1973 No. 658

COUNTER-INFLATION

The Counter-Inflation (Price and Pay Code) Order 1973

Made - - - - - - - - -	1*st April* 1973
Coming into operation - - - - -	1*st April* 1973
To be laid before Parliament - - -	2*nd April* 1973

The Treasury, in exercise of the powers conferred on them by section 2 of the Counter-Inflation Act 1973(**a**) and of all other powers enabling them in that behalf, and being satisfied, in accordance with paragraph 7 of Schedule 3 to that Act, that there was consultation before the passing of that Act with representatives of consumers, persons experienced in the supply of goods or services, employers and employees and other persons, which in their opinion was sufficient for the purposes of the said section 2, hereby make the following Order:—

1. (1) This Order may be cited as the Counter-Inflation (Price and Pay Code) Order 1973 and shall come into operation on 1st April 1973.

(2) The Interpretation Act 1889(**b**) shall apply for the interpretation of this Order as it applies for the interpretation of an Act of Parliament.

2. The Price and Pay Code prepared by the Treasury and set out in the Schedule to this Order shall be the code for the purposes of the Counter-Inflation Act 1973.

Tim Fortescue,
V. H. Goodhew,
Two of the Lords Commissioners
of Her Majesty's Treasury.

1st April 1973.

(a) 1973 c.9. (b) 1889 c. 63.

SCHEDULE

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 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;

(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. The price of milk for manufacture is not exempt under paragraph 8 and will be subject to the Code.

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. References 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 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 arms 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 the purpose of the Code 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 a separate constituent company or sub-division as defined in paragraph 13 or in paragraph 14.

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 paragraph 50 where an enterprise exceeds, or is likely to exceed, its profit margin reference level.

Base Date

19. The starting point for the calculation of permitted price increases is the level of costs per unit of output at 30 September 1972. In calculating

permitted price increases, cost increases first incurred after 30 September 1972 may be taken into account, to the extent that they have not already been reflected in prices. However, 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.

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 September 1972, 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 September, 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 (eg 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 (eg 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 eg 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 September 1972; and

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

(*a*) labour;

(*b*) materials, components, fuel and power;

(*c*) rent of premises or rates;

(*d*) interest charges, as defined in paragraph 28;

(*e*) certain bought-in services, that is: transport, hire of equipment, insurance, storage, maintenance and engineering services not of a capital nature; 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 Cmnd. 5125 and Cmnd. 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 are consistent with this Code (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 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 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.

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 increases may be necessary where an enterprise:—

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

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

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

Where such an enterprise:—

(*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 judgement fairly reflect what would be appropriate on that basis.

Costs of certain small enterprises

34. Where the Commission are satisfied that:—

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

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

the Commission may calculate average allowable cost increases for the relevant goods or services. These increases should then be taken as the allowable cost increases for the relevant goods or services.

35. In calculating average allowable cost increases under paragraph 34 the Commission will take account of:—

(i) all relevant information available to them on cost increases for the goods or services concerned, including information supplied by any trade association or other body which they consider is representative of the enterprises concerned; and

(ii) any other relevant provisions of the Code.

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

37. Where the allowable cost increases 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. 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 6 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 6 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.

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 6 months from the date on which work is to begin.

Escalation and Variation of Price Clauses

46. Price increases under escalation or variation of price clauses should be applied only to the extent that the increases are consistent with the Code. If, however, the application of the Code would cause or increase a loss on a particular contract, taken as a whole, the terms of the escalation or variation of price clauses may be applied to the extent necessary to avoid the loss, or the increase in it. In addition to new contracts, this paragraph applies to existing contracts and to increases in prices under those contracts, to the extent that they relate to cost increases after 6 November 1972.

Quantity or Quality Change and New Products

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

48. 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.

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 (including the productivity deduction) need not be applied to the extent that they would cause the enterprise to operate at a loss;

(iii) in all other cases, including low profit cases under paragraphs 61 and 62, the allowable cost increase provisions and the productivity deduction apply.

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 enterprise concerned 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. Abatements or reductions are however not required in respect of any excess arising in the period ending 30 April 1973.

Unit for Profit Margins

53. In calculating net profit margins under paragraph 50 enterprises may opt to use:—

either (i) the profits of the enterprise as a whole

or (ii) the profits of separate constituent companies or sub-divisions as defined in paragraph 13 or 14.

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

54. Paragraph 50 requires that prices should be determined so as to secure that net profit margins do not exceed the reference level. A net profit margin calculated under paragraph 53(i) will be relevant for this purpose to all the prices of the enterprise as a whole. A net profit margin calculated under paragraph 53(ii) will be relevant to the prices of the constituent company or sub-division from the profit of which the margin has been derived.

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 5 complete years of account, or has traded at a loss in one or more of the last 5 years, the reference level for paragraph 50 may be calculated as follows:—

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

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

(iii) any year in which an enterprise made a loss may be treated as equivalent to a year of no trading and 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 paragraph 50 or 58, requires modification, for example because of a substantial reconstruction of the enterprise during the base period, or a substantial change in the character of its business, they may agree or stipulate a modified reference level which in their judgement gives effect to the principles of paragraphs 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 net profit margin calculated as described in paragraph 50, 58 or 59 represents a return on capital of less than 5 per cent., the enterprise concerned may calculate the level of net profit needed to produce a return of 5 per cent. on capital and may treat the corresponding net profit margin as its reference level. "Capital" means the net assets employed excluding any part of them which is represented by borrowings the interest on which is deducted in arriving at net profit as defined in paragraph 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) whether there is satisfactory evidence that if this is done the investment will take place; and

(ii) whether 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

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

(iii) whether there is satisfactory evidence that the enterprise had absorbed cost increases to an exceptional degree as a result of

voluntary price restraint and in consequence had significantly reduced profit margins in the twelve months ending 30 September 1972.

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 twelve-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 the goods he sells in a period and the value of his sales in that period, expressed as a percentage of the sales value. The difference should be calculated according to the normal accounting practice consistently applied by the enterprise. In arriving at sales and costs of sales, indirect taxes should be treated on the same basis as for calculating net profit margins in paragraph 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.

Profit margins in distribution

71. Where a distributor's net profit margin has exceeded the reference level, 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 reference level as soon as reasonably possible, and to offset any excess which has already arisen in a period subsequent to 30 April 1973. Reductions are however not required in respect of any excess arising in the period up to 30 April 1973.

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

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

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

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

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, may not increase prices by more than allowable cost increases, except to the extent necessary to avoid an increase in its deficit in the financial year in question;

(ii) paragraph 49(i) will not apply to a nationalised industry in deficit, but the other provisions relating to private sector enterprises making a loss will apply, including in particular paragraph 49(ii) and the exemption from the productivity deduction; and

(iii) paragraph 63 will not apply.

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.

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 nationalised industries); and

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

Water Undertakings

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, and paragraph 46 which applies to variation of price clauses in construction contracts.

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 to 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

applies to amalgamations of partnerships. In applying the provisions relating to allowable cost increases to scales or rates of charges the Commission will have regard to profit margins in the profession generally and will apply paragraph 52 as necessary.

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.

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;

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

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

Field of Application

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 "settlements" 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.

108. Pay increases which consist solely of one or more improvements of the kind described in paragraph 123, 125 or 127, 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 the sum of

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

(ii) £1 per week per head.

A precise method of calculation is set out in 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 1972 which counts against the pay limit. But where a group in accordance with paragraph 107(ii) wishes to return to its normal operative date, so that its settlement runs for less than 12 months, the limit will apply to the period of the settlement at the weekly or monthly rate that would have applied had the settlement been for 12 months.

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. Payments should not be made after 1 April 1973 in respect of periods before that date in order to circumvent the requirements of the standstill. Accordingly, if any group receives after 1 April 1973 an increase in respect of a period earlier than 1 April 1973, which, if paid before 1 April, would have been inconsistent with the requirements of the standstill as set out in the White Papers Cmnd. 5125 and Cmnd. 5205, an equivalent amount will count against the pay limit.

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 £1 per week per head of the group.)

115. Employers' contributions in respect of their employees for national insurance, selective employment tax, pension schemes and redundancy payment schemes and (subject to paragraphs 119 and 120) the cost of overtime hours actually worked should be excluded from the pay bill and 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 should be made as follows:—

(*a*) determine under paragraph 105 the group to be covered by the settlement;

(*b*) ascertain the total pay bill for that group over the 12 months preceding the operative date;

(*c*) 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;

(*d*) 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:

(*e*) take 4 per cent. of that and divide by 52 for a weekly basis or 12 for a monthly basis;

(*f*) add £1 a week or £4.33 for a monthly basis.

This gives the average weekly or monthly increase in the pay bill per head allowable for the group over the next 12 months.

118. It may not always be necessary to carry out this calculation in full. For example where rates of pay are equal, or nearly equal, to earnings (excluding overtime), it may be convenient to calculate the pay limit by adding 4 per cent. plus £1 to rates. The cost of any other improvement in pay which counts against the pay limit would then need to be calculated separately and the new rate reduced commensurately. In other cases, it may be possible to base the calculation on a typical sample period of eg one month or one quarter or on typical sample periods for different parts of the year.

Overtime, Shift, Rest Day and Weekend Working

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

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. In calculating the cost it should be assumed that the amount of such working in the 12 months from the operative date of the settlement will be at least as much as in the preceding 12 months.

Individual pay limit

121. Increases subject to the pay limit should not exceed £250 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. Increases which are not subject to the pay limit (for example, increases in this category arising from overtime or certain personal increments) do not count against the £250 limit.

Other improvements in pay and conditions

Equal Pay

122. Orderly progress towards achievement of the requirements of the Equal Pay Act 1970 may be made outside the pay limit on the basis set out 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 1973, it reduces by up to one third any differential between men's and women's rates which existed at 31 December 1972 and which is required by the Equal Pay Act to be eliminated by 29 December 1975. Any increase in excess of this counts against the pay limit.

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

Hours

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

126. Reductions in standard working hours other than as provided for in paragraph 125 count against the pay limit. The true cost should be set against the pay limit but the cost should not be treated as less than proportional to the reduction (so that for example a reduction of one hour in 40 should be treated as equivalent to not less than a $2\frac{1}{2}$ 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 3 weeks a year excluding:—

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

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

Personal Increments

129. 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 £250 a year for the individual.

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

(i) improvements in the ranges or scales in incremental systems covered by paragraph 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 £250. Artificial regrading and changes of job specification should not be used as a means of avoiding the provisions of the Code.

New Employees and New Work

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

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

Recognised Terms and Conditions

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

Pensions

135. New or improved benefits under occupational pension or death benefit schemes which are tax approved, or under comparable schemes not requiring tax approval, and any reimbursement of a corresponding increase in employee contributions may, unless paragraph 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 for payments to workers who leave an employer's service because of redundancy (as defined for the purposes of the Redundancy Payments Act 1965) are outside the pay limit, as are benefits which become payable after 6 months of incapacity.

Profit-sharing Schemes

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

Share Option and Share Incentive Schemes

139. Except as in paragraph 140 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. If the rate at which shares or options had been acquired by individual participants under a scheme operating before 6 November 1972 was fixed or was 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. In addition 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, eg for house purchase
Lunch or other meal vouchers
Seasonal and holiday bonuses
Responsibility allowances
London allowance or other geographical allowance
Overtime and shift premiums (see paragraphs 119 and 120)
Stand-by payments
Lay off and sick pay

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

Particular Methods and Systems of Payment

National, Local and Plant Increases

143. Where settlements or pay determinations for a particular group are concluded at more than one level (for example, a settlement at national or industry level is supplemented by settlements at local or plant level) the total increase for the group for the twelve months beginning with the first increase which counts against the pay limit should be kept within that limit. Paragraph 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 settlement an offsetting provision precluding employers from making subsequent payments as a result of a national agreement which would result in a total increase in the pay of the group concerned in excess of the pay limit. Those undertaking national negotiations should have regard to the requirement that any increase settled nationally, if not offset as above, should be taken into account in any subsequent local or plant negotiation, so as to ensure that the total pay increase of any group concerned does not exceed the pay limit for that group.

Payment by Results

145. Increases in pay under a scheme of payment by results, including piecework and commission payments, or under an arrangement linked to such a scheme, will count against the pay limit except where they arise, under the terms of an existing scheme which was in operation before 6 November 1972, from direct and measurable contributions by the employees to increased output. This applies to increased payments arising from changes in base rate, conversion rate or other calculator, piecework prices or times, the fixed element or from any other change in the terms.

146. For those covered by schemes of payment by results who do not benefit from a general pay increase the 12-month period referred to in paragraph 109 will be the 12 months following the end of the standstill.

147. For those covered by schemes of payments by results who also benefit from a general increase which counts against the pay limit, account must be taken in calculating the amount available for the general increase of any increase under the scheme 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.

Productivity and Restructuring Schemes

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

149. Where:—

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

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

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

Settlements reached before the Standstill

150. Settlements reached, but not implemented, on or before 6 November 1972 which provide for specified increases on specified dates (and not by reference to changes in indices or other rates of pay) may be implemented in full and, subject to the requirements of the standstill, from their due date or dates. The requirements of the standstill are that no such increase may be implemented with effect from a date earlier than 28 February 1973; that thereafter such increases may be implemented 90 days after their due date provided this is not less than 12 months after the previous settlement; and that no such increase need be deferred beyond the end of the pay standstill.

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

New long-term agreements

152. Settlements may be made providing for staged increases at not less than 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.

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.

EXPLANATORY NOTE

(*This Note is not part of the Order.*)

This Order contains the Price and Pay Code prepared by the Treasury under section 2 of the Counter-Inflation Act 1973. The Price Commission and the Pay Board are required by subsection (1) of that section to have regard to the Code in performing their functions under that Act.

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