



FROM: CHIEF SECRETARY  
DATE: 28 October 1986

PRIME MINISTER

TEACHERS' PAY: STAGING OF SETTLEMENT

MISC 122, at their meeting on 27 October, asked me to seek to reach agreement with the other Ministers concerned on the staging of the Government's offer, and the consequent increases in provision for local authority expenditure and in Exchequer grant.

2 Following a full exploration of the issues, we have reached the reluctant conclusion that the local authorities cannot be assumed to have already in their budgets for teachers' pay more than the 3.75 per cent allowance for higher costs and prices on which the 1987-88 RSG settlement is explicitly based. Since the additional provision will be clearly identified, the Government cannot avoid saying how it is calculated: I fear it is now fairly clear that there is no basis on which we could justify a higher offset - say the 5.75 per cent hitherto contemplated - without calling the RSG settlement into question.

3 The result of this is that the additional provision, for any given staging, is £115 million higher for England and Wales than we have previously contemplated. In order to contain the costs in the light of this the Education Ministers and I have agreed that the first stage should be 8.2 per cent on 1 January 1987; with the second stage of 8.2 per cent on 1 October 1987. They consider that to impose further delay, in payment of the second stage would not be acceptable to teachers and parents. But the additional provision for England and Wales is £490 million, as against MISC 122's objective of £400 million.

4 By making the smaller offset of 3.75 per cent we are taking some of the pressure off ratepayers, given that local authorities will in reality have been planning on increases for teachers well in excess of 3.75 per cent. I have therefore agreed with the Education

Ministers and the Environment Secretary that, as a signal of the Government's determination to maintain downward pressure on local authority expenditure, and to give the authorities an added incentive to find offsetting savings, particularly in the field of Education, the additional grant should be restricted to £200 million. Even at this level this increase represents more than twice the amount implicit in Keith Joseph's offer last year. This grant would be paid through a Supplementary report, and would go only to education authorities. It is some £30 million less than authorities would have received had we stuck to the settlement grant percentage in England of 46.4 per cent. But, on balance, authorities and ratepayers, benefit from the fact that we are basing provision on a spending assumption of 3.75 per cent rather than the 5.75 per cent we envisaged earlier.

5 This increase in provision of £490 million (plus the addition for Scotland) is, of course, substantially larger than Treasury Ministers have sought throughout these discussions, and can only be accommodated with the greatest difficulty. The Chancellor of the Exchequer and I could not contemplate any further increase at all. The Education Secretaries have agreed to this.

6 The provision and grant for Scotland would reflect the same staging and would thus be on comparable terms.

7 I am copying this minute to the other members of MISC 122 and to Sir Robert Armstrong.

*Jim Ruth*

pp JOHN MacGREGOR

*(Approved by the Chief Secretary  
and signed in his absence).*

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