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Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

20 October 1986

Dear Chief Secretary.

NBPN at this stage

#### TEACHERS' PAY

In parallel with our discussions in MISC 122 concerning the Government's reaction to the Main report and the equivalent handling of teachers' pay and conditions of service in England and Wales, I have to raise with you a more technical point which affects the outcome in Scotland only. I refer to the fact that our officials have, I believe, been unable to resolve a difference of view about the case for a disregard (for grant penalty purposes) in respect of that element of current expenditure to which local authorities are already committed by reason of the interim pay award to Scottish teachers, ie pending Main. Local authorities estimate that the cost of that award will be £27M in excess of the allowance made in their budgets for the current year.

If we are to deliver the objective of securing peace in the schools, we need to find ways to carry the local authorities with us when we present our response to the Main package. When the interim award was made in Scotland I made it clear that the Government would not give any disregard in respect of 1985-86. As for 1986-87, I explicitly reserved the Government's position until Main had reported. In the event, Main included a specific recommendation that the interim award should stand. In these circumstances it would frankly be impossible for me to defend penalising the local authorities for paying the interim settlement when the Government proposes to endorse Main with its higher pay levels and resource local authorities accordingly.

COSLA of course will wish not only a disregard for expenditure on the interim settlement but also grant at the appropriate level. They will argue that since we have extended this year's grant percentage into next year as a measure of stability, that percentage ought certainly to apply

to additional interim expenditure which is part of the price of ending disruption. In order to avoid embarrassment to colleagues I am prepared to resist the claim for grant, but if no disregard is given the Scottish system of grant penalties will mean that ratepayers are doubly penalised.

I am of course bearing in mind the position of colleagues in England and Wales who have not sought a disregard in respect of the interim pay settlement south of the border. But there is a crucial difference. Any overspending by English and Welsh local authorities will not lead to any overall loss of grant in 1986-87 (although there will be some reallocation amongst authorities.) Ratepayers as a whole will therefore not face the double cost that those in Scotland will. A disregard in Scotland this year simply maintains Scottish authorities in the same position as their southern counterparts.

The purpose of our grant penalty regime is of course to encourage authorities to spend within provision by penalising those who do not. There can be no justification for using this control measure against authorities which are meeting a pay award which we are endorsing. The situation is closely comparable to Police pay where we provide a disregard (and extra grant) for any Police pay increase over the level provided for in the RSG settlement. Our critics will be quick to recognise the clearly separate treatment of teachers if we do not grant the disregard.

I understand that in resisting the case for a disregard your officials have referred to a condition included in your letter of 11 July about grant penalties in the current year. Our discussions of 10, 14 and 16 July - in the context of which that letter was written - were essentially concerned with finalising the long drawn out exchanges about the quantum of grant penalties for 1986-87 and the RSG settlement for 1987-88 (exclusive of Main). I must say that I find it hard to believe that you would now wish to found on this when we are poised to accept the Main report and work for all the benefits it would bring. Besides, both MISC 122(86) 14 and 16 contain statements to the effect that no grant penalties should arise for local authorities because of the implementation of Main; if that principle, with which I agree, is to be properly applied we must allow disregard on the costs of the 5½% interim settlement which Main has now endorsed.

I have to say that if you can not meet me on this point I will be in grave difficulties in putting a positive presentation both to COSLA and the Scottish public. The teachers will be looking for an opportunity to wreck the prospects of a settlement if they detect lack of conviction on the part of the Government; and the authorities' desire to make progress will be weakened if we do not play our full part. I am committed to meet COSLA on 24 October and I have been alerted to their intention to press for the disregard quite independent of the question of resources tied to the rest of the Main pay package.

I am copying this to the Prime Minister and other members of MISC 122.

*Yours sincerely*  
*Malcolm Rifkind*

MALCOLM RIFKIND

Approved by the Secretary of State and signed in his absence

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