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PRIME MINISTER

Meeting with the Chancellor - Thursday 18 October, 0845

I understand the Chancellor may want to discuss the following issues with you tomorrow morning:

i) RSG Cash Limit for 1980/81

There is a minute on this at Flag A. This proposes certain assumptions on pay and prices for working out the cash limit. The pay assumptions (in paragraph 7) consist of estimates of what will be the effect of the outstanding Clegg awards, an assumption of 14% in other settlements up to end July 1980, and 12½% for settlements for the following year. On prices, the Chancellor proposes 13% - rather less than the Treasury's forecast/assumption for price increases generally. The purpose of this is to put some additional squeeze on the local authorities. MISC 21 have decided (see minutes at Flag B) that the RSG percentage should be 61%, as against 58% proposed by the Treasury. This, if endorsed by Cabinet, will reduce pressure for rate increases; on the other hand, it will mean more public expenditure than the Treasury were counting on. In order to soften the public expenditure effect of a 61% grant, it would be wise to have a tight cash limit, and therefore the Chancellor's proposals on pay/price assumptions seem right. (If they are too tight, the local authorities will not believe the pay/price assumptions on which they are based; and will again put up the rates by an excessive amount.)

ii) TV Licences

The Chancellor has agreed the Home Secretary's proposals for TV licence increases, which the Home Secretary discussed with you. These call for a £9 increase for colour sets from November and a £2 increase for monochrome sets; and they are to last for 2 years. You made various suggestions

/ to the Home Secretary

to the Home Secretary (record at Flag C) - such as that there should be no increase for monochrome sets if the monochrome licence falls largely on pensioners. I think it would be best to wait for a minute from the Home Secretary, in which he will no doubt cover your points, before taking any final decision.

(iii) NEDC Membership

You discussed this last time, and suggested that Sir Leslie Murphy should not be re-appointed and should be replaced by somebody from small businesses and that Mr. Shanks should be replaced by Daisy Hyams.

(iv) Gas Prices

The Chancellor will show you figures on the PSBR effect of delaying the gas and electricity price increases by one year - as suggested in E this afternoon.

(v) Defence Expenditure

There is a dispute between the Treasury and MOD about the interpretation of the 3% NATO commitment. The argument is continuing to range (as reflected in three minutes which are in the Cabinet folder). You told the Chancellor earlier that you would support him against Mr. Pym.

At last week's meeting with the Chancellor you asked for a note on additional demands for finance coming forward from the nationalised industries, Rolls Royce, British Leyland, etc. This is at Flag D. It shows that there are some substantial potential demands - in 1981/82 as much as £850 million - and this is on the assumption that the Chief Secretary's proposals to Cabinet for "cutting" expenditure are agreed, including the energy price increases. The note simply reinforces the importance of getting as much of the Chief Secretary's proposals on public expenditure through Cabinet as possible.

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