

Prime Minister

de la Winton
Mr Dyson



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

I think this is probably right, even though we may have a teachers' settlement on Monday (see my separate note) Flag A Agree?

18 May, 1979

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ANNOUNCEMENT OF PUBLIC EXPENDITURE CUTS

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The Chancellor wanted the Prime Minister to be aware of his most recent thinking on the presentation of some of the Cabinet's decisions on reductions in public expenditure, following discussions he has had last night and this morning with the Secretaries of State for Education and for the Environment. You will already have received from Mr. Carlisle's Private Secretary the text agreed between the Chancellor and the Secretary of State covering the Government's broad approach on RSG and pay settlements. There are however severe limitations on the progress likely to be made in the teachers pay negotiations in the absence of any clear statement of the Government's intentions regarding RSG. Furthermore, it will be difficult, and not at all useful, to try to sustain the position where the Lord President will have revealed to the Civil Service Staff Side the position of central government pay-related cash limits, whilst the Government will have made only qualitative statements about reductions in RSG.

The Chancellor therefore proposes, subject of course to the Prime Minister's views, to include in his speech during the Debate on the Address on Tuesday 22 May a passage on the following lines:

- (i) Some general remarks about the Government's approach to public expenditure.
- (ii) The Government's intention not to increase cash limits to take account of prices increases larger than originally provided for, and to increase the wage-related elements of central Government cash limits by 3 per cent less than would be needed to cover the Civil Service pay settlement in full.
- (iii) The intention to reduce RSG cash limit for 1979/80 by at least £300 million before allowing for any offset to the teachers pay settlement

Think this is wrong. It will result in a massive amount attaching to teachers pay.

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The Chancellor would say that the Government will also be making some specific expenditure cuts but he would give no details; that is for the Budget statement.

The Chancellor is not worried by this minor pre-emption of his Budget statement. In any event, it is virtually certain that details of these decisions will leak out after the Lord President has seen the Civil Service Staff Side, and Mr Heseltine has spoken to the local authority organisations. The Chancellor would present the reduction in RSG as the necessary consequence of two factors; the need for the local authority sector to carry a share of the Government's general reductions in public expenditure, and the Government's decision to to offset fully the level of pay settlements in this sector.

I am copying this letter to the Private Secretaries to the Lord President, the Secretaries of State for the Environment, Education and Scotland, and to Martin Vile.

Yours wv,

MH

(MARTIN HALL)

ms.



18 MAY 1979

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cc LPO
DGR
DSE
CSG
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JS

10 DOWNING STREET

From the Private Secretary

21 May 1979

Mr Martin.

ANNOUNCEMENT OF PUBLIC EXPENDITURE CUTS

The Prime Minister has seen your letter of 18 May in which you indicate that the Chancellor proposes to include in his speech tomorrow during the Debate on the Address a passage on public expenditure.

The Prime Minister agrees that the Chancellor should make some general remarks about the Government's approach to public expenditure, and that he should also announce the Government's intentions on cash limits in relation to central Government expenditure. However, she thinks that it would be unwise to announce that the RSG cash limit is to be reduced by at least £300 million before allowing any offset to the teachers' pay settlement. Her view is that if this figure is announced now, the amount of offset attaching in due course to the teacher's pay settlement will become known; and she thinks it would be best to avoid this.

I am sending a copy of this letter to the Private Secretaries to the Lord President, the Secretaries of State for the Environment, Education and Scotland, and to Martin Vile (Cabinet Office).

Yours etc.

T. Heath.

Martin Hall, Esq.,
HM Treasury.

JS