CABINET

REPORT OF THE COMMITTEE ON CIVIL EXPENDITURE

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

The Committee on Civil Expenditure was appointed by direction of the Prime Minister, with the following terms of reference: "To submit for consideration by the Cabinet proposals for ensuring that civil expenditure in the financial year 1955 shall be reduced by £100 millions, below the total at present forecast for that year."

2 The total of Civil Supply forecast for 1955-56 at the time the Chancellor of the Exchequer reported his prospective deficit to the Cabinet was £2,342 million. This figure has since been increased (largely because of increases in Colonial emergency expenditure) by £26 million to £2,368 million, and consequently we decided to aim at a reduction of £125 million in the revised forecast.

3. Civil Supply may be analysed as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>£ million 1955-56</th>
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<tbody>
<tr>
<td><strong>A.—Social Services</strong></td>
<td></td>
</tr>
<tr>
<td>1. National Health Service</td>
<td>446</td>
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<tr>
<td>2. Education, including Universities</td>
<td>336</td>
</tr>
<tr>
<td>3. Pensions, Family Allowances, National Assistance</td>
<td>327</td>
</tr>
<tr>
<td>4. Housing, Equalisation Grants, and other services</td>
<td>202</td>
</tr>
<tr>
<td><strong>Total Social Services</strong></td>
<td>1,311</td>
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<tr>
<td><strong>B.—Agricultural and Food Subsidies</strong></td>
<td></td>
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<tr>
<td>1. Food (including Welfare) Subsidies</td>
<td>117</td>
</tr>
<tr>
<td>2. Agricultural Subsidies</td>
<td>202</td>
</tr>
<tr>
<td><strong>Total Agricultural and Food Subsidies</strong></td>
<td>319</td>
</tr>
<tr>
<td><strong>C.—Other Services</strong></td>
<td></td>
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<tr>
<td>1. Commonwealth and Foreign</td>
<td>94</td>
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<tr>
<td>2. Home Department, Law and Justice</td>
<td>62</td>
</tr>
<tr>
<td>3. Common Services (Works, Stationery, &amp;c.)</td>
<td>66</td>
</tr>
<tr>
<td>4. Transport, Fuel, Power, and Industrial Research</td>
<td>72</td>
</tr>
<tr>
<td>5. Revenue Departments</td>
<td>46</td>
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<tr>
<td>6. Other</td>
<td>127</td>
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<tr>
<td><strong>Total Other Services</strong></td>
<td>467</td>
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<tr>
<td><strong>D.—Total Social and Administrative Services</strong></td>
<td>2,097</td>
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<tr>
<td><strong>E.—Exchequer Contributions to National Insurance Funds</strong></td>
<td>77</td>
</tr>
<tr>
<td><strong>F.—Remainder</strong></td>
<td></td>
</tr>
<tr>
<td>1. Defence preparations and general Ministry of Supply expenditure</td>
<td>134</td>
</tr>
<tr>
<td>2. Atomic Energy</td>
<td>54</td>
</tr>
<tr>
<td>3. Trading expenditure, &amp;c.</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Civil Supply</strong></td>
<td>2,368</td>
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</tbody>
</table>

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4. We have not examined those parts of Civil Estimates which provide for Defence Preparations.* These must depend on the strategic appreciation to which the Defence Policy Committee is giving its attention. But we think it right to point out that considerable sums are spent in this way, and there is a large field for economies here if strategic considerations allow. The sums in the 1955–56 Estimates are:

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
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<tbody>
<tr>
<td>Civil Defence</td>
<td>45</td>
</tr>
<tr>
<td>Strategic Reserves</td>
<td>47</td>
</tr>
<tr>
<td>General Ministry of Supply expenditure†</td>
<td>42</td>
</tr>
<tr>
<td>Total (as at F. 1 above)</td>
<td>134</td>
</tr>
</tbody>
</table>

Atomic Energy (£54 million) is also borne on a Civil Vote, and we are not able to recommend a saving here.

We propose, if the Cabinet agree, to make a review of expenditure on Strategic Reserves, together with the sectors of civil expenditure on defence preparations, in the light of such decisions as are made on defence policy.

5. We have also left over for later decision the possibility of saving part of the Exchequer contribution to the National Insurance Funds (Line E, in paragraph 3 above). The Chancellor of the Exchequer has this matter in mind.

6. Of the remainder (Lines D and F. 3 of paragraph 3 above) amounting to £2,103 million, no less than £1,630 million is concerned with Social Services and Agricultural and Food Subsidies. It is from these that the bulk of our proposed savings must come. Although we have examined the whole field with care the savings in the remaining sectors of expenditure are bound to be relatively very small.

7. Our proposals follow. The last figure against each item shows the saving which will result. Where legislation is required this is indicated.

**National Health Service**

(a) Reduction of forecast capital expenditure on hospitals to £10 million, which is the level for 1954–55. This will enable a little new building to be started, but considerably less than the Minister had intended...

(b) Restriction of allowance in hospital maintenance expenditure for new developments in 1955–56 to £1 million for England and Wales, and £125,000 for Scotland...

(c) Prescription charge—1s. for each item instead of for each prescription form. This should be adopted unless the Guillebaud Committee proposes better methods of saving...

**Education**

(d) The charge for school meals should be increased in some way. The exact form of the increase is still being examined, but might well cover some part of the other costs, in addition to the cost of the raw food as at present. We would hope to save about...

(e) Universities—While expanding and accelerating the provision of higher technological education, it has been found possible to space the capital expenditure more widely than had been originally envisaged; it has also been possible to avoid an increase in the rate of non-technological building. This would save...

**Agricultural and Food Subsidies**

(f) Reduction of financial support to agriculture at the next Annual Review. The aim should be a saving of...

(g) Leave retail price of milk at 7d. for the whole year, instead of reducing it during the summer. If consumption is not affected by this, the saving would be...

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* With the exception of the items in paragraph 7(r) and (s) below.
† Excluding (a) that included in the Defence Programme, and (b) that on Civil Air Research and Development.
We should only do this if our experience of the 7d. price during next winter shows that consumption has not declined in the meantime. If consumption is affected, we should consider raising the price of welfare milk by 4d. per pint (which would save £2½ million). Provided we can get the much larger saving on ordinary milk (which does not entail a direct increase in the price) we do not think the comparatively small saving on welfare milk outweighs the political and other objections to an increase in its price.

(h) Increase price of bread by 1d. for 3½ lb. loaf, with a consequent decrease in subsidy from £40 million to £30 million, and an increase of 0·29 of a point in retail price index 

(l) Introduce, as a complement to (h), a levy on all flour. This would need legislation. The additional saving (derived from biscuits, cakes, &c.) would be 

(l) Increase of ½d. per lb. in price of sugar. This would be rather more than sufficient to pay for increased costs of storage. The effect on the retail price index would be an increase of 0·08 of a point. It would produce 

We have brought the proposals above affecting the price of food to the notice of the Minister of Labour, and he is particularly concerned about the effect of any increase in the price of bread on wage claims and industrial relations.

Agriculture, Fisheries and Forestry—General

(k) The Minister of Agriculture and Fisheries has agreed economies on land purchase and capital expenditure, pests, rural roads, allotments, capital expenditure on research institutes and drainage grants, and additional receipts from sales of land and progeny-testing, of some 

(l) Economies on Scottish Agriculture, on Fisheries, Forestry, Agricultural Research Council, Nature Conservancy and Development Fund total about 

Overseas Departments and Information Services

(m) The Arab Legion subsidy should not be increased, or if an increase were needed on defence grounds it should be met from the Defence Budget 

(n) Technical assistance to other countries via the Colombo Plan should be reduced (£420,000) and that via the United Nations should not be increased (£150,000); with other economies by the overseas departments, the savings amount to something under 

(o) Overseas Information Services should be reduced from £10½ million to £9½ million. This is contrary to the recommendations of the Drogheda Report; but the views of the Home Secretary's Committee on this Report (as expressed in C. (54) 185) expressly did not take account “of any economies which may have to be undertaken as the result of other deliberations.” We think that the reduction we recommend should be achieved in a selective way; priority should be given to expenditure on propaganda directly helpful in the “cold war,” on economic information including Commonwealth co-operation and the promotion of exports, and on British Council expenditure in Asia including the Middle East, where this can be effective; certain other branches of expenditure we think should be curtailed, such as the commissioning of films, exhibitions, British Council activities in Europe, and press advertising by the Service Departments. We suggest that some body, under Ministerial supervision, should be set up to achieve the recommended reduction in expenditure on the lines we have indicated, after taking into full account the views of the Foreign Secretary.
4.

We also recommend seeking a 5 per cent. reduction in expenditure on home information by the Central Office of Information, and by the National Savings Committee, and a 10 per cent. cut in the larger departmental information staffs.

In all, these economies in the Information Services would save an amount approaching £1 million.

Other Home Departments

(p) The Minister of Labour has agreed economies by reducing staff, wages inspection, hostels (including an increase in charges), capital expenditure on factories for the disabled, a contraction of training, and is endeavouring to find additional minor economies, making a saving in all of £1 million.

(q) While allowing for an increase over 1954-55 in work on road maintenance and minor improvements, the Minister of Transport and Civil Aviation will endeavour to reduce the figure in his Forecast Estimate for 1955-56 by £900,000. He will in addition make savings in miscellaneous civil aviation services. In all, the saving would be £1 1/2 million.

(r) It was thought that, while Civil Defence policy was subject to review, there was no point at present in planning the strengthening measures for Tube railways under the Thames. This would provisionally save £1 million.

(s) Similarly, while the original programme for Emergency Ports should be completed, the provision for further schemes for the equipment of emergency ports (£1 million) should be omitted; and the provision for expenditure on other Ports Schemes should be reduced (by about £600,000), saving in all about £1 1/2 million.

(t) Works economies on maintenance, furniture and overseas building and at Kew (Palm House) will save about £1 million.

(u) Other economies include the postponement of the extension of legal aid in criminal cases (£500,000), the abolition by April 1956 of the regional organisation of the Ministry of Housing and Local Government, and savings on Scottish prisons. These would amount to something under £1 million.

8. In addition to the savings enumerated above, which all represent reductions in the intended expenditure for 1955-56 or an increase in receipts, there are two measures which, although not economies in the true sense, would effect a reduction in above-the-line expenditure. These are:

(a) That grants for rural water and sewerage schemes should be related to the loan charges rather than to the whole of capital expenditure in the year. This reduces the cost of these schemes to the Budget; the reduction in 1955-56 is somewhat problematical, but would be of the order of £2 million.

(b) That the period over which temporary (pre-fabricated) houses should be written off should be extended from ten years to fifteen years or some longer period. The amortisation payments at present met from Votes would be reduced in 1955-56 by some £16 million.

For both of these, legislation would be necessary.

9. The total of all these reductions is £113 million. This falls short of the target of £125 million which we had set ourselves.
10. There is, however, a big field of expenditure which, as mentioned above, we have not examined, namely, the relation of the Exchequer to the National Insurance Fund and expenditure on war pensions. This field will have to be reviewed when the report of the Phillips Committee has been received. It is impossible to forecast at present the saving to the Exchequer which might result from such a review.

11. We have, of course, considered a large number of other measures, including the possibility of making a general "hotel charge" for hospital in-patients, and of increasing the school-entry age to six years, but for a variety of reasons do not recommend them to the Cabinet.

12. There are further measures of a more radical nature which are, however, unlikely to affect expenditure in 1955-56, of which the most important are the proposals at present under consideration in "Operation Round-up." We are of the opinion that local authorities could be induced to be more economical in spending the vast sums of money they receive from the Government—if the proportion of grant were less than at present. In particular, we consider that the 60 per cent. Education grant should be reduced to 50 per cent.; but this could only be done as part of a general change in the financial relations between the Government and the local authorities. In the meantime, we should do what we can to make local education authorities adopt an economical attitude.

13. It may also be possible to save a substantial amount on the emergency grants and loans to Kenya and Malaya, possibly by increasing the contribution to be made by these Colonies. This must await the discussions with the Governors of the territories, which are taking place this summer.

14. We have recommended that the Ministers concerned with Fisheries should agree with the Chancellor of the Exchequer the proposals for the future of the White Fish industry in our present economic circumstances. At present the subsidy to Fisheries is an unsatisfactory and increasing item, and we see no prospect of its effective limitation until the longer-term policy has been settled.

15. Further investigation is proceeding into certain points—notably, the possibility of extending contract cleaning in Government offices, and economies in the cost of official transport. A decision will have to be taken in the Autumn on the abolition of building licensing, which would save a considerable number of staff.

16. We have suggested (in paragraph 8 (a) above) that grants for rural water and sewerage schemes should be related to the loan charges, rather than to capital expenditure. This change simply brings the services into line with Exchequer assistance to local authorities for their expenditure on housing and school buildings. We have considered whether this principle should not be extended to borrowing for the Government's own expenditure on such items as Government buildings, prisons, &c, instead of providing the necessary capital out of revenue. There are, however, undoubtedly disadvantages in such a course, particularly if we have to look forward to a long period of expenditure on such items. The analogy of capital expenditure in industry is not exact, because that expenditure produces revenue. On the other hand, there is a good deal to be said for not charging to a single year the capital non-recurrent expenditure on huge Government offices, which cost several million pounds and are built to last for a hundred years or more. In any case, both because we think that the necessary budgetary economies can be found better elsewhere, and also for general economic reasons, we do not recommend that this extension of the principle should be adopted for 1955-56. Nevertheless, although such a course is not an economy in the strict sense, we consider that it should not be ruled out for the future, at any rate in certain cases and if general economic conditions do not prevent it.

[Conclusion]
Conclusion

17. We recommend the following reductions:

<table>
<thead>
<tr>
<th>£ million</th>
<th>Accounting Changes</th>
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</thead>
<tbody>
<tr>
<td><strong>Economies</strong></td>
<td><strong>Changes</strong></td>
</tr>
</tbody>
</table>

A.—Social Services
1. National Health Service ... ... 14 ... 
2. Education—
   School Meals ... ... 4 ... 
   Universities ... ... 2 ... 
3. Pensions, Family Allowances, National Insurance ... ... ... ... ... 
4. Housing, Equalisation Grants and other Services—
   Temporary Houses ... ... 16 ... 
   Rural Water, &c. ... ... 2 ... 
   ... ... 18 ... 
B.—Agricultural and Food Subsidies
1. Food (including Welfare) Subsidies ... ... 25 ... 
2. Agricultural Subsidies—
   Annual Review ... ... 30 ... 
   Flour Levy ... ... 8 ... 
C.—Other Services
1. Commonwealth and Foreign—
   Information* ... ... 1 ... 
   Other ... ... 2 ... 
2. Home Department, Law and Justice ... 1 ... 
3. Common Services (Works, Stationery, &c.) ... 1 ... 
4. Transport, Fuel, Power and Industrial Research ... ... 1½ ... 
5. Revenue Departments ... ... ... ... ... 
6. Other (Labour, Agriculture, &c.) ... ... 3 ... 
D.—Total Social and Administrative Services ... ... 92½ 18 
E.—Exchequer Contributions to National Insurance Funds ... ... ... ... ... 
F.—Remainder (Defence Preparations) ... ... 21 ... 
   ... ... 95 18 
Total reduction ... ... £113 million 

* Including a small sum on Home Information Services.

18. Of the measures summarised above, legislation would be needed for changing the basis of rural water and sewerage grants, and the amortisation period of pre-fabricated houses (these two possibly being covered in a single Bill), and for the imposition of a levy on flour.

SWINTON.

Commonwealth Relations Office, S.W. 1, 15th July, 1954.