



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

The Rt Hon Chris Patten MP
Secretary of State
for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

25 April 1990

cc P/K
Arnie Muirson²
To note. This will
only make a marginal
difference to the
April index - but
would still be
psychologically important
if it kept the
year on year increase
below 10%.

BHP

26/4

Dear Secretary of State

COMMUNITY CHARGE CAPPING AND THE RETAIL PRICES INDEX

You recently announced proposals to cap the expenditure of 21 local authorities and the consequential effect upon the level of the Community Charge set in those authorities impacts upon the RPI. I am writing to let you know what is being done to allow for capping in the compilation of the index.

There is no doubt that what should be included in the index is the lower capped Charges. The issue is about the timing of including the lower Charges - or reasonable estimates of them - in the index. Legally, the obligation of Charge payers in the capped authorities remains the presently announced Charges until such time as revised Charges are announced. One way of dealing with this position would be to include the published Charges in the index in April and include the revised Charges in later months as they are set. If the revised Charges are significantly lower than those currently set, an outcome which seems likely despite the action taken by authorities to challenge your proposals, the effect of this treatment would be that the index would be higher than it ought to be between April and the time that the revised Charges are announced. This would be unsatisfactory.

The index is not defined in legal terms. It is an attempt to provide a best estimate of the movement of prices. Given the information available, it is possible to estimate the Charges that are likely to be set for the capped authorities reasonably well - provided the crucial assumption is made that the challenges

RESTRICTED



to your proposals are not likely to have significant impact on the capped expenditures for the 21 local authorities as a group. On this basis, the Central Statistical Office has advised that the estimated Charges should be used from April. They take the view that this will provide a better monthly path for the index and that the adjustments to be made when the revised Charges are set can be expected to be small. The index for April and subsequent months will be compiled accordingly.

Given the sensitivity of the topic I thought I ought to let you know what is being done, before the April index. The key to the position taken by the CSO is the view they have taken of the likely outcome of the challenges against your proposals. If you feel that this assumption is invalid, please let me know quickly.

I am copying this letter to the Prime Minister.

Yours sincerely

J. Gieve

f. JOHN MAJOR

[Approved by the Chancellor in draft.]