

CONFIDENTIAL

PRIME MINISTER

COMMUNITY CHARGE AND THE RPI

When you saw the attached papers over the weekend, you asked what the arrangements were for establishing a new Advisory Committee. The position is that each Advisory Committee is set up with a specified remit. That for the present Committee has now been largely completed, although one remaining issue - the treatment of foreign holidays in the RPI - has still to be settled. The latest estimate is that this might be completed in about three months.

Thereafter it would be open to Ministers to decide at any time to establish a new Committee with appropriate membership and a remit. You and the Chancellor have discussed this possibility in the past, but without specifying any time at this stage. Although the Chancellor has this firmly in mind, he has not mentioned it to Sir Jack Hibbert.

Are you content for me to respond to the Treasury letter by saying that, reluctantly, you accept the conclusion that the transitional relief and student discounts issues should not be pressed further at this stage; but stressing privately to the Chancellor that you will want to keep the possibility of a new Advisory Committee under regular review?

PGC.

PAUL GRAY

12 March 1990

Yes

C:\ECONOMIC\RPI.DAS

CONFIDENTIAL

PRIME MINISTER

THE COMMUNITY CHARGE AND THE RPI

You will recall that you asked Terry Burns vigorously to pursue the treatment of community charge transitional relief in the RPI. I had mentioned to you a couple of times in recent weeks it seemed unlikely he would achieve very much, and the attached letter from the Chancellor's Office, enclosing a paper by Sir Jack Hibbert, confirms just that.

I suggest you don't bother going through Hibbert's note in detail. You will not find it persuasive.

But the key points on all this seem to me:

- how ever regrettable it now seems, the pass was sold on the key point in 1988. Ministers agreed then with the Advisory Committee - indeed because of the index-linked gilts point, they actually encouraged the Committee - that the community charge should be in the RPI. They also accepted that main community charge rebates should not be counted.
- it is not practical at this late stage to go back on that.
- so, the outstanding question is whether it would be worth pursuing the narrow issue of transitional relief and student discounts. These are worth only 0.15 per cent on the index this year. Even so, such a change might be worth having if that reduction in the RPI was sustained in later years.
- but it would not be. Transitional relief is being phased out. So the reduction in the RPI this year would be matched by an increase in the year on year rate next year. So getting transitional relief knocked out of the index this year could be a pyrrhic victory.
- so it would be better to leave well alone until we have a new Committee.

*I specifically did not - but asked for it to be referred to the Committee. She is ready to accept it.*

*RCCG.*

PAUL GRAY

9 March 1990

*What are the arrangements for a new committee?*