

cc local Govt May 79  
(Waste in local Govt)

Prime Minister

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*M. Wood*

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Ref. A0374

MR. LANKESTER

Mainly to note. You could discuss the Treasury forecast with the Chancellor at your weekly meeting with him after Blackpool (see x below). As regards Y in final para, are you content to postpone meeting with Derek Raynes and others until early December?

Pay and RSG: The Next Steps

Following the discussion in E on Tuesday, you may like to know about our follow-up talks with the Treasury, DOE and other Departments, and about the timetable we have provisionally arranged.

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2. There are three external constraints. First, the local authorities need to make a start on next year's rating. For this, they need decisions, confirmed by Parliament in an affirmative resolution before Christmas, about the size of the Rate Support Grant for 1980-81. The key dates for this purpose are the 'statutory meetings' with the local authorities, which are 16th November (Scotland) and 20th November (England and Wales). Because of the lead-time, this requires Cabinet decisions by 25th October.

3. Second, the local authority pay negotiations for the manuals group begin on 20th October, and the settlement date is, nominally, 4th November. In practice, the local authorities will not settle until they know the size of the Rate Support Grant, but they will come under increasing pressure from the unions from 4th November onwards.

4. Third, the Chancellor is required to publish the 'Industry Act' forecast before the end of November.

5. The position has been greatly simplified by the decision at E to go for a single cash limit for the Rate Support Grant next year. The Prime Minister asked us how this would work. Two separate figures will be announced in November. The first will be the Rate Support Grant for 1980-81 which Parliament will be asked to approve in December. This will be in November 1979 prices and will be expressed both in cash terms and as a percentage of relevant expenditure. It will also reveal the distribution formula which determines how much individual authorities get. It will take account of pay increases agreed up to November this year, but not beyond. Second will be

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the cash limit for 1980-81 incorporating the Government's assumptions about pay and price movements next year. This, coupled with the agreed RSG percentage figure, effectively puts the upper ceiling on the amount of any increase order in November 1980. The 1980 increase order can be for a sum smaller than that derived from the total cash limit, but it cannot exceed that without the Government being seen to retreat. It is therefore important that, as E agreed, the cash limit should be 'realistic but not extravagant'. It is the cash limit figure which will be taken seriously by local authorities, in setting their rate demands and in pay negotiations with the unions.

6. It may be possible, within the total cash limit, to tailor the distribution of the November 1980 increase order, so as to penalise the most extravagant authorities. This could be done as part of the transitional arrangements to the new unitary grant system and will be considered in MISC 21 (under the Home Secretary) shortly. (The remainder of the unitary grant proposals are likely to be approved, either in correspondence or by H, well before the Cabinet discussions on 25th October: so that problem disappears.) Provided sufficient progress has been made with the transitional arrangements it should be possible to foreshadow at least the principle of penalising the extravagant in this November's RSG negotiations. Given the decision to go for a single cash limit next year this aspect of the arrangements will be very important presentationally.

7. In terms of work this means that, in addition to the transitional arrangements, MISC 21 has got to consider two quite difficult political issues: the RSG percentage, and the distribution formula. On the first at least, there is likely to be disagreement with the Treasury. There is a general political consensus on the second, but the details remain to be sorted out.

8. MISC 21 has also to consider how to translate the Cabinet's 'volume' decision in July into a cash limit. The 'pay and price' assumptions used to do this are absolutely crucial. The Chancellor will not have a chance to form a view on this until he sees the Treasury forecast on 8th October - just before the Party Conference. He is not likely to reach a final decision until he gets

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back on 15th October. His decisions on the forecast, of course, go a lot wider than the immediate RSG question. But, because of the Industry Act deadline, he has got to bring forward proposals about publication of the forecast to Cabinet on 25th October. This will be the same meeting which considers the Rate Support Grant (and also, incidentally, the question of cash limits for the nationalised industries).

9. In constructing the forecast as it affects RSG the Treasury ought to take account of two quite separate elements: the as yet unknown outcome of the various comparability studies now under way (especially Clegg on Teachers and the local authority/union study of the APTC grades) and the uprating of these pay scales for 1980. On the first we have asked them to consult with the other Departments: Education, Environment, etc. to get as clear an indication as they can about the likely outcome. This would meet the substance of the point Mr. Carlisle made at E on Tuesday. The second depends more closely on the general economic forecasts for next year. There may also be some very informal soundings of the local authorities too: but that is for Ministers to do privately. The object would be to reach a 'realistic' estimate of the likely movement in pay in the public sector on which decisions can be based.

10. MISC 21 will have to start its work before the Chancellor's views on the forecast are known. They will meet first on 15th October. They will meet again on 22nd October, by which time they should know the Chancellor's view on the assumptions to be built in for pay and price movements. They will then make recommendations, which I hope will be unanimous, to Cabinet for 25th October.

11. This is a very tight timetable. It could come badly unstuck if the Chancellor does not like the forecast; or if the forecast points to the need for further reductions in public expenditure next year; or if the Cabinet does not believe that the resulting cash limits can be sold to the local authorities or imposed on the unions. We shall have to face up to these problems as and when they arise. Meanwhile the Prime Minister might like to know that this is the provisional game plan. I think it would be useful if she were to discuss with the Chancellor of the Exchequer, immediately after the Party Conference, his

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ideas about the forecast generally and about public sector pay in particular. Ideally, this should be somewhere between 15th and 22nd October, so that MISC 21 can take account of any points she wishes to put in at that stage.

12. By way of postscript, I think that all this activity on the local authority front points to some postponement of the 'Rayner' initiatives as they affect local authorities which did not actually get discussed when Sir Derek Rayner and I saw the Prime Minister later on Tuesday. My own provisional view is that, given Sir Derek Rayner's absence through most of November, the Prime Minister should aim at a meeting with him and with the local authority Ministers early in December. By then we shall have some feel for the local authority financial position next year, and be better able to judge how to launch a fresh drive on 'efficiency' in that area.

*J.H.*

PP

(John Hunt)

5th October, 1979

cc local Govt May 79  
(Waste).  
Evan P.

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10 DOWNING STREET

*From the Private Secretary*

8 October 1979

*Dear Madam,*

Pay and RSG: The Next Steps

The Prime Minister was grateful for Sir John Hunt's minute of 5 October on the above subject. She has noted the various points in the minute, including the tight timetable for the setting of the RSG and the related cash limit; she proposes to discuss the Treasury forecast with the Chancellor as soon as possible after this week's Party Conference; and she is content to postpone her meeting with Sir Derek Rayner and the local authority Ministers until early in December.

*M*

*T. Vile*

Martin Vile, Esq.,  
Cabinet Office

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