

Econ Pd 19 1



CH/EX. REF. NO. B(79)36
COPY NO. 1 OF 10 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG

Tim - it looks to me as if 233 3000

Prime Minister

*Scotland is having a larger cut -
proportionately than E.W. ?*

PRIME MINISTER

What do?

*This seems sensible.
Are you content, and
with the draft passage
for the speech (Plan A)?*

RATE SUPPORT GRANT 1979-80

TL 7/8

We agreed in Cabinet last month that an across the board cut in the current year's RSG cash limit for England and Wales of at least £300 million should be made, with a corresponding reduction for Scotland. But we reached this decision before negotiations on teachers' pay had recognised that the amount of the abatement might need to be increased when the size of this settlement was known. Following your Private Secretary's letter of 21st May, I did not quantify the size of the reduction we had in mind in my speech during the Debate on the Address.

2. However, I think it would be right for me to reveal the figures in my Budget speech, since this is an essential part of our strategy on cash limits and public expenditure reductions in the current year. It is important that the local authorities should be informed as soon as possible of the size of the grant reductions we intend to make, if they are to take action to achieve significant economies in the current year. This is a point which the local authority associations have stressed in recent discussions in the Consultative Council and in the Convention of Scottish Local Authorities.

13. I have



3. I have considered with Michael Heseltine and George Younger whether the reduction of £300 million for England and Wales, and the corresponding sum of £35 million for Scotland, should be increased because of the teachers' settlement, as Cabinet envisaged might be necessary. We have concluded that it would be right to adhere for the present to these figures, on the grounds that the first stage of the teachers' settlement was along the lines of the offer approved by Cabinet and that abatements of this size will represent a substantial financial constraint on local government. But I propose to announce that we will keep our options open on the possibility of making further reductions if they should be required in the light of the settlement reached for local authority white collar grades, the comparability awards by the Clegg Commission for the manuals, and the further settlement due in November for the manuals. We shall need to reach a final decision on the size of the abatement before the RSG Increase Orders are made at the end of this year.

4. Michael Heseltine and George Younger are content for me to deal with these reductions in the Budget Speech. I propose to do so in terms of the attached draft paragraph. I should be grateful for your agreement.

5. I am copying this minute to the Home Secretary, the Secretaries of State for the Environment, Education, Social Services, Scotland, Wales and Transport, and to Sir John Hunt.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)
7 June, 1979

CONFIDENTIAL

A

DRAFT PARAGRAPH FOR BUDGET SPEECH

RSG CASH LIMIT CUT

"The need for substantial economies applies to local authority expenditure, where the Government's contribution is made through the Rate Support Grant. As I said three weeks ago, we shall take account of pay settlements in calculating the Increase Orders for the Rate Support Grant, but we shall make a significant across-the-board reduction from the total thus calculated. I can now tell the House that the reduction will be £300 million for England and Wales and £35 million for Scotland. These figures may have to be increased when we know the cost of further pay increases and will be finally determined in November before the Increase Orders are made. In coming to this decision a major factor has been how much in present circumstances it is reasonable for the taxpayer to contribute."