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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

12 April 1990

Barry Potter Esq
10 Downing Street
LONDON
SW1

Dear Barry

RPI AND THE COMMUNITY CHARGE

The Chancellor has considered carefully the Prime Minister's minute of 9 April. He shares her concern over the likely level of the RPI in April and particularly the artificial element created by the inclusion of the Community Charge. He would like to discuss the issues at the seminar on Tuesday, and, as a basis for that discussion, has commissioned the attached note by Sir P Middleton which sets out the options and problems in detail. The Chancellor will be considering it over the weekend.

The Chancellor is also considering the Prime Minister's suggestion on the community charge and will be responding to that next week.

Yours

JG.

JOHN GIEVE

SECRET AND PERSONAL

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Copy 3.... of 10.... Copies.

FROM: SIR PETER MIDDLETON

DATE: 10 April 1990

CHANCELLOR

cc. Chief Secretary
Sir T Burns
Mr Scholar

There are now so many issues before us concerning the Retail Price Index, that a comprehensive note would help.

The Nature of the RPI

Community Charge is not a price.

2. The RPI is widely used. It is the most commonly accepted measure of consumer price inflation. It forms the basis of innumerable contracts in the public and the private sector. It features in wage bargaining (though less than it used to in the 1960s and 1970s). It forms the basis of many social security benefits, tax allowances and thresholds, and indexed financial instruments.

3. The RPI is constructed using a series of conventions which have grown up over the years. The Index has been supervised by an Advisory Committee. This is not a standing Committee. Committees have been appointed for specific tasks. But such a Committee considered every substantive change to the RPI since 1947. Only once has a recommendation been rejected - and then, after consultation with the Committee, for reasons of technical impracticality. The Committee does not however have any standing in its own right. It answers to Ministers. Since the RPI became a CSO responsibility last year, the Chancellor of the Exchequer has been the responsible Minister.

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4. Public confidence in the RPI is high; special interest groups have not mounted a successful attack on it. Its credibility and practical utility is enhanced by the fact that, unlike other statistics, it is not revised retrospectively.

- but we have been told publicly when it was found to be higher than the figures

Fundamental Problems

5. The main difficulty with the RPI is that it does not provide a satisfactory measure of consumer price inflation for policy purposes. The most obvious weakness for many years has been that the RPI has included mortgage interest payments as a proxy for housing costs. So changes in interest rates, made for monetary policy reasons, have a perverse, immediate effect on the price index, which can be reflected in wage behaviour and public expenditure. This is a substantial disadvantage, and one which few of our competitors suffer.

6. Second, in the Community Charge, we have devised a unique device to raise revenue. It is included in the RPI, where it is regarded as a charge for local authority services, but not in the GDP deflator because it is regarded as a special form of direct tax, not a tax on expenditure. This means that the high gearing which the charge has in relation to changes in local expenditure results in a heavy impact on the RPI.

7. The combination of these two factors is presently producing monthly RPI figures which exaggerate the underlying inflation rate to a significant degree. Next year, when they move into the base, the apparent fall in inflation will be similarly exaggerated.

Solutions and obstacles

8. Political responsibility for the Index is vested in the Chancellor of the Exchequer. The simple solution would be for the Government to announce that it was going to change the composition of the Index. Other countries have done this. The USA switched from MIPS to imputed rent in 1984 and Australia has recently dropped MIPS from their index. There are however a number of obstacles to this course of action.

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(a) **The RPI Advisory Committee**

The present treatment of both mortgage interest and the Community Charge was accepted by Ministers on the advice of the RPIAC. The Committee is still finishing its work programme with further meetings in May and June. It would undoubtedly be hostile to changes. That it would be so can be confirmed by looking at the membership of the Committee in Annex A. The Committee contains a large number of representatives of special interest groups, a group of civil servants whose status is uncertain and four independent experts. There is no specialist statistician on the Committee, though, since last summer, their Chairman has, of course, been a statistician.

It is difficult to believe that such an arrangement does not impart an upward bias to the RPI. General acceptance of the Index has been bought in part by erring on the high side.

(b) **The Central Statistical Office**

The CSO support the judgements of the RPIAC.

(c) **Social Security and Tax**

The fact that the special interest groups all have a say in the construction of the RPI has helped the Government resist pressure to uprate benefits by faster growing indices. Annex B shows the benefits indexed to the RPI. The Rossi is used for income related benefits because the poor receive help for housing separately; it too is under pressure. Ministers have therefore always been apprehensive about casting doubt on the RPI for fear of something much more expensive. If we depart from the RPI, there is no clear benchmark short of earnings. If changes in the RPI resulted in an earnings index being applied to all benefits the cost would be up to £1½ billion a year. This consideration played some part in Ministers' acceptance of the advice that the Community Charge should be included in the RPI.

(d) **Indexed Gilts**

The wording of the prospectus on which IGs have been sold means that if a change is made in the method of calculation of the RPI, which the Bank of England judges materially detrimental to the interests of IG holders, then we have to redeem all existing IGs, at a current cost of around £17½ billion. The borrowing could be refinanced, but only on more expensive terms. Early redemption would have to be at par value. The difference between the par value of IGs and their current market value - which is in effect the cost of early redemption - at present stands at around £3½ billion. This would be a particularly bad deal for the Exchequer and would carry considerable monetary risks. This consideration also played a part in our acquiescence to the present treatment of the Community Charge in the RPI.

Solutions

9. We had been considering three ways of tackling these inhibitions. But they were all long term in nature.

(i) **Reforming the RPIAC**

We have assumed that we are committed to an RPIAC following the Prime Minister's answer on 1 December 1988 (Annex C). Legal advice from the Treasury Solicitor also suggests that if important changes in the RPI are not endorsed by the Committee there is a risk of legal challenge. The public generally appear to have a legitimate expectation that such consultation would take place.

But we do not need to keep <u>this</u> RPIAC. We could replace it by an expert Committee - say four expert statisticians and a few distinguished economists as users. They would be asked to advise on the construction of an index against an agreed definition of what it was trying to measure. The CSO, though they much prefer the Committee they presently have, would find it difficult to oppose such a suggestion. We should still be at risk of advice we do not like - but at least it should be without upward bias. We could make moves in this direction when the present RPIAC finishes its work programme in the summer. There would, of course, be a terrific fuss from the excluded interest groups.

(ii) **<u>Redeem the IGs</u>**

We plan to convert existing IGs into new IGs with a more satisfactory prospectus clause. But we could only do this without excessive loss at a time when the market value of IGs is close to their par value. This means when real interest rates are much lower than they are at present.

(iii) **<u>An International Initiative</u>**

As our RPI is out of line with many others, we stand to gain much and lose little from an agreed international methodology. The best forum for an international approach would be the EC. The others (the ILO and OECD) would involve far more countries. It would be difficult to get agreement to move at all, and virtually impossible to press ahead with any degree of urgency. The EC is a smaller, more coherent set of countries. And there is a good political reason for taking an initiative - in the context of economic convergence and the need to measure convergence in inflation consistently. The Central Bank Governors are known to be thinking about this already. Moreover, only Ireland of the EC countries has the mortgage rate in its RPI. None, of course, have an equivalent to the Community Charge.

Even in the EC it will need a political push to get rapid action. Eurostat has already considered a proposal on these lines at Director General level. It was unanimously rejected. Even with a political push it could take some time for results to emerge - countries like Greece have very crude statistics. And for countries such as Germany and France, who believe they have satisfactory indices, the risks of a study go the other way. Housing is a particularly difficult area in every country.

More Immediate Problems: The April RPI

10. None of these longer term options will do anything much to help minimise the impact of expected high RPI figures. But, if any changes are to be made quickly, consideration has to be given to whether any of them will provide cover - or should be wrapped up at the same time.

The Outlook for April

11. The CSO estimate that RPI inflation could reach 10 per cent in April compared with 8.1 per cent in March. Treasury estimates do not contradict this.

12. The increases in specific duties and excise taxes in this year's Budget will add ½ per cent to the level of the RPI in April. This comes after no revalorisation last year (itself a counter-inflation measure), so will also add ½ per cent to the inflation rate as well. Rents add another 0.1 per cent. And so, too, does a pick up in underlying marketed price inflation.

13. But by far the biggest impact, nearly 1.2 per cent, is estimated to come from the Community Charge. The Community Charge component is likely to rise by 37 per cent in April relative to April 1989. This reflects a level of £351 for the average GB community charge per head in April 1990 compared to £256 for the average level of domestic rates per head in April 1989. The £256 itself is a little lower than the £259 that CSO were advising before the Budget. (It seems the figure they previously gave the Treasury was the average for 1989-90 as a whole. The figure for April 1989 is a little lower because new houses coming into use over the rest of the year pushed up the average for the year as a whole.)

14. To clear up a potential misunderstanding, this revision (from £259 to £256) does not mean that CSO have revised down their underlying domestic rates figure for last year, nor that the RPI was consequently overstated throughout 1989-90. The figure for domestic rates which has always appeared in the RPI is the average household rates poundage. That figure was £572 from April 1989 and has not been revised.

Community charge capping

15. The CSO outlook for April does not make any allowance for charge-capping in the twenty local authorities identified by Mr Patten. DoE have advised CSO that, legally, local authorities are required to collect the community charges they originally announced until the new capped figures are confirmed. So, whatever happens, it seems that charge-payers will initially be liable to the uncapped charges. Legal questions apart the CSO, too, would ordinarily take the uncapped figure. This would follow previous RPIAC guidelines for rate capping which imply that the uncapped figures are the appropriate figures for the RPI until the new capped figures are confirmed.

16. There is however still a case for taking the capped figures into account and Treasury officials have informally put the case to the CSO. The CSO are looking hard at whether they can square their existing guidelines with using the capped figures

immediately from the April index. If we did implement the charge-capped numbers immediately, the RPI figure would be lower by up to 0.1 per cent in April.

Transitional relief

17. If we get transitional relief scored in the RPI, it would take about another 0.1 per cent off the April inflation figure. Sir Terence Burns has already approached Sir Jack Hibbert on this. The CSO view, based on past precedent and the recommendations of the RPIAC, is that transitional relief does not represent a genuine price reduction. It is available only to selected groups and is a subsidy funded by a third party (central government) rather than the local authorities themselves. Both these features, on past conventions, require it not to be scored in the RPI.

18. We can certainly broach the subject again. But there are now additional complications. The Financial Secretary answered a PQ from Tim Smith as recently as April 4 (Annex D). This followed CSO officials' appearance before PAC (of which Tim Smith is a member) on 28 March. The reply explains the intended CSO approach and acknowledges that:

> "Transitional relief does not qualify [to be scored as a price reduction] on either grounds as it is available only to consumers fulfilling certain criteria and is funded not by the local authority making the charge, but by a transfer from central government".

19. Moreover, the CSO are due to put a further note to the PAC on the treatment of transitional relief next week. This would be an expanded form of the PQ citing previous RPIAC reports to justify the proposed treatment. If we are to do anything about transitional relief, therefore, we must act very quickly.

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SECRET AND PERSONAL

Community charge rebates

20. There is also the question of the very extensive system of rebates available to millions of people, which reduce their community charge liabilities. These will not be scored as a reduction in price, again because the rebates are not available to all consumers and because they are funded by a third party. This was recommended as a general principle by the RPIAC in 1986 and accepted by the then Secretary of State for Employment (the previous guardian of the RPI). It was confirmed specifically in the community charge context by the Secretary of State for Employment last year. Paragraph 7(vii) of the 1989 RPIAC report (cm 644), which he accepted, concluded:

Neither are sale prices – for shops! [illegible]

> "However, income related rebates and the concession whereby students pay only 20 per cent of the full Community Charge should be regarded as subventions on income rather than reductions in price".

Sir Jack Hibbert strongly endorsed this approach at his recent PAC appearance.

21. We could reopen the issue; there is certainly a very strong case. Throughout the 1950s, 60s and 70s rent and rate rebates were treated as price reductions. This principle was endorsed by the RPIAC in their reports of 1971 and 1974. The same principle (based essentially on the prices actually paid by consumers) operated until it was changed upon the recommendation of the Committee (and its Technical Working Party) in 1986. Then the principle became prices charged by the supplier, and the figure gross of rebates was used consistently throughout the RPI.

22. If we did pursue this option, CSO would, of course, have to score rebates off the domestic rates per head figure in April 1989 (though not off the rates poundage figure that has to be used in the RPI for 1989-90) to get an analogous figure for comparison. But that in itself presents little problem. Hasty Treasury calculations (which would need to be confirmed by CSO) suggest

that the effect would be to reduce the April inflation figure by 0.15 per cent.

23. If we were successful on all three fronts (charge-capping, transitional relief and the treatment of rebates), we could reduce the April inflation rate by up to 0.4 per cent. It would give a good chance of keeping the RPI below 10 per cent, but it would not guarantee it.

What else can be done to reduce the April inflation figure?

24. If we do not proceed with all the potential initiatives on the treatment of community charge in the April RPI, there is virtually nothing further we can do to avoid a figure around 10 per cent (perhaps remaining at the same level in May and June). The only other options are all extreme. They might include:

- Reducing or eliminating the Budget revalorisation measures.

- More extensive charge-capping.

- Cuts in VAT;

- Cuts in regulated prices (Nationalised industries and privatised utilities subject to government regulation).

- Cuts in local authority rents (rent-capping).

25. These are all extreme and hardly operationally feasible in the time available. In the case of electricity it would have very serious implications for privatisation. Each would involve to varying degree increased public expenditure to finance them and a reduced PSDR, which would be unhelpful in the substantive task of getting inflation down.

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Conclusions

26. The object of this note was to set out a complex issue as simply as possible. However one looks at it, this is difficult territory. It is strongly in the Country's interest to have a better formulated RPI. And we should certainly pursue the various initiatives set out in paragraph 9.

27. But it is difficult to avoid the conclusion that there are great obstacles in the way of making changes which would influence the April figure. This would mean tackling the treatment of the Community Charge reliefs while the RPIAC is still in session. It would involve a decision not to consult them, for the first time ever, on a change initiated by the Government. The tumult which this might cause could be intense. We should be at risk in the Courts and from the Bank on indexed gilts. It might add to the demands for more generous uprating. It could also make double digit inflation much more of an issue without completely removing the risk of it happening. It is difficult to believe that this would be good for the markets.

28. Apart from the fuss, which seems certain, these are all risks which Ministers will wish to judge. They would be undertaken to bring about a very small change in the RPI, whereas the more cautious approach in paragraph 9 is aimed at a more fundamental change.

R J Evans pp.
P E MIDDLETON

ANNEX A

MEMBERSHIP OF THE RETAIL PRICE INDEX ADVISORY COMMITTEE

SIR JACK HIBBERT	CHAIRMAN
P DWORKIN	
D SELLWOOD	SECRETARIES (CSO)
M HARGREAVES	
D LEA	TUC
A SENTANCE	CBI
B J CARROLL	BOOTS OPTICIANS, nominated by British Retailers Association
J FRERE	National Federation of Consumer Groups
T HOYES	AGE CONCERN
J HUGHES	NATIONAL CONSUMER COUNCIL
J WINWARD	CONSUMERS' ASSOCIATION
B TENNANT	NATIONAL CHAMBER OF TRADE
J TILLEY	COOPERATIVE UNION Ltd.
Mrs J VARNAM	WOMEN'S INSTITUTE
Prof J PICKERING	PORTSMOUTH POLYTECHNIC
Prof A ATKINSON	LSE
Prof H ROSE	LONDON BUSINESS SCHOOL
W ROBINSON	IFS
J HIBBERD	H M TREASURY
J FLEMMING	BANK OF ENGLAND
N GLASS	DSS

As at 1st April 1990.

ANNEX B

UPRATING: PRICE INDEX USED IN UPRATING BENEFITS

BENEFIT	UPRATING INDEX USED
Retirement pension	RPI
Earnings related pension (SERPS)	RPI
Widows' Benefits	RPI
Invalidity benefit	RPI
Unemployment benefit	RPI
Sickness benefit	RPI
Maternity allowance	RPI
Industrial Death benefit	RPI
Industrial disablement benefit	RPI
Statutory sick pay	RPI
Statutory maternity pay	RPI
Invalid care allowance	RPI
Attendance allowance	RPI
Severe disablement allowance	RPI
War pensions	RPI
Mobility allowance	RPI
Child benefit	RPI
One parent benefit	RPI
* Family credit	Rossi
* Income support	Rossi
* Housing benefit threshold ø	Rossi
* Community charge benefit	Rossi
Christmas Bonus	Not uprated

* Income-related benefit

ø Housing benefit itself is not uprated by an index, but matches actual costs.

ANNEX C

exceptional circumstances applied, in the last negotiations. I have made it clear that I want to see MCAs phased out by 1992. I have succeeded in getting the Community to agree to that. I shall be persisting in that approach.

PRIME MINISTER

Engagements

Q1. **Mr. Andrew Bowden:** To ask the Prime Minister if she will list her official engagements for Thursday 1 December.

The Prime Minister (Mrs. Margaret Thatcher): This morning I presided at a meeting of the Cabinet and had meetings with ministerial colleagues and others. In addition to my duties in the House, I shall be departing immediately this afternoon to attend the European Council at Rhodes.

Mr. Bowden: Will my right hon. Friend take this opportunity to repudiate claims so assiduously put about by the Opposition that the failure of the Irish Government to expedite an extradition order in respect of Father Patrick Ryan is due in any way to an error on the part of the Crown Prosecution Service?

The Prime Minister: I understand that very shortly my right hon. and learned Friend the Attorney-General will be dealing with these matters in response to a private notice question, and will deal with them fully. I can deal with them only generally. Any suggestion that the failure to secure Ryan's arrest is attributable to any fault of the CPS is absolutely unwarranted. The fact is that the Irish authorities could have sought a provisional warrant from early last Friday evening onwards. The Irish Attorney-General has been in a position to authorise the backing of the original warrants since they arrived in Dublin early on Saturday. It is now over five days since all the relevant documents were sent to Dublin. No questions have been raised as to the sufficiency of the statements of fact and law, although my right hon. and learned Friend the Attorney-General had told his opposite number that he was immediately available.

Mr. Kinnock: Does the Prime Minister share the view of the Chancellor of the Exchequer that mortgage interest payments should be withdrawn from the retail prices index?

The Prime Minister: I understand that my right hon. Friend the Chancellor of the Exchequer made it clear that there was no immediate proposal to exclude mortgage interest payments from the RPI. **As the right hon. Gentleman is aware, there is an advisory committee which considers any changes to the RPI.** The Government's view is well known. We include mortgage interest payments in the retail prices index, which very few other countries do. It obscures the underlying trend and produces the perverse effect that the tightening of monetary policy causes an apparent rise in recorded inflation. However, the payments are included, and the right hon. Gentleman will be aware that they can have a perverse effect both when the RPI goes up and when it comes down. If the payments were excluded, an alternative measure would need to be added. There is no immediate proposal to exclude them.

Mr. Kinnock: We remember when there were "no immediate proposals" to break the link between pensions and earnings. We remember, too, when there were "no plans" to add new NHS charges. We recall also when there were "no immediate proposals" to freeze child benefit payments. Against such a background of mendacity—*[Interruption.]*—who can believe that the Prime Minister has no plans—[HON. MEMBERS: "Withdraw."] Yes, it is true. It is true.

With such a record of assiduous mendacity, who can believe that the Prime Minister does not want to take mortgage payments out of the RPI?

Mr. Marlow: The right hon. Gentleman called my right hon. Friend the Prime Minister a liar. He should withdraw it.

Mr. Speaker: Order. Allow me to deal with this. The right hon. Gentleman used the word in a general sense and not attributable to the Prime Minister personally.

Mr. Marlow: Coward.

Mr. Speaker: I hope that that word was not directed towards me.

Hon. Members: It was.

Mr. Marlow: I was using the word in a general sense, Mr. Speaker, but if you so wish—*[Interruption.]*

Mr. Speaker: Order. If the hon. Gentleman presumed, and I am sure that he would not do that, to call me a liar, I hope that he will withdraw that immediately.

Mr. Marlow: I am sorry, Mr. Speaker. I did not hear what you said, but if you so wish, I will certainly withdraw it.

The Prime Minister: And we remember when there was a promise to increase pensions by either the amount of inflation or by having regard to earnings. The pensioners got neither, because the actual increase in inflation under the Labour Government was too great for Labour to honour its promises and the Labour Government did the biggest cheat on the pensioners that has ever been known since pensions were started.

Mr. Kinnock: That was a pathetic dodge from the queen of frauds. Even if household costs do not figure large in the Thatcher family, they do figure large in families in the rest of Britain. Will the Prime Minister accept that any British retail prices index which does not include mortgage payments would be fraudulent? Is it that which attracts the Prime Minister?

The Prime Minister: The biggest fraud on the pensioners cost them the equivalent of £1 billion in 1976 under the Labour Government. Pensioners now have more certainty of their basic pension and of its increasing with inflation than they have ever had before. The right hon. Gentleman knows that mortgage costs are included in the retail prices index. If they were not, as my right hon. Friend the Chancellor of the Exchequer said, there would have to be some other measure of housing cost in the RPI. **Any alternative measure would have to go to the advisory committee for consideration.** A measure went to the advisory committee on mortgage interest some time ago and the committee turned it down, so mortgage interest payments are in the present retail prices index.

ANNEX D

4. From 1990-91 husbands and wives in two-earner couples will be taxed independently. Previously the tax liability of two-earner couples depended on their joint income. To permit comparisons between 1978-79 and 1990-91 the table therefore shows income tax (less child benefit) and national insurance contributions paid by a married couple as a proportion of their joint income, assuming that the husband and wife share the relevant multiple of earnings in the ratio 60:40.
5. Estimates of VAT payments depend on a family's income and its pattern of expenditure. Such estimates are subject to a substantial margin of error and cannot reliably be made outside a range of 75 per cent. to 150 per cent. of average male earnings. Estimates for a single earner couple with two children are set out above. Corresponding figures for a two earner couple with two children are not available. Estimates are based on 1985 Family Expenditure Survey and assume that 10 per cent. of disposable income is saved.

Retail Prices Index

Mr. Tim Smith: To ask the Chancellor of the Exchequer why no account is to be taken of transitional relief when the community charge is introduced into the retail prices index in April.

Mr. Lilley: For purposes of the retail price index transitional relief will not be treated as reducing the prices charged. This conforms to a general principle governing the treatment of subsidies and discounts, which was laid down by the retail price index advisory committee in a report submitted to and accepted by Ministers in 1986 (Cmnd 9848). The principle is that reductions in the amount charged are treated as price effects if they are equally available to all consumers facing the charge in question or if they are financed by the supplier of the goods or services concerned. Transitional relief does not qualify on either ground as it is available only to consumers fulfilling certain criteria and is funded not by the local authority making the charge but by a transfer from central Government. The community charges taken for the retail price index will be those made by authorities after allowing for the "safety net" since this affects all charge payers in any one area.

Correspondence (MEPs)

Mr. David Young: To ask the Chancellor of the Exchequer since 18 June 1989, how many communications he has received from Members of the European Parliament that concern local or United Kingdom matters; and if he will make it his practice where such matters are involved, to provide the hon. Member for the local constituency with a copy of the correspondence and the reply for information.

Mr. Major: Since 18 June 1989 Treasury Ministers have received 40 communications from Members of the European Parliament concerning local or United Kingdom matters. Where Members of the European Parliament raise matters in correspondence which are exclusively of local interest, the practice is to reply suggesting that the MEP should refer the matter to the hon. Member for the constituency concerned. As with other correspondence, replies to such communications would normally be copied to the hon. Member concerned only if the MEP had himself copied his letter in this way.

Central Office of Information

Mr. Neil Hamilton: To ask the Chancellor of the Exchequer what progress has been made towards establishing the Central Office of Information as an executive agency.

Mr. Major: I am pleased to announce that the Central Office of Information (COI) will become an executive agency tomorrow. I have set demanding targets against which performance will be measured. These will ensure that the steady improvement in COI's efficiency over recent years continues into the future. Copies of the framework document will be placed in the Library of the House.

Government Data Network

Mr. Neil Hamilton: To ask the Chancellor of the Exchequer if he will report the outcome of the price variation negotiations with Racal Data Networks Ltd. for the Government data network.

Mr. Ryder: Negotiations are still in progress and scheduled for completion by 30 June 1990. These negotiations are taking into account marketplace movements since the GDN contract was let and are reviewing general administrative arrangements in the contract associated with the GDN tariff.

Further consideration of the contract has shown that, contrary to earlier interpretations reflected in my right hon. Friend, the then Paymaster-General's answer of 22 June 1988, *Official Report*, col. 599-600, the contract does not necessarily prevent the cost of the GDN service from exceeding that of comparable public services. The Treasury and Racal Data Networks Ltd. are seeking to negotiate revisions to the contract which would incorporate a satisfactory basis for value-for-money comparison with available public services.

It will announce the outcome of these negotiations when they have been completed.

Civil Service Catering Organisation

Mr. Neil Hamilton: To ask the Chancellor of the Exchequer what plans the Government have for the future of the Civil Service Catering Organisation.

Mr. Major: I have commissioned a study of future options for the Civil Service Catering Organisation (CISCO).

The aim of the study will be to examine how CISCO might be placed on a more commercial footing for the future in an increasingly competitive environment for the provision of staff catering.

The study will centre on possibilities for the transfer of CISCO to the private sector. Operation in the private sector might provide a better basis and greater range of opportunities for building upon the success that CISCO has achieved to date. The options will include the possibility of management and employee participation in the privatisation of CISCO's business.

If this approach is found not to be feasible or desirable, the study will consider whether CISCO should be retained within the civil service as a "next steps" agency or whether the delivery of catering services is best devolved fully to Government Departments.

The study will involve discussions with Government Department clients of CISCO and consultation with relevant bodies in the catering trade. Consultation will also take place with the Council of Civil Service Unions and the joint co-ordinating committee for Government industrial establishments.