

142. Re-imbursement to an employee of the following expenses does not count against the pay limit:
(i) expenses incurred in the performance of the duties on which he is employed;
(ii) expenses incurred in a removal of his home which is necessary for the purpose of his transfer by his employer.
(iii) The current costs of providing himself with unfurnished living accommodation in a location which is subject to the direction or consent of the employer, where such reimbursement is made in accordance with procedures, criteria and standards under conditions of service established on or before 6 November 1972 (but excluding conditions of service providing for direct reimbursement of interest charges).

When these expenses are reimbursed by fixed allowances these may be increased outside the pay limit, provided that the increase can be fully justified by reference to 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 pay limit will apply for the 12 months beginning with the first increase since 6 November 1972, which counts against the pay limit. The maximum increase in the weekly or monthly pay bill per head allowable within the pay limit for the group for that 12 months should be as in paragraph 117. Paragraph 106 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 settlements an off-setting 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 maximum increase in the weekly or monthly pay bill per head of any group concerned does not exceed the pay limit for that group.

Efficiency Payments (including Payment by Results) and Restructuring Schemes

145. Except where specific provision is made in paragraphs 146-149B increases in pay under efficiency payments (including payment by results) and restructuring schemes will count against the pay limit. In the case of payment by results schemes 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 changes in the terms.

Existing Schemes

146. 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 not count against the pay limit where they arise, under the terms of a scheme which was in operation before 6 November 1972 or brought into operation under the provisions of paragraph 149, from the direct and measurable contributions by the employees to increased output. After 1 July 1974, this provision will apply only where the operation of the scheme is kept under review by the control information specified in paragraph 149A (vi).
For those covered by schemes of payment by results, who do not benefit from a general pay increase, the 12-month period referred to in paragraph 109 will be the 12 months from 1 April in any year.

For those covered by schemes of payment 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 which counts against the pay limit. For this purpose it must be assumed that increases in pay which count against the pay limit arising under the scheme during the 12 months following the general increase will be at least as great in percentage terms as in the preceding 12 months.

Programmes agreed and partially implemented before 6 November 1972.

Where:

(i) there was on 6 November, 1972, an agreement to implement a programme of productivity (including payment by results) 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, 1972, 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, provided those arising from payment by results schemes meet the requirement of paragraph 146.

New Schemes

Increases in pay resulting from a new efficiency payment scheme or a restructuring scheme will not count against the pay limit provided that the scheme meets the following criteria:

(i) after meeting all costs and charges incurred by the employer in installing the scheme (including increased capital charges determined in accordance with generally accepted accounting principles consistently employed by him and pay increases to all employees benefiting from the scheme, whether directly or consequentially), the net savings arising from the scheme are,

(a) sufficient to reduce unit total costs and unit labour costs below the level they would be but for the introduction of the scheme, and

(b) at least equal to the cost of the pay increases under the scheme;

(ii) the Pay Board is informed before the scheme is brought into operation;

(iii) no increase is payable before the net savings have been achieved and in any case not until after the results of the first three months running of the scheme have been submitted to the Pay Board for checking and the Board’s approval given for payment to be made with effect from the date of operation of the scheme;

(iv) the additional payments under the scheme do not exceed 50 per cent of the increase which is allowable within the pay limit to those benefiting from the scheme;

(v) the additional payments under the scheme are to be correspondingly reduced if standards or targets specified in the scheme are not met;

(vi) the operation of the scheme is kept under review through regular management control information. The control information must, as a minimum clearly indicate changes in output per man hour, earnings, unit labour costs and unit total costs relative to a typical earlier reference period and must ensure that output for payment purposes is correctly recorded;
(vii) the scheme is based on properly measured work standards or targets, not merely on past performance, and these standards or targets where appropriate:

(a) take account of the improvement in performance which experience of doing a particular job brings; and

(b) are regularly checked and revised when methods change to ensure that consistency is maintained.

149B. A new scheme which satisfies the provisions of paragraph 149A may be brought into operation only with effect from the same date as the first principal increase after 7 November 1973, for those benefiting directly from the scheme, unless that date is 1 July 1974, or any date after 31 December 1973.

SETTLEMENTS REACHED BEFORE 6 NOVEMBER 1972

150. Settlements reached, but not implemented, on or before 6 November 1972, which provide for specified increases on specified dates on or after 6 November 1973 (and not by reference to changes in indices or other rates of pay) may be implemented in full from their due date or dates. They will count against the pay limit unless they are increases of a kind which do not count against the pay limit under other paragraphs of this Code.

151. Where an increase under a settlement of the kind referred to in paragraph 150 is a principal increase the pay limit will apply to the 12 months following that increase, except where the increase falls within the period of a previous pay limit for the group and is counted against it. 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 12-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.

152A. Any increase may be paid which could, consistently with the requirements of the Counter-Inflation (Price and Pay Code) Order 1973, be paid with the effect from a date before 7 November 1973.

THRESHOLD AGREEMENTS

152B. Payments under threshold agreements may be made outside the pay limit and will not count against the individual pay limit provided the following conditions are satisfied:

(i) the base figure for the purpose of the agreement is the Retail Price Index (RPI) figure for October 1973;

(ii) the agreement runs for not more than 12 months from the date of publication of the RPI figure for October 1973;

(iii) after the date of publication of the RPI figure which is 7 per cent above the base figure for the purpose of the agreement, a pay increase of not more than 40p a week is given, with a further increase of not more than 40p a week for every subsequent full 1 per cent rise in the RPI during the currency of the agreement;

(iv) payments are treated as special supplements on an individual basis and are not included in the base rate for overtime or other premia;

(v) each payment of up to 40p a week is paid in full only to full-time employees and to part-time employees working 21 hours or more a week pro rata.

ANOMALIES

152C. Subject in all cases to approval by the Pay Board, increases may be given outside the pay limit as necessary in order to correct anomalies satisfying the relevant criteria set out in paragraphs 152D, 152F, 152G or 152H. Such increases may be backdated to 7 November 1973 but not earlier.
In order to qualify as an anomaly on the basis of a link:

(a) the link must have been broken by the standstill; and

(b) but for the standstill, the link must have determined the pay of the group concerned.

In order to satisfy this condition:

(i) there must be evidence of that link and clear identification of the pay group being followed; and

(ii) the effect of the link on the pay of the group concerned must have been known (even if not formally agreed) before 6 November 1972 or have been predictable within a narrow range;

and where applicable:

(iii) where the link is not embodied in a formal agreement and there are separate negotiations, there must be evidence that all concerned intended that the outcome would be in accordance with (ii).

These requirements apply to links both between groups and between grades within the same or different groups.

When a link which meets the conditions in paragraph 152D is restored with a group which had negotiated before the standstill a long-term settlement providing for one or more pay increases or improvements in conditions after the end of the standstill, the linked group may apply such increases or improvements:

(i) on 7 November 1973, where they were effective between the end of the standstill and 6 November 1973;

(ii) on the operative date of the increase or improvement of the group being followed, where this is later than 6 November 1973.

In order to qualify as an anomaly on the basis of a formal procedure:

(a) the formal procedure must have been set aside by the standstill; and

(b) but for the standstill the formal procedure must have determined the pay of the group concerned. In order to satisfy this condition:

(i) there must be a process agreed between the parties for determining the field of comparisons which cannot be changed during the course of a particular pay review; and

(ii) there must be agreed rules governing the translation of external rates into agreed internal levels of pay such that it is possible to infer the outcome from the external evidence within a narrow range. The procedure must determine the actual levels of pay and not merely use outside evidence, for example published wages or earnings indices, to gauge the size of increases.

Where there is a formal procedure, satisfying the conditions in sub-paragraphs 152F (b) (i) and (ii) above, which was in operation before the standstill, had a review date after the end of the standstill and includes within its current review a period before the standstill, any increase which may be due at the first review following the standstill may be paid in full on the first due date after 6 November 1973 in place of an increase under paragraph 109.

Where a new anomaly is created when a link or formal procedure is restored in accordance with the provisions of paragraphs 152D, 152F or 152G above, the consequential anomaly may also be treated as an anomaly arising from the standstill provided that it meets conditions (i) to (iii) of paragraph 152D above.

Increases designed to remedy an anomaly must:

(i) be limited to what the link or formal procedure would have given if the link or formal procedure had been allowed to operate at the first operative date after 6 November 1972;

(ii) take full account of all relevant details of the settlement or procedure being followed and of benefits received by the linked group since 6 November 1972 in so far as these are relevant to the benefits accruing from the restoration of the link or formal procedure; and
(iii) for those whose basic pay exceeds £5,000 per annum, be staged and paid in two equal amounts, subject to such modifications as the Pay Board may approve in order to prevent this provision creating serious anomalies in the pay structure of the group concerned. The first payment may be made with effect from a date not earlier than 7 November 1973, and the second not earlier than 12 months after the first payment.

152J. For the purpose of calculating the pay limit for the next increase after the remedy of an anomaly, the calculations required by paragraph 109 may take account of increases in the pay bill expressed as an annual rate, resulting from the remedy of the anomaly.

152K. In determining increases remedying anomalies negotiators should have regard to the objective, set out in paragraph 110, of improving the relative position of the low-paid and to the desirability, therefore, of not reversing any redistribution of income from higher paid to lower paid employees resulting from increases since 6 November 1972.

**Part III—General**

153. Where the particular provisions of the Code cannot be directly applied to particular cases or sectors without modification, the Price Commission and the Pay Board will, in exercising their functions, apply those provisions with such adaptations or modifications as appear to them to be necessary to give effect to the principles and objectives of the Code.