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*From the Private Secretary*

18 October 1979

When the Chancellor called on the Prime Minister this morning, they discussed the Chancellor's minute of 17 October about the pay and price assumptions for the 1980/81 Rate Support Grant cash limit.

The Chancellor explained that, while the Treasury's forecast for the RPI from November 1979 to 1980/81 was for a 14½% increase, he was proposing a cash limit based on a price increase assumption of 13%. This would put a further small squeeze on local authority current spending, and would be helpful for the PSBR. As for the pay assumptions, these were set out in paragraph 7 of his minute. On the face of it, these might look on the high side; but it was hard to see how, realistically, lower figures could be used. The Prime Minister said that she fully supported the Chancellor on his price assumption - if anything, she felt it could be lower still. She was also concerned that the pay assumptions might even be on the high side.

Later, the Chancellor raised with the Prime Minister the question of the RSG percentage - whether it should be 61% as recommended by the majority in MISC 21 or some lower figure. The Chancellor said that, if the Prime Minister was willing to support a lower figure, he would like to propose in Cabinet a figure of 58% or somewhere in between. The Prime Minister said that she would indeed support the Chancellor if he were to put forward a lower figure to Cabinet, though she was by no means sure that Cabinet would be willing to endorse anything lower than 61%.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

J. P. LANKESTER

Tony Battishill, Esq.,  
HM Treasury.

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