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PRIME MINISTER

1980-81 RATE SUPPORT GRANT CASH LIMIT  
PAY AND PRICE ASSUMPTIONS

We face a difficult decision on the pay and price assumptions to be used in setting the cash limit on the 1980-81 Rate Support Grant (RSG). I would welcome the opportunity of discussing this with you at our meeting on 18th October. This minute outlines the issues.

2. The RSG is due to be announced on 16th November for Scotland and 20th November for England and Wales. It is planned that Cabinet should take the key decisions on the RSG, including the cash limit, on 25th October. I understand that the latest date for Cabinet's decisions, if the RSG is to be announced on the proposed dates, is 1st November.

3. The RSG cash limit will incorporate Cabinet's decision on local authority current expenditure and provide for pay and price increases during 1980-81. E Committee agreed - E(79)10th meeting - that provision for these increases should be "realistic, not extravagant".

4. The pay and price assumptions will become known when the RSG is announced. The assumptions are critical for the RSG and for public service cash limits generally. On the RSG, local authorities will tend to make larger rate increases if they do not think the pay and price assumptions are realistic.

/On cash limits generally,

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On cash limits generally, the decisions on the assumptions for the RSG cash limit will have a powerful influence on decisions which will be required later for other public service cash limits. More immediately the nationalised industries will have a grievance if their cash limits, which are also published in November, are inconsistent with the RSG.

5. A complicating factor is that no decision has yet been taken on the price forecasts we will publish in November in the Industry Act forecast.

6. It is simplest to consider the pay assumptions separately from prices. On pay there are three components - the outstanding comparability awards, settlements in the current pay round and settlements in the pay round starting on 1st August 1980.

7. All three are uncertain. Treasury officials consider the following a realistic assessment for increases in earnings from the due settlement dates:-

|   |             |
|---|-------------|
| Outstanding comparability awards  |             |
| for teachers  | - 15% - 20% |
| for local authority APT &<br>C Staff                                      | - 12%       |
| for craftsmen   | - 10% - 12% |
| <br>  |             |
| New settlements in this pay<br>round up to 31st July 1980                 | - 14%       |
| <br>  |             |
| New settlements in the next<br>pay round starting from<br>1st August 1980 | - 12½%      |

/8. On prices





8. On prices their assessment is that the RPI will increase by about  $14\frac{1}{2}\%$  from November 1979, the RSG base date, to the average of 1980-81.

9. I would not propose to spell out the detailed figures above to the local authorities. What matters to them is the overall increase in costs for which we are providing, rather than its breakdown. If we used the figures above, they work out at an increase of 14.7 per cent for increases in local authority costs between 1979-80 and 1980-81 as a result of new pay awards and price increases, plus a further 6 per cent for outstanding comparability awards. I would give only these aggregate figures rather than the details in paragraphs 7 and 8, both in public and in the papers circulated to Cabinet, given their wide distribution, although I would ensure that the Ministers directly concerned with local authorities know how the figures are built up.

10. There are two immediate questions:-

- (a) is this assessment realistic?
- (b) whatever we think realistic, should cash limits be set using lower figures?

11. I would not argue with the realism of the assessment, and as a general principle I think that we must set cash limits on a reasonably realistic basis, as the E Committee decided. Unrealistic figures would quickly be shown up as such, and it could become impossible to avoid making many increases in cash limits, as happened this year. The local authorities would discount our assessment of inflation, and make higher increases in rates.

12. But I think we should round the figures down a bit. In any case 14.7 per cent looks unnecessarily precise.

/ For my part

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For my part I would go for 13 per cent and put a further small squeeze on local authority current spending which I believe they could accept. This figure would look well presentationally as it would appear to be well below the current figure for the increase in earnings and in the r.p.i. And it would do something to make good the harm that has been done by the circulation by the press this week of the figure of  $17\frac{1}{2}$  per cent which they are treating as the going rate of public sector settlements.

13. I would welcome the opportunity to discuss these issues with you on Thursday.

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

(G.H.)

17th October 1979

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