

PO-CH/NL/0251

PART J

Part J.

SECRET

for cover and

Begins: 27/7/88.

Ends: 19/9/88.



PO -CH /NL/0251



PART J

Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND
SETTLEMENT OF THE RATE
SUPPORT GRANT SYSTEM

DD's: 25 Years

Philippa

15/11/95.

NL/0251

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PO

PART J

A

FLAG A

cc Michael Scholar

405 7641 Ext.

Communications on this subject should be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

COVERING SECRET

Miss J. L. Wheldon,
Treasury Solicitor's Department,
Queen Anne's Chambers,
28 Broadway,
London,
SW1.

27 July 1988

Dear Sir

In my letter to you of 25 July I invited you to come back to us if there was any point in the draft enclosed with my letter which caused you concern. We have spoken about a number of such points, and I have discussed these with the Solicitor.

The Solicitor confirms the advice which was given to you in conference and which is largely incorporated in the draft. He is however content that the Treasury should send to the Bank the attached revised draft which includes amendments of style.

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E. S. WILMSHURST

COVERING SECRET

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SECRET -- MARKET SENSITIVE

INDEX LINKED GILTS AND THE RPI

1. Thank you for your letter of 22 June. There are three points on which it may be helpful to comment.

2. The first concerns the legal aspects covered in paragraphs 13-15 of your letter. Our own advice is that while the courts would not seek to second-guess the Bank's judgment as to the extent of the effect of the RPI, brought about by a `fundamental change`, which was necessary to constitute material detriment to stockholders, the exercise as^a whole is likely to be susceptible of judicial review. We are advised that by the exercise of its opinion-giving powers under paragraph 23 of the prospectuses, the Bank will directly affect the rights of many citizens i.e. as to whether they can redeem or not. The Bank is thus exercising a public duty in the sense that many members of the public will be affected by its exercise of power. It has been selected to perform that duty because of the special public position it occupies. It is the nature of the power rather than the source of the power which is important in this context. If the Bank were to abuse its power by misdirecting itself on the relevant law or by disregarding

procedural requirements or by arriving at an irrational opinion, the courts would not hesitate to grant an appropriate remedy by judicial review. I understand that even if the courts did not so hold and were to decline jurisdiction on an application for judicial review on the ground that in this context the Bank's source of power was contractual and that a challenge to its opinion was a matter of private law, then a disgruntled stockholder could sue the Bank in a private law action for declaratory relief, and if appropriate, for damages to negligence. The practical effect would therefore be very much the same.

3. We are also advised in the context of the meaning to be ascribed the words 'fundamental change' that paragraph 23 must be read as a whole. You suggest (paragraph 9 of your letter) that if a change to the RPI is not 'fundamental' the question of detriment does not strictly arise. We are not sure that this is right. In our view it is most unlikely that there could be a change in the coverage or calculation of the RPI which was materially detrimental to stockholders but not 'fundamental' for the purposes of the redemption clause.

4. Turning to paragraph 9 of your letter, we note your view that the continuing effect of the change involved in option 2 should be compared with the position had rates not been abolished. While we agree that this is a valid

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comparison we think a comparison with an RPI including the community charge, i.e. option 3, should also be considered. We appreciate that it is by no means easy to calculate the likely effect on the RPI if the community charge were included. But we believe that an investor might very well argue that the community charge, although in one sense and indeed perhaps the purest sense, a direct tax and not a price, nevertheless constituted a payment or charge for local services set locally by direct reference to the level of services provided; and argue, further, that this was the very way in which the community charge had been introduced and justified by Government. To take account of such an argument it might be wise to consider the likely effect on yield to stockholders of changes in the RPI caused by a range of variations in the community charge on the assumption that it was included in the Index. If the Bank thinks that a steep rise in the community charge would have a material effect on such an Index, and option 3 had not been taken as the comparator, this could provide the investor with ammunition in any court proceedings.

5. Finally, you asked if, before you deliver your definitive view on these issues, I would write to confirm that we had given you all the relevant material information on which to base your opinion. We have carefully considered what, if any, further material we should send to you, and I now enclose a note, prepared recently by our forecasters as

~~now enclose a note, prepared recently by our forecasters as~~
an addition to their regular assessment of financial and economic prospects for the next few years - i.e. the early years of the new regime for local authority finance. I agree with you that the continuing effect on the RPI of the various options is to an extent `unknowable`, but I think that a court would require to be convinced that all reasonable possibilities had been considered.

6. We have undertaken a trawl, both within the Treasury and in the other relevant Departments, to see if there is any further analytical work of this sort which exists and which we ought to send to you. Our trawl has uncovered no further work beyond the note I am enclosing - although there may be other material - expressions of opinion, for example, about the buoyancy or otherwise of the community charge - on Departments' files which might be relevant to these issues, but which our trawl - which must necessarily not be well publicised, lest it leads to market destabilising leaks - has not uncovered.

E. A. J. George, Esq.,
Bank of England,
Threadneedle Street,
London, EC2

SECRET

FROM: M C SCHOLAR
DATE: 28 JULY 1988

1. SIR PETER MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Mr Anson
Sir Terence Burns
Mr Peretz
Mr Sedgwick or
Mr Hibberd
Miss O'Mara
Mr Potter
Miss Wheldon - Tsy Sol

Mr Scholar has done a good job in getting this letter into a sendable state. But it is still a pretty astonishing letter to be sending to the Bank. Looking on the bright side, if the Bank's view remains the same - as I suspect will - we shall be in a strong position. And I am pretty clear that the letter cannot be improved without a Ministerial meeting with the Shadow General. *Em 29/7*

THE COMMUNITY CHARGE, THE RPI AND INDEXED-LINKED GILTS

At your meeting on 29 June it was agreed that we should return to the Law Officers, asking for new advice in the light of the changed situation, and seeking clearance of our draft reply to Mr George's letter of 22 June.

2. After some delay, because the economists' paper had to be reworked following Mr Ridley's announcement on local authority finance on 7 July, we now have the Solicitor General's advice (in the Attorney's absence), in the form of a revised draft of our reply to the Bank (flag A; please see, too, the attached earlier papers, including a further opinion from John Mummery).

3. Briefly, the Solicitor General's advice is that we can proceed as we proposed, but that we should invite the Bank particularly to consider the comparison with option 3 (RPI including the Community Charge) before reaching their view on whether option 2 (RPI without rates or Community Charge) would constitute a fundamental change in the RPI which would be materially detrimental to the interests of holders of indexed gilts. Our draft already made this point, but the Solicitor wanted us to make it with greater emphasis (see paragraph 4 at flag B); after some discussion with him he has agreed to a shorter, and better, version of this (paragraph 4 at flag A).

4. Are you content that I write to the Bank on these lines, enclosing this new version (flag C) of the economists' note, which also incorporates amendments from LG which they suggest in order to make the note wholly balanced?

MCS

M C SCHOLAR



Caxton House Tothill Street London SW1H 9NF

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CH/EXCHEQUER	
REC.	29 JUL 1988
ACTION	MR SCHOLAR
COPIES TO	PS/EST, PS/EST, PS/EST SIR P. MIDDLETON SUT BURNS, MR ANSON MR PERETZ, MR SEDGWICK, MR HUBBERD, MISS O'MARA MR POTTER MISS WHELDON (TSO)

✓ 29/7

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Handwritten notes:
 AAH
 W/S
 July 28
 [Signature]

COMMUNITY CHARGE - RPI

As you know, our officials have been discussing the implications for the Retail Prices Index of the introduction of the community charge. Officials of DOE and CSO have also been involved. I am advised that all concerned agree that there will have to be some discussion on the RPI Advisory Committee, whose recommendations have provided the basis of all previous changes in methodology concerning the RPI. But there is not yet agreement on the substantive issue and, therefore, on the terms in which the Committee should be asked ... to advise. I attach a paper, in draft form, which reflects the work officials have so far been able to do, although it reaches no firm conclusions.

I know that there are very difficult issues involved for you and that you are seeking to resolve these as quickly as possible. But the matter is now becoming urgent, if my statisticians are to have a decision in time for the introduction of the community charge in Scotland. I have therefore come to the view that my officials should now approach potential members of the Retail Price Index Advisory Committee in advance of any decision on its precise terms of reference, with a view to setting up a series of meetings starting, if possible, in September.

I hope that you can agree to this course of action. I can see no alternative to proceeding in this way if we are to have any hope of receiving timely advice from the Committee, on whatever issues we put to them. I will not, of course,



announce publicly that we have reconvened this Committee until we can agree on the terms of reference.

I am copying this letter to the Secretaries of State for the Environment, Health and Social Security and the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

A handwritten signature in blue ink, appearing to read "Norman Fowler", with a large, stylized initial "N" and a horizontal line at the end.

NORMAN FOWLER

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TREATMENT OF RATES AND THE COMMUNITY CHARGE IN THE RPI

Paper by the Department of Employment
incorporating some comments
by Treasury, CSO and DOE
(prepared 22 July 1988)

Introduction

1. The introduction of the community charge has implications for the Retail Prices Index which raise potential political and market-sensitive issues. The central question is whether or not the community charge should be included within the scope of the RPI, as rates are, or excluded like income tax and national insurance contributions.

Main arguments

2. The main considerations in favour of exclusion are:

- (a) Payments such as the community charge, though very rare internationally, have been classified by the international bodies that set standards as direct taxation for the purposes of compiling national accounts. The Central Statistical Office agrees; its view is that the community charge must be regarded as a tax (as are rates) but cannot be treated as a tax on housing expenditure (which is how rates are treated). The construction of price indices usually (but not necessarily) follows national accounts practice on such matters, which would imply exclusion of the community charge from the RPI just as income tax and national insurance contributions are excluded.
- (b) Rates are treated for index purposes as an *indirect* tax on the consumption of housing services. Like VAT on other goods and services, they vary with the level of consumption (subject to the local rate poundage): the larger the house the greater the consumption of housing services and the higher the rates bill. They are, therefore, conceptually part of the price of a service and, like VAT, are included in the RPI. Of course the money raised by rates goes towards the provision of local services

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but this does not imply that these services themselves are within the scope of the index. This too is akin to the position with VAT, which is included because it is an indirect tax and part of the price - not because the services it finances are within the RPI's scope. The crucial difference between rates and the community charge is that the latter will not be related to the consumption of specific goods or services and therefore does not form part of any particular price. It should therefore be regarded as a tax which raises money for the provision of local services and as such, like income tax, it has no place in the RPI.

3. The main argument for including the community charge in the RPI is that, though the nature of the funding will have changed, the services for which rates are now charged will continue to be provided and the "man in the street" will continue to meet their cost out of his take-home pay. From his perspective little will have changed so he might expect to see the RPI continue to include the expenditure. For recipients of state pensions and benefits this view will be reinforced by the use of the RPI for indexation, as they will need to finance their share of the community charge out of their benefits and may well expect it to be taken into account in the uprating, particularly if the charge increases, as rates have in the past, faster than other prices. Excluding the charge might give the wholly false impression that an attempt was being made to restrict the coverage of the Index deliberately to produce a lower rate of inflation and thus save money on pensions and other benefits.

4. In addition, business rates will be uprated in future by an amount not greater than the increase in the RPI. Excluding the community charge could be seen as a means of further depressing the non-domestic contribution to local authority costs and increasing the burden on community charge payers.

Conceptual problems

5. Under current RPI methodology the community charge could replace rates, following very similar computational procedures. However, this would raise important conceptual problems. The inclusion of a direct tax in the coverage of the RPI would change its nature, open the question of what the Index should cover and might suggest that the Government can pick and choose what to include. A further problem is that local services will continue to be financed partly from national taxation. It could, therefore, be argued that if the community charge were to be included in the

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RPI on the grounds that the services it finances are within the scope of the index then so should be that part of income tax which goes to finance local services. This in turn would raise the question of how to treat other services which are funded through direct taxation (e.g. national insurance and health services).

6. Inclusion as a payment for services also presents conceptual problems because the payments are not directly related to the services received. The position is different with rates, which are included as an indirect tax on the consumption of housing. The average poundage is taken as the price indicator and the average rateable value is regarded as the "quantum" of liability on which the tax is levied, analogous in index terms to the physical volume of purchases which by definition is held constant in compiling the RPI - for example a loaf of bread or a kilogram of sugar.

7. Great importance is attached to preserving the concepts of price and quantum, as they underpin the whole construction of the RPI and give it legitimacy as a scientific and robust way of measuring price change. In recent years special attention has been paid to the problem of defining an appropriate quantum for (*inter alia*) owner-occupiers' housing costs and items affected by subsidies and discounts. As it now stands the RPI can fairly be said to measure changes in the cost of a fixed quantity of purchases and liabilities, and this helps significantly in maintaining the confidence of informed opinion as to its integrity.

8. One objection to including the community charge in the RPI is that there is no way of defining a meaningful quantum. It should be possible to measure overall changes in the average *expenditure* incurred by households on the community charge but in doing so one would not be able to differentiate, even conceptually, between a change in the unit price and a change in the volume of services for which the price was being charged. As the distinction is fundamental to the construction of a price index it can be argued that introducing the community charge would radically alter the nature of the RPI and make it more difficult to defend from accusations of manipulation.

9. In considering the likely impact on the RPI of either including or excluding the community charge it has not proved possible to devise a suitable price indicator. Instead *expenditure* on the community charge has been taken as a proxy for the price, for illustrative purposes, though this is contrary to accepted index methodology.

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10. It is for consideration how much importance should be attached, in the context of the RPI, to the conceptual arguments set out above as opposed to the more practical issues raised in paragraphs 3 and 4. It should be noted that, whatever treatment is agreed for the RPI, the tax and price index (which reflects both direct and indirect taxation, national and local) *will* include the community charge.

Public presentation of changes in the RPI

11. The question of the treatment of the community charge is politically sensitive because the decision will affect the future movement of the RPI and may also affect the public perception of the community charge. The argument that the charge should not be in the Index because it is a direct tax may be unpersuasive to those who seek to misrepresent the Government, accusing it of manipulating the figures. Such critics may also make something of the fact that, in dealing with the public perception of the community charge, attention is being focussed on it being a payment for services rather than a direct tax.

12. The way in which the decision on the treatment of the community charge is taken will be important for the public credibility of the RPI. Since 1947 all significant issues affecting the method of construction and calculation of the Index have been decided on the basis of advice from the Retail Prices Index Advisory Committee. A decision not to consult this committee (or not to follow its recommendations if consulted) would of itself require explanation. The Committee, which is convened by the Secretary of State for Employment, includes representatives of industry, the trade unions and consumers as well as academics and Government Departments. Although advisory its recommendations have always been accepted (the latest in July 1986) with one exception in 1971 when proposals for regional price indices were not taken up (on the grounds that the membership had not been unanimous). The Department's usual stance is that the Index is what the RPI Advisory Committee says it should be, and this has proved an effective answer to criticism over the years.

13. A further problem arises because income support (formerly supplementary benefit) is uprated using the "Rossi Index" which is the RPI excluding housing costs (and therefore rates) whereas state pensions and index-related national savings are uprated using the "all items" RPI. The Rossi Index is appropriate because the housing costs of recipients of income support are covered by housing benefit but, as everyone will be liable to at least 20 per cent of the community charge, it may be argued that this should be included in the Rossi index.

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Main options

14. Against the above background there are three main options.

A. Rates reduced to zero and the community charge not included in the RPI

The charge would be treated as a direct tax replacing an indirect tax. This would be the reverse of the situation which occurred when the Government reduced income tax and increased VAT in 1979 and thus increased the RPI. The effect would be to reduce the level of the RPI by 4 per cent and possibly to produce negative annual inflation figures and a reduction in index-linked benefits. Clearly this option would be politically unacceptable.

B. Rates removed from the Index without introducing a major discontinuity, and the community charge not included

The RPI would be replaced by an index which excluded any payments (other than direct charges) for local authority services. The numerical impact of this is impossible to predict but if rates had been excluded from the RPI over the past five years then the Index would have risen by an average of 0.1 to 0.2 percentage points per annum less than it actually did. Because the abolition of rates is being phased "Option B" raises technical issues of timing which raise questions of general index methodology and could appropriately be referred to the Advisory Committee. The main alternatives for consideration under this option are outlined in Annex I.

C. Community charge included in the RPI, replacing rates

The RPI would be computed in the same way as at present but replacing average weekly payments per household on rates by average community charge payments. This would result in a once-for-all rise in the "all items" index of perhaps a quarter of one per cent. This is because the RPI does not cover all households and those it excludes - higher-income families and pensioners - will meet a smaller share of the total community charge bill than they did of rates. A correspondingly higher share will therefore fall on "index households". (See Annex II.) After this initial impact the RPI might not be much affected if the community charge were to place restraints on local authority spending. The outcome clearly depends on how fast the charge increases relative to prices. As a rule of thumb, if the community charge rose one per cent faster (or slower) than the generality of other prices then its inclusion would raise (or lower) the RPI increase by 0.05 per cent.

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The choice

15. Officials have discussed the above options but have not reached agreement. The Central Statistical Office and the Department of Employment favour "Option B" because past practice and the principles underlying the Index strongly suggest this course. The Department of the Environment, on the other hand, supports "Option C" on the grounds that the community charge is essentially a payment for services whose cost has always been included in the RPI and should continue to be so. The Treasury position is, as yet, undecided.

16. Officials are agreed that it would be in the interests of public acceptability for the matter to be put to the RPI Advisory Committee but they are undecided on how this should be done. Treasury have argued that Ministers should decide on an agreed Government line and that Departmental representatives should support this in the Committee. If the Government line were that the community charge should be included in the RPI then the terms of reference might limit the Committee's involvement to advising on the technical issues of implementation. If on the other hand it were felt that the charge should be excluded then the discussion might be more wide-ranging, perhaps not reaching a unanimous conclusion. In the past such debates have often opened up new perspectives on the issues and Ministers might prefer to let all the arguments come out before finally committing themselves to any one course of action.

Immediate decisions required

17. Important issues are involved. Ministers will wish to consider:-

- (a) Whether the RPI Advisory Committee should be convened to consider the matter of the community charge at all. (Officials recommend that it should.)
- (b) If the Committee is convened, whether its terms of reference should be such as to commit the Government to including the community charge in the RPI (limiting the discussions to technical details) or whether the Committee should be allowed to consider the basic proposition regarding the inclusion or exclusion of the community charge.
- (c) If the Committee is to address the basic issue, what course of action should be recommended to it, if any.

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ANNEX I

PHASING-OUT OF RATES FROM THE RPI

1. If the community charge is not to be included in the RPI ("Option B" in the main paper) then a question arises about the time at which rates should be dropped from the Index, bearing in mind that they are to disappear in Scotland in April 1989 and in England & Wales in April 1990.

2. One possibility is to drop all rates from the RPI in 1989 (except for Northern Ireland where they are to continue permanently). This might be done on the grounds that the rating system in its old form had ceased to exist, local authority finance was in a state of transition and it was better to make a clean break in the compilation of the Index. On the other hand this might appear to be letting the Scottish tail wag the English/Welsh dog. The construction of the RPI is such that it would be possible to phase the exclusion of rates, taking them out for Scotland in 1989 and for the rest of Great Britain in 1990.

3. A secondary question is whether rates should be removed from the Index in January or March of the year in question. The "weights" for all sections of the RPI are revised as a matter of routine every January so it would be convenient to take that opportunity to omit the rates component (whether in whole or in part), but this would be to anticipate the actual change. It would be possible to exclude rates as from the March when they actually disappeared, by giving them a weight at the beginning of the year but, after March, "spreading" this weight evenly over all other sections of the Index. The "all items" RPI would therefore be affected by rates for the first two months of the year but not thereafter. As rates would not be increasing during those two months the RPI would rise slightly less than if the change had been made in January. For the year as a whole the effect on the "all items" index of a March switch would be exactly as if the weight for rates had been retained but the price indicator attached to it after March had been the index for all remaining items.

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4. Combining these choices - 1988 or 1989 and January or March - gives four possible sub-options within "Option B". Other variants are possible but these four sufficiently illustrate the range of alternatives, and they are summarised in the following table together with their numerical effects and relative advantages and disadvantages. The numerical effects are expressed in relation to the effect of "Option C" (including the community charge) on the "all items" RPI change up to April 1990. Though shown to a high degree of precision they are not intended as firm estimates but as indicators of relativity between the sub-options.

	<u>RATES DROPPED FROM JANUARY</u>	<u>RATES DROPPED FROM APRIL</u>
<u>WHOLE CHANGE MADE IN 1989</u>	<u>Option B1</u> All GB rates dropped as from January 1989 <u>Effect on RPI change up to April 1990</u> 0.55 per cent less than with Option C <u>Advantages</u> Operationally convenient; "gets it over with" <u>Disadvantages</u> Drops rates while everyone is still paying them; may give appearance that change is being made in a hurry	<u>Option B2</u> All GB rates dropped as from April 1989 <u>Effect on RPI change up to April 1990</u> 0.58 per cent less than with Option C <u>Advantages</u> Rates dropped as soon as full rating system ceases to exist <u>Disadvantages</u> Drops rates while most people are still paying them; mid- year reweighting may be very difficult to explain to users
	<u>CHANGE PHASED OVER 1989-90</u>	<u>Option B3</u> Scottish rates dropped from Jan 1989, English & Welsh rates from Jan 1990 <u>Effect on RPI change up to April 1990</u> 0.40 per cent less than with Option C <u>Advantages</u> Operationally convenient & presentationally attractive <u>Disadvantages</u> Still doesn't match timing of actual changes

5. Each of the options would require careful presentation to avoid the danger of undermining public confidence in the RPI.

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ANNEX II

THE "INDEX HOUSEHOLD" EFFECT

The RPI reflects the expenditure of all households except the 4 per cent with the highest incomes and the 14 per cent comprising pensioners mainly dependent on state benefits. These two groups currently account for 16 per cent of all rates payments but their share of community charge payments will be lower. How much lower has not been precisely estimated but the proportion might well fall by about a quarter, to 12 per cent. The share borne by index households would correspondingly increase, from 84 per cent to 88 per cent, i.e. by about 5 per cent. Without any change in the total "take" the average bill for local authority services which is reflected in the RPI would accordingly increase by 5 per cent. This element accounts for about 5 per cent of the whole index weight so the effect would be to raise the "all items" RPI by 5 per cent of 5 per cent, i.e. about a quarter of one per cent.

SECRET



pmp

FROM: A C S ALLAN

DATE: 1 August 1988

MR SCHOLAR

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Peretz
Mr Sedgwick
Mr Hibberd
Miss O'Mara
Mr Potter
Miss Wheldon (TSol)

THE COMMUNITY CHARGE, THE RPI AND INDEXED-LINKED GILTS

The Chancellor was grateful for your minute of 28 July and the attached papers. He accepts in the circumstances that you should write to the Bank on the lines proposed, though he noted that it appears to give the Bank quite a strong steer towards changing their mind.

A handwritten signature in black ink, appearing to read 'ACSA' with a large flourish underneath.

A C S ALLAN

FROM: COLIN MOWL
DATE: 3 August 1988

- 1. MR SCHOLAR *Approved in draft*
- 2. **CHANCELLOR** *OK - for the re scale of the Assp. -*

- cc Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Sedgwick o.r.
- Mr Peretz
- Mr Odling-Smee
- Mr A J C Edwards
- Mr Potter
- Mr Grice
- Mr Vernon
- Mr Franklin

(over X)
Content?
3/8

LOCAL AUTHORITY BANK DEPOSITS AND THE LABR

As you know, for speed and accuracy the PSBR, including the LABR, is measured from the transactions financing it. Changes in local authority (LA) bank deposits are one of the financing items used in compiling the LABR. You will recall that during the course of 1986-87 a large discrepancy emerged between the estimates of changes in LA bank deposits collected by the DOE from the LAs themselves and those collected by the Bank from the banks and used to compile the LABR. This discrepancy naturally led to doubts about the accuracy of the published LABR figures.

2. A number of changes were made to the collection procedures early in 1987-88, primarily clarifying the definition of a bank deposit on the DOE returns, but with no immediately apparent effect on the figures. In September 1987 we advised you that the statisticians had concluded that a full reconciliation between figures for individual authorities from the two sources was required. In the event the practical difficulties of mounting a full enquiry involving banks and LAs proved insuperable and instead the DOE mounted a small sample survey involving 30 local authorities, seeking further detail on the information they provided for the regular monthly LABR figures.

3. The survey identified four major items which could have given rise to the bank deposits discrepancy:

- (i) banks wrongly including deposits held by LA superannuation funds - these deposits should be counted as OFIs' deposits;
- (ii) difficulties in classifying LA assets managed by independent fund managers;
- (iii) difficulties experienced by LAs in distinguishing banks from other financial institutions even though they are provided with a list of banks;
- (iv) the treatment of LA companies.

4. The survey has had no direct implications for the bank deposit or LABR figures - ie it has not led to any changes in the published figures - but has identified key areas which DOE and Bank statisticians will keep a close-eye on when processing the monthly returns. There is now no real possibility that the discrepancy between the bank deposits estimates in 1986-87 will be revised away. There was also a discrepancy between the two estimates of changes in deposits in 1987-88 of a similar magnitude but with the opposite sign (see table attached). It is possible therefore that the discrepancy has permanently unwound but it is also possible that these movements are fortuitous and that the problem will re-emerge.

5. Although no direct changes to past figures have resulted from the survey and subsequent discussions, we have concluded that a change to the way future LABR figures are compiled would be advisable. It would in effect remove an anomaly which was created when the PSBR was re-defined in 1984. Prior to 1984 the LABR was based entirely on LA returns to the DOE. After the re-definition the LABR was a composite of figures provided by the LAs and banks and was not constrained to the LABR implied by LA figures. But the recent exercise has shown that while the LAs' allocation of their net financing among the available individual instruments might be suspect, the figure they report for their total net finance should be more accurate.

6. We propose therefore in future to constrain the published LABR figure to that implied by the LAs' returns to the DOE. As well as side-stepping the allocation problem this would also minimise timing and other inconsistencies which are liable to arise when taking figures from different sources. Published estimates for LA bank deposits (and for bank lending to LAs) would however continue to be based on the banks' figures to retain consistency with the monetary statistics and because we still believe that they are likely to be more accurate than the LAs'. The LAs are likely to provide the most accurate estimate of the LABR and the banks the most accurate estimate of LA bank deposits.

7. We propose to make this change with effect from the start of the current financial year, with the first figures on the new basis being published in the PSBR press notice on 16 August. This will almost certainly involve some revisions to the April to June figures already published, but revisions are always likely in August because of the incorporation of a complete set of end-quarter returns from LAs in place of the monthly sample used thus far. It should be possible therefore to introduce the change in a low-key way. We do not yet know the size or sign of the revisions but if they prove to be very large we could defer the change to later in the year (when some of the implied discrepancies between alternative sources may have unwound) or even implement it with effect from the beginning of 1989-90. We shall make a final recommendation on the timing when we put the draft press briefing to the Economic Secretary on 12 August.

8. The financing counterpart to any LABR revisions will be LA borrowing from the M4 private sector. The revisions will therefore not affect the funding position for 1988-89 to date.

9. It would be possible in principle to revise the LABR figures for previous financial years by constraining them to the totals from LA returns to the DOE. However there are two arguments for not doing so. The first is the pragmatic one of wishing to minimise revisions. The second, more substantive, is that only now we are into 1988-89 - after the changes to improve the LAs'

returns and the associated enquiries - can we be reasonably sure that the DOE estimate of the LABR is sufficiently reliable.

Conclusion

10 You are invited to note that:

- (i) discrepancies between alternative estimates of changes in LA bank deposits in 1986-87 and 1987-88 remain and are unlikely to be revised away;
- (ii) some possible areas where the discrepancies could have arisen have been identified and will be kept under review;
- (iii) a change in methodology for compiling the LABR, which should in principle produce more accurate figures, is proposed;
- (iv) it is provisionally proposed to introduce this change with effect from the beginning of 1988-89, in the August PSBR press notice, but it will be possible to defer the change if the revisions to the April-June figures prove very large.

Colin Mowl

COLIN MOWL

£ million

	<u>Changes in LA bank deposits*</u>		LABR
	DOE estimate from LAs	Bank of England estimate from banks	
1982-83	190	279	87
1983-84	92	213	1206
1984-85	301	302	2386
1985-86	665	726	1670
1986-87	586	1324	238
1987-88	1679	1114	1464

* + reducing LABR,
- increasing LABR

GLASGOW CHAMBER OF COMMERCE

Royal Charter 1783

Telephone 041 204 2121

Facsimile 041 221 2336

Telex 777967



30 GEORGE SQUARE

GLASGOW

G2 1EQ

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
House of Commons
London
SW1A 2AA

3 August 1988

Dear Prime Minister,

Harmonisation of Local Authority Rating Throughout the UK

I have seen copies of your correspondence with the Chairman of the National Council of the ABCC and write with particular reference to your letter of 1 July to emphasise and develop points which should be kept in mind in a Scottish and United Kingdom context.

The main danger is that the United Kingdom will become obviously divided as a result of different rate poundages in Scotland and UER England. This will be aggravated by increasing differences in rates charged per square foot of business premises which is the significant ratio for companies in competition with each other or deciding to relocate. The much vaunted interim protection from increases above the rate of inflation in Scotland is not significant when compared with the prospects of substantial savings to other businesses elsewhere as a result of revaluation correcting anomalies and distortions which have persisted for many years south of the border. In any case the Secretary of State for Scotland has decided to make Scottish companies continue to pay excessively by including clawback penalties imposed on over-spending councils in the base rate for 1989. Clawback, it seems, is not a significant distortion, to use the language of the guidance circular, although rates in several authorities are significantly higher because of penalties. 40% industrial derating demonstrates a Government judgement that Scottish valuations and rates paid are at least 40% out of line with comparable properties in England and Wales. Other non-domestic rate-payers in Scotland currently pay extra to finance the benefits enjoyed by manufacturers. Telling examples abound. The Scottish Exhibition and Conference Centre is a sixth of the size of the National Exhibition Centre in Birmingham but pays the same in rates; John Menzies Stores pay three times as much in Scotland as in England for similar sites; or hotel groups who find that a Scottish rate differential increase their overnight charges; and the situation of operators of large plants.

The whole point of UBR is to lead towards level playing fields by removing such distortions which can be described as a form of negative regional policy. We accept that correction of anomalies is not always comfortable since some gainers and some losers change places but we believe that prompt action can be taken to overcome administrative difficulties. We would welcome a statement of when you would hope to achieve a UK wide UBR which we would like to see in place at the same time as the reforms are implemented in England and Wales.

We would like to see accelerated progress towards harmonisation not to undermine what has already been achieved, and which we welcome (such as the decision on the decapitalisation rate of interest for BP plant); but to avoid the damage that will occur to the UBR concept and to other UK policies if it does not cover Scotland from 1990.

The existence of separate bodies of statute and case law could easily be resolved by identifying which takes priority - there is already scope for English evidence where comparable evidence is not available in Scotland. The Scottish Assessors could even be transferred as public servants, answerable to the Secretary of State, from Scottish Regional Councils to the Inland Revenue Valuation Office; or alternatively, since they have much current rating valuation experience and considerable numbers of able staff to undertake English revaluation; since valuations are about relativities all that matters is that principles are applied consistently.

Separate taxation of Scottish businesses is inconsistent with the concept of a unitary state and cannot be justified as quid pro quo for different per capita levels of centrally funded expenditure which is usually taken to reflect government priorities and assessment of needs. The components of the public expenditure comparisons are different to take account of varying circumstances in the countries and administrative regions which make up the United Kingdom. The effect of level playing fields can only be achieved by varying amounts of public expenditure to compensate for underlying variations. A UK UBR does more to create a level playing field than the establishment of an identical level of centrally funded public expenditure per capita across the United Kingdom.

Yours sincerely,
David R. Campbell

DAVID R. CAMPBELL
President.

FROM: J S HIBBERD
DATE: 3 AUGUST 1988

Done
mp

Seen and approved in draft. Jim Hibberd 3/8

- 1. MR SCHOLAR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Peretz
- Mr Sedgwick o/r
- Miss O'Mara
- Mr Potter
- Miss Wheldon (Treasury Solicitors)

Ch
Content to write
no proposed (if so, I will
t+t).
JF 3/8

OK in SWA
And as for
Ms Wheldon

COMMUNITY CHARGE - RPI

Norman Fowler's letter to you of 28 July seeks your agreement to him soliciting nominations from the various groups represented on the RPIAC. The Committee is to be convened primarily to discuss the implications for the RPI of the abolition of domestic rates and the introduction of the community charge.

2. We accept that this issue will have to be considered by the RPIAC. The DEMP now have to move quickly to convene the Committee if they are to get its endorsement for whatever option is finally agreed for the RPI in time for its introduction in Scotland in April 1989. We, therefore, see no objection to Mr Fowler's proposal in principle.

3. The only contentious question is how much is revealed to the RPIAC, at this stage, about the reasons for convening the Committee. Clearly the community charge issue is highly sensitive. On both market and political grounds, we must avoid any risk that it becomes public knowledge that the RPIAC is set to consider the question. Given that the RPIAC is composed of various interest groups (including CBI, TUC, consumer groups and academics) there must be a strong probability that it would leak if they were forewarned of the likely agenda. In agreeing to Mr Fowler's proposal, therefore, we must make it a condition that no advanced indication be given that the community charge issue will be on the agenda, either in the invitations or in any subsequent enquiries from nominees. DEMP should simply indicate that an agenda and associated papers will be circulated later.

CONFIDENTIAL

4. DEmp will not be happy about this. There are other issues to be discussed by the Committee which could be mentioned quite safely to RPIAC members, including a new price index for holidays and a revised technical manual for the RPI. DEmp will feel that a suitably cautious form of words on the community charge item should also be concocted to include on the agenda along with these other items. Even if they do not indicate this in the invitations, they may want to be able to say something if nominees subsequently enquire about the agenda. We do not think that a suitable form of words can be devised which will not also risk disclosure. We should, therefore, resist any follow up efforts by DEmp to give any signals about the agenda.

5. Mr Fowler's letter notes that there is no question yet of any public announcement of the RPIAC being convened. That will await the drafting of precise terms of reference for the Committee which, in turn, must await the final draft of the DEmp paper. A revised draft was attached to Norman Fowler's letter. As he says, it reached no firm conclusions. Indeed, it cannot do so until we have settled the various outstanding legal issues with the Bank of England. Nor can it be settled until Ministers, including presumably the Prime Minister, to whom Mr Fowler's minute has not been copied, have agreed a line.

6. However, there is always the risk that one of the invited representative groups may leak the convening of RPIAC. Both we and DEmp will need to be clear on a line to take in public: one is suggested in the attached draft letter. The RPI is currently a sensitive issue altogether. The recent article by Philip Stephens in the Financial Times, speculating on the exclusion of mortgage interest payments from the RPI, prompted a letter from Neil Kinnock to the Prime Minister. If the RPIAC meeting does leak, it may be that speculation about it will centre on mortgage interest relief rather than the community charge.

7. We suggest that you agree to Norman Fowler's request to solicit nominations for RPIAC, subject to the conditions discussed in this minute. A draft is attached.

Jim Hibberd

J S HIBBERD

DRAFT LETTER

FROM: CHANCELLOR

TO : NORMAN FOWLER

Thank you for your letter of 28 July. My officials will let yours have further comments on the draft paper as soon as possible.

2. I am content, in principle, for you to solicit nominations from the various groups represented on the RPIAC. However, the treatment of the abolition of rates and the introduction of the community charge is a highly sensitive issue. There are some very difficult questions still to be settled. We must avoid any risk that it becomes public knowledge at this stage, before we have made our decisions, that the implications of the community charge for the RPI is due to be discussed by the Committee. Since the RPIAC is ^{based} made up of various interest groups ^{outside} ~~{(and not all of them friends of the government)}~~ there would be a strong probability of a leak if the Committee knew that the community charge was to be on the agenda.

3. It is essential, therefore, that when the invitations are issued they give no indication that the community charge is likely to be on the agenda. They can refer, if absolutely necessary, to issues left over from earlier discussions of the Committee (eg a new price index for holidays and a revised technical manual

CONFIDENTIAL

for the RPI). But it would be ^{great} ~~much more~~ preferable to say simply that the agenda and associated papers will be circulated later. We should take the same line if any nominee subsequently enquires about the agenda.

4. I note that you will make no public announcement of the RPIAC being convened until the terms of reference have been agreed. However, we will need to agree a public line to take should there be any leak from the various groups that the RPIAC is to be convened. I suggest that it should be that the Committee's agenda has not yet been settled, but there are a number of issues left over from earlier discussions for it to discuss.

5. I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Health and Social Security and the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

[NL]

DRAFT LETTER

Comm. charge + RPI

FROM: CHANCELLOR

for type final.

TO : NORMAN FOWLER

3/8/88.

✓

Thank you for your letter of 28 July. My officials will let yours have further comments on the draft paper as soon as possible.

2. I am content, in principle, for you to solicit nominations from the various groups represented on the RPIAC. However, the treatment of the abolition of rates and the introduction of the community charge is a highly sensitive issue. There are some very difficult questions still to be settled. We must avoid any risk that it becomes public knowledge at this stage, before we have made our decisions, that the implications of the community charge for the RPI is due to be discussed by the Committee. Since the RPIAC is ^{largely} made up of various ^{outside} interest groups ~~[(and not all of them friends of the government)]~~ there would be a strong probability of a leak if the Committee knew that the community charge was to be on the agenda.

3. It is essential, therefore, that when the invitations are issued they give no indication that the community charge is likely to be on the agenda. ~~They can refer, if absolutely necessary, to issues left over from earlier discussions of the Committee (eg a new price index for holidays and a revised technical manual~~

*Don't think this
cl. be misleading -
misrepⁿ of - perhaps
to draft ~~comm.~~
as a model.
(misleading letters of
e.g. inland gills).*

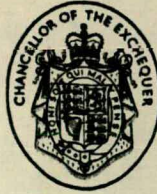
I suggest that they

~~for the RPI). But it would be much more preferable to~~ ^{stealth} say simply that the agenda and associated papers will be circulated later. We should take the same line if any nominee subsequently enquires about the agenda.

4. I note that you will make no public announcement of the RPIAC being convened until the terms of reference have been agreed. However, we will need to agree a public line to take should there be any leak from the various groups that the RPIAC is to be convened. I suggest that it should be that the Committee's agenda has not yet been settled, ~~but there are a number of issues left over from earlier discussions for it to discuss.~~

5. I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Health and Social Security and the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

[NL]



cc: PS/CST
PS/FST
PS/EST

Sir P. Middleton
Sir T. Burns

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

Mr Anson

4 August 1988

Mr Scholar

Mr Peretz

Mr Sedgwick

Miss O Mara

Mr Potter

Mr Hibberd

Ms Wheldon (T.Sol)

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

Dear Secretary of State

Thank you for your letter of 28 July. My officials will let yours have further comments on the draft paper as soon as possible.

I am content, in principle, for you to solicit nominations from the various groups represented on the RPIAC. However, the treatment of the abolition of rates and the introduction of the community charge is a highly sensitive issue. There are some very difficult questions still to be settled. We must avoid any risk that it becomes public knowledge at this stage, before we have made our decisions, that the implications of the community charge for the RPI is due to be discussed by the Committee. Since the RPIAC is largely made up of various outside interest groups there would be a strong probability of a leak if the Committee knew that the community charge was to be on the agenda.

It is essential, therefore, that when the invitations are issued they give no indication that the community charge is likely to be on the agenda. I suggest that they say simply that the agenda and associated papers will be circulated later. We should take the same line if any nominee subsequently enquires about the agenda.

I note that you will make no public announcement of the RPIAC being convened until the terms of reference have been agreed. However, we will need to agree a public line to take should there be any leak from the various groups that the RPIAC is to be convened. I suggest that it should be that the Committee's agenda has not yet been settled.

I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Health and Social Security, and the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

Yours sincerely

PP. NIGEL LAWSON

[Approved by the Chancellor & signed in his absence]



2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

The Rt Hon Douglas Hurd CBE MP
 Home Office
 50 Queen Anne's Gate
 LONDON
 SW1H 9AT

CH/EXCHEQUER	
REC.	08 AUG 1988
ACTION	CST
COPIES TO	

5 August 1988
 ✓ 8/8

Dear Douglas

Thank you for your letter of 13 July agreeing to my proposals to capitalise specific grants given to local authorities.

You raised the issue of service grants administered by your Department which, because they cover both capital and current expenditure, would not fall within the framework I suggested. You may be reassured that I shall be seeking a wide power in the forthcoming Housing and Local Government Bill which will not be specifically geared to particular grants. I am therefore content to accept your proposal that Parliamentary Counsel be asked to draft the necessary clauses, so as not to preclude service grants, if in the future you decide to switch to a lump sum basis.

I shall write to you again if I anticipate any problems in meeting your requirements.

I am copying this letter to the Prime Minister and other members of E(LF).

Nicholas Ridley

NICHOLAS RIDLEY





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Kenneth Baker MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

Handwritten signature

H/EXCHEQUER	
REC.	08 AUG 1988
ACTION	CST
COPIES TO	

5 August 1988

✓ 8/8

Dear Kenneth

Thank you for your letter of 13 July confirming your agreement to the principle of proceeding with the capitalisation of specific grants to local authorities.

You particularly raised the question of the effect of my proposals on the level of credit approvals available for spending on education. I can certainly reassure you that the capitalisation of entitlements to loan charge grants from spending before 1 April 1990 will have no effect on the level of credit approvals. The capitalised payments will count against credit approvals but local authorities will be free to use them in place of the borrowing they would otherwise have been able to undertake.

The situation post 1 April 1990 will however be different and payments of grants on spending from that date as capital sums will be offset by a reduction in credit approvals. But such grants will convey additional spending power, unlike grants in the present system. Local authorities' ability to incur capital expenditure will thus not be affected. However I should add that the method of distributing the total for credit approvals between Departments is still being discussed by officials and I can confirm that they will take note of the concerns you have expressed.

A copy of this letter goes to the Prime Minister and other members of E(LF).

Handwritten signature: Nicholas Ridley

NICHOLAS RIDLEY

CONFIDENTIAL



FROM: J M G TAYLOR
DATE: 9 August 1988

A large, stylized handwritten signature in the top right corner of the page.

MR MOWL

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Odling-Smee
Mr A J C Edwards
Mr Potter
Mr Grice
Mr Vernon
Mr Franklin

LOCAL AUTHORITY BANK DEPOSITS AND THE LABR

The Chancellor has seen your minute of 3 August.

2. He is content to make the changes you propose. He would be grateful for information on the scale of the revisions as soon as that is available.

Handwritten initials, possibly 'JMGT', in the bottom right area of the page.

J M G TAYLOR



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister of State for Social Security and the Disabled

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

CH/EXCHEQUER	
REC.	11 AUG 1988
ACTION	CST
DATE	9 August 1988

9 August 1988

Dear Nicholas,

COMMUNITY CHARGE: ATTACHMENT OF BENEFIT

Following the E(LF) Committee decision, there has been some discussion at official level between our two Departments and a great deal of thought given to the practicalities of making deductions for community charge arrears from Income Support payments. My understanding is that, in England and Wales, local authorities will be able to apply to a magistrates' court for a liability order if a person is in arrears with community charge payments. This could occur quite early if he has missed a few instalments and the liability order would then cover the whole of the year.

The local authority would then, as one option, be empowered to ask the Department of Social Security to arrange deductions from Income Support. The details would be put into regulations which would be made under the Local Government Finance Act.

I understand from officials that you wish to put the deduction details in a single set of regulations dealing with the whole range of enforcement measures which will be available to local authorities. While I can understand that this seems tidier from your point of view, it has disadvantages to us and we would prefer to make that part of the regulations ourselves.

As we see it, your regulations would deal with the procedures up to the point where the local authority applies to the Secretary of State for deductions to be made and our regulations would deal with the handling of such applications.

As you are aware, we already make a number of deductions for a variety of essential purposes - repayments of Social Fund loans and overpayments as well as deductions for payments to third parties for essential items like housing, fuel and water supplies and it is essential that this Department is, and is seen to be, in control of the deductions for community charge arrears to ensure that beneficiaries retain enough of their benefit to live from day to day.

E.P.

It would be inconvenient if we had to amend your regulations when we wished to make adjustments to deduction rules across the board. Similarly, our local offices need to have a copy of the regulations to hand and it would be unwieldy for them if deductions for community charge were part of a much longer set of regulations most of which had no relevance to them.

I understand that your officials have suggested that our lawyers draft the regulations - which would in any event be essential - and that they appear in your complete set which would be signed jointly by Ministers of both Departments. However, you will see that we do not regard this as a satisfactory solution for a variety of reasons and I would be grateful if you will reconsider this aspect and agree to the deductions appearing in a free-standing set of regulations which we will make. Similar considerations apply to the passing of names and addresses to the Community Charge Registration Officer. As it is the Secretary of State for Social Security who decides, for the purposes of Schedule 2, what information should be prescribed, we think it is more appropriate that this should be in our regulations rather than your set which deals with the duties to provide information which the Schedule imposes.

Turning to the details of the deductions themselves, it seems to us to be sensible to fix the level of deduction at 5 per cent of the personal rate for a person aged 25 or over (currently £1.70) which is the amount set for other deductions of arrears. This amount would apply whether a liability order related solely to the beneficiary's own debt or was a joint liability with his partner and would not, in the latter case, be increased to £3.40.

The 5 per cent would be separate from the other direct deduction provisions and there would be no possibility of it being used for other purposes. Thus for the majority of cases we would not need to give it a priority ranking in relation to those items.

However, there will be some instances where the amount of Income Support payable is insufficient for a deduction to be made or the whole of the Income Support will already have been used for deductions relating to essential items and we will need the power to refuse community charge direct deductions in such cases. Equally, there will be some instances where the existence of a deduction for community charge arrears combined with other deductions uses all the income support and subsequently a debt arises for an essential item such as rent, fuel or water, non-payment of which could have disastrous consequences for the claimant and his family. We will need to have the power to stop paying the local authority in such circumstances.

The decision to deduct an amount from benefit will have to be made, as at present, by the adjudicating authorities with payment being made by the Secretary of State at such intervals as he determines - probably at quarterly intervals in arrears for economical administration. Any appeal from the adjudication officer's decision will be through the existing appeal system to a

E.P.

Social Security appeal tribunal in the first instance. I understand that you intend to introduce an appeal to a magistrates' court against an attachment of earnings order but there can be no question of an appeal against an adjudication officer's decision lying with a magistrates' court.

There are two aspects of deductions which are of particular concern. The first is where the debt is for a period when there was 100 per cent liability but the debtor is now on benefit. In such cases, the debt could take a considerable time to clear and, whilst the arrears are being paid, current debts may accrue. The local authority could not expect deductions on a second liability order whilst an existing order was being complied with, but I would hope that some discretion would be exercised by charging authorities or the courts in dealing with such cases involving people living on Income Support.

The second concern is the addition of costs - both legal and local authority - to a liability order. I understand that these have not yet been fixed and, although it is the intention to provide equity of treatment between those in work and those on benefit, I hope that such costs can be kept to an absolute minimum for those on benefit. On average, the arrears for a whole year's 20 per cent minimum liability will be relatively low and for reasons similar to those I have set out in the preceding paragraph, I think it would be counter-productive if the costs were disproportionately high in such cases. I think we will need to look at this question again when the level of costs becomes clearer.

Finally, I return to a topic John Moore first raised in his letter of 20 February. We shall be seeking a PES transfer for the substantial administrative costs involved in operating direct deductions for this purpose. We estimate that if 5 per cent of our Income Support cases required deductions, the additional cost for GB would be in the region of £6¹/₂ million a year.

In general, I think we have reached agreement on a scheme to put into regulations. I have outlined some of our difficulties and concerns and I hope you will be able to agree the suggestions I have made and provide some reassurances on our remaining concerns.

I am copying this to other members of E(LF) and Malcolm Rifkind since separate regulations will be needed under the Scottish Act.

Yours sincerely,

Nick

NICHOLAS SCOTT



3 MARSHAM STREET
LONDON SW1P 3EB
01-212 2434

My ref:

Your ref:

The Rt Hon Norman Fowler MP
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

CH/EXCHEQUER	
REC.	12 AUG 1988
ACTION	MR SCHOLAR
COPIES TO	PS/CS, PS/FST, PS/EST, SER P MIDDLETON, SER T BARRIS, MR ANSON, MR PERETZ, MR SEDGWICK, MR HEBBERS, MISS O'HARA, MR POTTER, MISS WHELDON (T. SOL)

12 August 1988

✓ 12/8

*Ball
Janyour - bat*

*Good letter
Janyour in
stomach
is used*

Dear Norman

COMMUNITY CHARGE - RPI

Your letter of 29 July to Nigel Lawson suggests that we are rapidly running out of time if we are to resolve the issue of the treatment of the community charge in time for the January 1989 RPI. In view of this I agree with officials that the Retail Price Index Advisory Committee needs to discuss the issue and with your proposal that members of the Committee should be approached now.

I am in no doubt that the community charge should be in the RPI. For us not to support its inclusion would be to undermine our whole stance towards this payment and in effect be giving into those who throughout the debates over the last year have insisted that it is a poll tax.

The man in the street will see the community charge as part of his cost of living in exactly the same way as he regards rates now. He will not understand why payments to the Council should be reflected in the RPI when they are called rates but not when they are called a community charge.

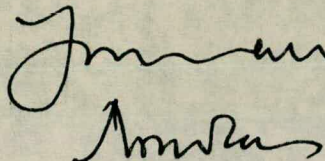
If we exclude the community charge we will be playing into the hands of those who accuse us of fiddling the figures. Our accusers will say that we know the community charge will rise faster than general inflation. They will say that we are out to keep the RPI down artificially and thereby penalise recipients of state pensions and benefits whilst reducing the amount required from businesses through the national non-domestic rate.

At a time when we shall want to be out selling the benefits of the community charge it seems an unnecessary own goal to provide the opposition with such ammunition.

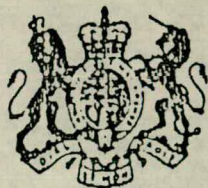


In my view the issue is so important that we should be convening the RPIAC and, if colleagues can agree, leaving them in no doubt that the community charge must be included in the RPI.

I am copying this letter to Nigel Lawson, John Moore, Malcolm Rifkind as well as to Sir Robin Butler and Jack Hibbert, the Head of the Government Statistical Service.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

26 August 1988

PWP
(Business Rates
in Scotland)

Dear Mr. Campbell.

Thank you for your letter of 3 August about the harmonisation of business rates.

I have taken careful note of all that you say about the need for prompt measures to ensure that the rates bills on Scottish business are not out of line with those south of the Border. In our Green Paper "Paying for Local Government" we made clear that we saw advantage in moving to a common non-domestic poundage in all areas and since then our policies have been aimed in that direction. We have no intention of going back on what we have set out to accomplish.

I do however think that we have to be realistic about timing. As I explained in my letter of 1 July to Mr. Macpherson of the Association of British Chambers of Commerce, the discussions on the harmonisation of values between the Scottish Assessors' Association and the Inland Revenue Valuation Office have made significant progress. I am grateful for your acknowledgement of what has already been achieved in this area but there will still be work to be done after 1990. The issues are too complex to be resolved in only a year or so and it is important that we get it right.

PM
GLASGOW
CC
26/8/88

You can however be assured of our resolve to see through the programme of reform on which we have embarked.

Yours sincerely

Rajant Shah

David Campbell, Esq.



CABINET OFFICE

Central Statistical Office

Great George Street, London SW1P 3AQ Telephone 01-270 6155

From the Director: J. Hibbert

CH/EXCHEQUER	
REC.	30 AUG 1988
ACTION	MR SCHOLAR ✓ 318
COPIES TO	PS/CST, AS/FST, PS/EST, SER P MIDDLETON SER T BURRIS, MR ANSON, MR PEZETZ, MR SEDGWICK, MR HIBBERT, MISS O'NEILL, MR POTTER MISS WHELOON (T.SOL) MISS PEARSON

26 August 1988

Dear Nick,

A signed copy of the letter = 5 copies guide up with the Prime Minister (X) then no contact @ 7.

RETAIL PRICES INDEX

The correspondence of your Secretary of State with the Chancellor of the Exchequer and with the Secretary of State for the Environment, about the treatment of the Community Charge in the Retail Prices Index, has been copied to me. I am writing to record my views on how the difficult issues involved might best be handled.

The arguments for and against the inclusion of the Community Charge in the RPI are set out in the paper by the Department of Employment dated 22 July 1988. In purely statistical terms the Community Charge is a direct tax. Unlike domestic rates (an indirect tax), its inclusion would change the RPI from a price index into a hybrid statistical indicator which would measure a mixture of changes in prices and changes in costs. In the past arguments for the inclusion in the Index of reductions in household costs which did not reflect actual changes in price (for example, those resulting from the switch of household purchases to cheaper brands of a given commodity, or to cheaper retail outlets) have been rejected. It would be ironic if the distinction between prices and costs were now to be abandoned at a time when this would be likely to lead to an upward bias in the RPI as a measure of price changes. Such a fundamental change would also no doubt lead to greater pressures in the future for other increases in household costs to be reflected in the Index. If the RPI is to remain a price index, the Community Charge should be excluded.

The arguments for the inclusion of the Community Charge rest on the expectation that householders will perceive it as replacing domestic rates and that its exclusion would be seen as manipulation of the Index. Public acceptability of the methods followed for compiling the Index is important and use of the RPI Advisory Committee has provided a mechanism for maintaining it.

Mr N Wilson
Private Secretary
Secretary of State for Employment

I believe that the best course now is to put all the arguments to the Advisory Committee and to be ready to accept the recommendations that emerge from its deliberations. The intention would be to let the onus for determining the outcome fall primarily on the non-government members of the Committee in the light of the technical arguments presented to them by officials. If the non-government members of the Committee were unable to agree on how to deal with the Community Charge then the Secretary of State would need to make the choice which, in the light of the Committee's discussion, seemed most likely to command public acceptability.

Why? In advocating this course of action I am aware that this could give rise to other problems to which solutions would need to be found. If, for example, the Committee recommended exclusion of the Community Charge from the Index the indexation of state retirement pensions by the RPI could then be seen as unjust, particularly by those pensioners not eligible for other assistance from the State. But in these circumstances there would seem to be no reason why the Government should not, if it wished, increase some pledged benefits by more than the increase in the RPI in recognition of the fact that some households were known to be faced with an increase in costs greater than the increase in the RPI. The differential effects on single and married couple households, for example, could be taken into account. *ly*

Despite the existence of such problems I believe that the normal process of consulting the Advisory Committee should take place in the way I have suggested. To act otherwise may destroy public confidence in the Index and lead to even greater difficulties for the Government in the future. The time available is extremely short and I hope that agreement can be now quickly reached to convene the Advisory Committee to consider these matters.

I am copying this to the Private Offices of the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretary of State for Social Security and the Secretary of State for Scotland, to Paul Gray at No 10 and to Sir Robin Butler.

Yours sincerely

Jack Hibbert

J HIBBERT

FROM: A C S ALLAN *pay*

DATE: 5 September 1988

MR SCHOLAR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Peretz
Mr Sedgwick
Mr Hibbert
Miss O'Mara
Mr Potter
Miss Wheldon - T.Sol.

COMMUNITY CHARGE AND RPI

The Chancellor has seen Mr Hibbert's letter of 26 August to the Secretary of State for Employment. He thought this was a singularly (if unintentionally) unhelpful letter. The Chancellor feels we need to consider a quick reply contesting the premise that if the community charge were included in the RPI that "would be likely to lead to upward bias in the RPI as a measure of price changes", and the conclusion that if the community charge were excluded from the RPI "the indexation of State retirement pensions by the RPI could then be seen as unjust".

A handwritten signature in black ink, appearing to read "ACSA".

A C S ALLAN

GLASGOW CHAMBER OF COMMERCE

Royal Charter 1783

Telephone 041 284 2121

Facsimile 041 221 2336

Telex 777967

30 GEORGE SQUARE

GLASGOW

G2 1EQ

6 September 1980

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1A 2AA

Dear Prime Minister,

All-Britain Uniform Business Rate.

Welcome to Glasgow. We are always delighted when you find time in your busy schedule to visit our great city.

I thank you for your letter of 26 August and welcome your assurances of your resolve to see through the programme of rating reform on which you have embarked.

However, since I last wrote business outrage has increased and there has been concerted media coverage on the subject of UBR. This stems largely from an 'end of term' interview which the Scottish Office Minister of State with responsibility for local government finance gave to the Glasgow Herald and the Scotsman. In the interview Mr Lang stated that it was more a question of 'if' rather than 'when' a UBR would be introduced to cover Scotland. There have been worrying indications that some Cabinet colleagues are openly hostile to the introduction of an United Kingdom UBR. Also that some civil servants are opposed to the concept and as such have been raising objections and causing delays.

While we are well aware of the complexities of harmonisation they can easily be resolved given the political will to instruct assessors and district valuers on points of principle and practice, backed up by statute as necessary. The Secretary of State for Scotland now has the power to make 'rules' about valuations during the transitional period. We are greatly concerned that harmonisation will become the excuse for delay in implementation of a UK wide UBR especially if others lack your resolve for the programme of reform on which you have embarked.

If there has to be any delay in introduction then it is important that Scottish businesses are not disadvantaged after the introduction of a UBR in England in 1990, particularly with the prospects for the Single European Market in 1992. At the last election, when there was a significant lack of support for the Conservative Party in Scotland, the business community remained loyal and supportive. That loyalty will be tested to the extreme if businesses in Scotland are taxed for any length of time at a higher rate than their counterpart south of the border. The present proposed indexation with RPI of a base rate which includes 'clawback' is not good enough by comparison with English UBR and revaluation proposals.

We all wish to play on Lord Young's "level playing field" but it will take someone of your proven ability to achieve radical reform by smoothing out some of the large bumps with a roller and then removing vested interests by banging together a few recalcitrant heads.

Matters to do with harmonisation can easily be resolved given political will to decide whether to adopt Scottish or English practice in each instance and the main areas of difference must have been identified by now. Alternatively a UK UBR at the level of the English UBR could be imposed in 1990 even if Scottish valuations had not been harmonised. This would cause less pain to Scottish business than the present divided system since all UK business premises would have been revalued on the basis of recent market rental evidence, while for the large plant operators existing discrepancies would be eased by the relatively lower rate poundage. Any consequential adjustment in public expenditure would be part of the price of level playing fields and could be justified on a once and for all basis.

Prime Minister, tonight you are addressing a large audience of industrialists and businessmen based in Scotland. This is a marvellous opportunity for you to specify the timetable for reform demonstrating your Government's commitment to an effective UK wide Uniform Business Rate by 1990 or 1992 at the latest.

Your sincerely
David R. Campbell

David R Campbell.
President.

DRC/MM/046 D3

BANK OF ENGLAND
LONDON EC2R 8AH

IAN PLENDERLEITH
ASSISTANT DIRECTOR
HEAD OF GILT-EDGED DIVISION
01-601 4491

6 September 1988

D L C Peretz Esq
H M Treasury
Parliament Street
London
SW1P 3AG

CC: EAJG o/r
JSF
ALC
GB
MVL
PDML

Dear David,

INDEX LINKED GILTS AND THE RPI

1 Michael Scholar's letter to Eddie George of 1 August raised three points about the provisional views which we expressed in our letter of 22 June. We have considered these points carefully with our legal advisers but we have concluded that they do not lead us to change our views.

2 The first point was the question of whether the Bank's determination would be susceptible to judicial review. We would agree that the nature of the power exercised (and not just its source) may be relevant, but we are advised that, in this context, the Bank would not be exercising a public law function. We do not think that it is correct to say that, since our decision will affect the rights of many individuals, it is on that account a public law decision. The view we take, based on the advice we have received, is that the critical feature is that the Bank's decision will not affect the rights of individuals as members of the general public, but rather as stockholders in accordance with the terms of their contracts with H M Treasury and that, in performing this role, the Bank will be acting as an independent expert. Our authority to act in this respect derives not from statute or subordinate legislation but from the terms of the gilts prospectuses. As Michael Scholar's letter says, the Bank was "selected" for this role - we could not have been compelled to accept it. Indeed, if the Bank had been chosen to perform a similar role in a non-Governmental issue, it seems doubtful whether similar arguments would have arisen.

3 As Eddie George mentioned in his letter of 22 June, this is not to say that aggrieved stockholders would be deprived of all remedy. However, our advice leads us to disagree with the assertion that the practical effect of action under private law would be very much the same as under judicial review. It seems to us that the difficulties in the way of an aggrieved stockholder being able to mount a successful action under private law would be

considerable and the remedies available in such circumstances would not necessarily be the same as they would be in an action for judicial review.

4 The second point raised is the meaning of "fundamental change". We are advised that if there were a danger of ambiguity in the language of the gilts prospectuses it would be right to consider the provision as a whole, but that in this case, on a proper construction, the language would appear to be plain. Thus the three constituent elements must be examined in logical order, viz (i) a change in coverage or basic calculation, (ii) which is fundamental; and (iii) if those elements are present, which would be materially detrimental to the interests of stockholders. Whilst it may be correct to say that it is unlikely that there could be a change in the coverage or constitution of the RPI which was materially detrimental to stockholders, but not fundamental, the interpretation posited in Michael Scholar's letter does not seem to us the proper way to interpret the clause, confusing as it does the "conceptual" issue of whether the nature of the change is such as to constitute a fundamental change, and the question of the "effect" of the change.

5 The third point raised is whether, in reaching our determination, we should compare the second option (without the community charge included in the RPI) with the third option (an RPI including the community charge). As I understand it, your view is that an investor might seek to use an argument based on the effects of the third option in support of a challenge to the Bank's determination in respect of the effects of the second. You are concerned that not comparing the second and third options could provide ammunition in any challenge of the Bank's determination. We feel, and our legal advisers agree, that once the decision as to the treatment of rates and the community charge in the RPI has been made, the proper course of action is for us to analyse each option independently in the manner described in paragraph 4 above and make a determination accordingly. To reach a determination on the basis of having compared the effects of one option with the effects of another would in our view result in a determination based on "comparative effect", but using for the purposes of the comparison something different from that required by the relevant paragraph in the prospectus. We remain of the view that what is required is a comparison of the position prior to the change with that applicable after it, rather than with alternatives other than that actually implemented.

6 We are grateful for the additional material enclosed with Michael Scholar's letter. As I know you appreciate, it is important that we take account of all relevant material information, including any recommendations or views expressed by the RPI Advisory Committee and any government departments, up to the time we are actually called upon to make our determination in definitive terms. It would therefore be helpful if you could keep us up-to-date with developments on this question.

7 I am copying this letter to Michael Scholar and Margaret O'Mara.

Yours sincerely,

John Phillips



CH/EXCHEQUER	
REC.	08 SEP 1988
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COPIES TO	

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2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

*pay
(needed
AK)*

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

8 September 1988

Dear Chief Secretary

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

We corresponded in July about the method we should adopt for distributing revenue support to charging authorities in respect of their community charge preparation costs in 1989/90. As I forewarned in my letter of 18 July, I am returning to this issue now that we have further details of the 1989/90 RSG Settlement.

I appreciate that the usual way of contributing towards the expenditure of local authorities is through the grant related expenditure for each authority. Notwithstanding the points made by you and Malcolm Rifkind in your letters of 8 and 11 July however, I have concluded that there is a strong case for channelling at least part of the £110 million for preparation costs by means of a specific grant.

The unhypothecated nature of block grant is both a strength and a weakness. For any authority that receives block grant it is always possible to argue that some of that is in support of each of the services that they provide but it is not possible to say precisely how much is provided. With block grant it will therefore be impossible to say to what extent any local authority has received support from local government in respect of community charge preparation costs.

A particular difficulty arises with using block grant alone in 1989/90 for supporting community charge preparation costs in that on our first set of exemplifications a substantial number of shire districts appear likely to receive less block grant in 1989/90 than they received in 1988/89 despite having to meet community charge preparation costs. In addition a number of other authorities will receive no support through block grant for community charge preparation costs because they receive no block grant at all. The upshot is that a very large number of authorities will feel that they are receiving no support whatsoever to help them prepare for the community charge.



I do not accept Malcolm Rifkind's view that a specific grant in England need undermine his position: I see little similarity in circumstance since as I understand it no Scottish charging authorities are out of grant, nor would it look like a panic measure since everyone knows we have been considering this matter for some time and all the local authority associations support it.

I have considered the level of specific grant and the basis on which it might be paid. I would wish to avoid a specific grant based on actual expenditure which would require audited figures and could lead to arguments about what expenditure is and is not eligible for grant support. I would propose instead a formula-based grant on adult population.

As to the rate of grant, I can see no reason why this need be higher than the 50% in order to promote efficiency and for there to be a GRE for the residual expenditure falling to be met by the local authority. In effect this would mean that we were supporting half the expenditure through a specific grant and the remaining half through block grant.

A specific grant means that we can visibly identify additional support being made available to all charging authorities to help them prepare for the introduction of the community charge. Without one I fear that we will hand authorities a significant propaganda point which some will not hesitate to use against us. I hope therefore that in the exceptional circumstances of 1989/90 you and other colleagues will agree to a one year transitional specific grant for community charge preparation costs.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours sincerely
RB

NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence)



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B

8/9 2 MARSHAM STREET
 LONDON SW1P 3EB
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 My ref:
 Your ref:

The Rt Hon Malcolm Rifkind MP
 Scottish Office
 Dover House
 Whitehall
 LONDON
 SW1

1. Alex
 2. BF 13/9

8 September 1988

Dear Secretary of State 16/9

COMMUNITY CHARGE: STUDENT NURSES

Following an exchange of correspondence on this issue in July the Prime Minister asked us to give further consideration to the treatment of student nurses, for the purposes of the community charge, with a view to reaching a decision by 9 September. To this end my officials have prepared the enclosed note, which has been agreed with officials from your Department and other Departments with a close interest. It sets out the options and the pros and cons, with a view to enabling a collective decision to be taken in accordance with the Prime Minister's wishes.

The note deals separately with nurses on pre-registration courses and those on post-registration courses. Most of the public attention so far has concentrated on the former and the note identifies four options for their treatment (in paragraph 10). In my view these can be distilled to a choice between two alternatives: we can treat all pre-registration student nurses as full-time students and give them the 80% relief from the start of the new system (1989 in Scotland; 1990 in England and Wales); or we can restrict the relief to student nurses who are undertaking Project 2000 courses.

I am firmly of the view that we should not extend the 80% relief to salaried, pre-Project 2000 student nurses. Their course would not qualify them for full-time student status under the established criteria and we always maintained, before the implementation of Project 2000 was announced, that it would be quite unfair to other salaried employees, who receive on-the-job training, if we were to give student nurses special treatment. It may seem invidious to make the relief available to some student nurses (those on Project 2000) but not others (those undertaking pre-Project 2000 courses); but the latter will be receiving salaries which will be considerably higher than the bursaries paid to the former. I think it would be far more invidious to offer the relief to salaried student nurses, while withholding it from pharmaceutical trainees (to choose just one example) and the host of other trainees and apprentices who will be expected to pay the full community charge.



I therefore advocate Option i in paragraph 10 of the note, although I would not rule out reconsidering the decision once a majority of student nurses have moved on to Project 2000, in accordance with Option ii.

As far as nurses on post-registration courses are concerned, I accept that a relatively small number - those in higher education - will qualify automatically as full-time students under the existing criteria. They are in the same position as, for example, undergraduates sponsored by the armed forces. We have always accepted that a small number of bona fide full-time students with incomes would qualify for the 80% relief.

I do not believe, however, that we should bend the established criteria to bring midwifery trainees within the definition of full-time student. Although this means treating some nurses on post-registration courses differently from others, the fact remains that midwifery trainees follow courses which are less academic than those followed by the smaller number of nurses in higher education. If we are to maintain the credibility of our policy on students and the community charge, I believe we must stick to the established criteria for determining student status; nurses on post-registration courses must qualify for the relief, or fail to qualify, by reference to those criteria.

Moreover, if we were to allow midwifery trainees to qualify for the 80% relief, we would have great difficulty in defending the decision I have advocated for pre-registration student nurses.

There are a number of other groups of nursing trainees whose position is addressed in the note. In each case I concur with the recommendations in the note: pupil nurses and in-house trainees should be treated on the same basis as salaried student nurses (paragraph 12(b) and (c)) - ie in my view they should pay the full community charge; and second registration student nurses should be treated on the same basis as pre-registration student nurses (paragraph 18) - ie in my view they should be granted the 80% relief only when they undertake Project 2000 courses.

I am sending copies of this letter to the Prime Minister, Members of E(LF), the Chief Whip and Sir Robin Butler.

Yours sincerely

Nicholas Ridley

pp
NICHOLAS RIDLEY

(approved by the Secretary of State and signed in his absence).

COMMUNITY CHARGE : NURSE EDUCATION

1. This note has been prepared jointly by officials from DOE, the Department of Health and the Scottish and Welsh Offices. It sets out the options for the treatment of student nurses and other nurses undertaking courses of education, for the purposes of the community charge. It is intended to enable Ministers to reach a decision on the issues at stake by 9 September, in accordance with the Prime Minister's instructions.

2. There are two separate areas where decisions are needed : the treatment of nurses on pre-registration courses; and the treatment of those on post-registration courses.

NURSES ON PRE-REGISTRATION COURSES

BACKGROUND

3. There are approximately 76,000 persons undertaking pre-registration nursing courses in Great Britain at present. A minority of these - 12,000 - are "pupil nurses". Their training will be phased out over a period of time and their position is discussed later in this section (at paragraph 12). The vast majority are student nurses and it is their treatment for the purposes of the community charge which is the main subject of this section. Student nurses undergo a 3 year training period in an NHS school of nursing, working as part of the rostered workforce for between 40% and 60% of their training period, spending about 25% - 30% of their time in the classroom and also undertaking supernumerary placements in clinical settings. Their salaries (£4,825 to £5,575 outside London) are about average for 18 to 21 year olds. Student nurses' salaries are settled on the recommendation of the Nurses' Pay Review Body, not by Health Departments or by negotiation.

4. During the early stages of the Local Government Finance Bill, the Government maintained that pre-registration student nurses should not qualify for the 80% community charge relief which is granted to full-time students in further and higher education. They are salaried employees, who receive training as part of their employment and would not fall within the proposed definition of a full-time student (i.e. a person following a course which

involves at least 21 hours of supervised study a week, for at least 24 weeks in the year). The Government's line was that student nurses were to be regarded as in the same category as other salaried trainees, such as apprentices and pharmaceutical trainees, who will not qualify for the 80% relief.

5. However, in May the Government announced that it accepted in principle the Project 2000 proposals for the reform of nurse education and training. It is envisaged that student nurses will, in due course, receive non-means tested bursaries instead of (and at a lower level than) salaries and follow a course in which theory and practice are more closely related than at present. Under Project 2000 the proportion of direct theoretical instruction will not change significantly, but rostered work will reduce to 20% and there will be a corresponding increase in tuition within clinical settings.

6. In the light of this development the Government announced, during the Lords Committee stage of the Bill, that nurses training under Project 2000 would receive the 80% community charge relief. Despite this, there was considerable pressure in the Lords to make the 80% relief available to all student nurses, including those who remain on salaries pending the full implementation of Project 2000. As a result an amendment was carried against the Government requiring the Secretary of State to make regulations stating which student nurses in England and Wales should benefit from the 80% relief and which should not. To keep the position in Scotland in line, Government amendments were moved enabling the student concession to be applied to student nurses, though without any commitment that these powers would be used.

7. A decision must now be taken on the use of the regulation-making powers which have been forced on the Government. The imminent introduction of the community charge in Scotland (on 1 April 1989) prevents any delay.

THE TIMING OF PROJECT 2000

8. The timing of the introduction of Project 2000 is of importance in reaching a decision. In England, it is envisaged that the new scheme might be implemented over a lengthy transitional period, perhaps as long as 10 years, with the first student nurses starting Project 2000 courses in Autumn 1989 (i.e. just before the community charge comes into effect in England and

Wales). Initially one nursing education centre in each region would offer Project 2000 training; and during the transitional period each health authority would have a mixture of Project 2000 and non-Project 2000 student nurses.

9. In Scotland Project 2000 will be implemented over a shorter period, probably between 1992 and 1995. This means that student nurses would not qualify for the 80% relief (by meeting the student criteria) until several years after the introduction of the community charge. Consideration is still being given to how Project 2000 should be implemented in Wales.

OPTIONS FOR DECISION

10. Four main options can be clearly identified;-

i. Grant the 80% relief to Project 2000 student nurses only, as and when their pattern of study brings them within the existing prescribed definition of student, and leave non-Project 2000 student nurses to pay the full charge (subject to any rebate for which they may qualify). The advantage of this option is that it preserves the logical distinction between salaried trainees (including apprentices, etc as well as student nurses) and bona fide full-time students. The disadvantages are that it would attract criticism, from those who want to see special treatment for all student nurses, including the RCN; it would be portrayed as an example of the Government disregarding the views of the House of the Lords; and it would create what might be seen as an invidious distinction between Project 2000 and non-Project 2000 student nurses.

ii. Grant the 80% relief initially to Project 2000 student nurses only, as and when their pattern of study brings them within the existing prescribed definition of student, but reconsider the decision once a majority of student nurses are on Project 2000 (in the early to mid-1990s). The advantage of this option is that it would allow the distinction between the two kinds of student nurse to be removed, once Project 2000 is well on its way to full implementation. But the disadvantage remains that the Government will be criticised for requiring non-Project 2000 nurses to pay the full charge for a period of years and will come under continuing pressure to grant them the 80% relief - a belated decision to do this will appear like giving in to lobbying.

iii. Grant the 80% relief to all student nurses with effect from 1 April 1990
- i.e. the date when the first Project 2000 student nurse is likely to become liable to pay the community charge. The advantages of this option are that it allows the Government to claim credit for treating all student nurses on a consistently generous basis, well before Project 2000 is fully implemented; and that it would encourage recruitment. The disadvantages are that the Government will be criticised for obliging student nurses to pay the full charge for one year in Scotland (1989/90); and the logical justification for withholding the 80% relief from other groups of salaried trainee will be weakened.

iv. Grant the 80% relief to all student nurses with effect from 1 April 1989
- i.e. the date when the community charge is introduced in Scotland. The Government could then claim full credit for generosity to student nurses, in accordance with the wishes of the House of Lords; but as with Option iii it would be much more difficult to justify insisting that other salaried trainees should pay the full charge.

COST

11. It will cost about £15 million and add about 35-40 pence to community charge levels to give all student nurses the benefit of the 80% relief. Under Option i this cost would not be borne in full until Project 2000 is fully implemented - probably in the late 1990s. Under Option ii the full cost would have to be borne several years earlier, in the mid-1990's, when for the first time a majority of student nurses are following Project 2000 courses. Under Options iii and iv the full cost would be borne on 1 April 1990, with the Scottish share of the cost being borne one year earlier under Option iv.

NURSING UNDERGRADUATES, PUPIL NURSES AND SALARIED, IN-HOUSE TRAINEES

12. In reaching a decision a number of additional factors need to be borne in mind:

- a) Whichever option is chosen, those undertaking pre-registration training as nursing undergraduates will qualify for the 80% relief from the outset, since they meet the normal qualifying criteria for full-time student status.

b) Pupil nurses (of whom there are currently about 12,000 in Great Britain and who undertake a less rigorous, two year training course to become enrolled nurses) will continue to receive salaries and training on the present basis even after the introduction of Project 2000. It is, however, proposed that pupil training should be phased out in due course: the number of pupil nurses is currently falling rapidly. In deciding between the options, the most logical approach would be to treat them in the meantime on the same basis as salaried student nurses.

c) There is at present a comparatively small number of in-house trainees -i.e. individuals who transfer to nurse education from employment elsewhere in the Health Service. This number may increase if the Department of Health succeeds in getting non-professional support workers into training. In-house trainees will remain on salaries even after Project 2000 has been fully implemented. In deciding between the options, it would be logical to treat them on the same basis as all other salaried student nurses; but if Option i. is pursued there would be a case for granting them the 80% discount once Project 2000 is fully implemented.

NURSES ON POST-REGISTRATION COURSES

13. There are about 12,500 nurses on post-registration courses in Great Britain. All receive salaries, ranging from £8,025 to £10,650 outside London.

NURSES IN HIGHER EDUCATION

14. A relatively small number of these post-registration student nurses - about 2,000 - will qualify automatically as full-time students, and receive the 80% relief, under the existing criteria (24 weeks study a year and 21 hours a week). These are trainee health visitors, community psychiatric nurses and district nurses, who mostly study for 9 months or a year in a university or polytechnic.

15. It may seem anomalous that some comparatively well-paid nurses will qualify for the 80% relief, while other less well-paid student nurses will not. But that is a consequence of the policy of defining full-time students by reference to the length and nature of study, not by reference to salary. It would be possible to withhold the 80% relief from this group, but we do not intend to do so for the relatively small number of undergraduate and postgraduate students who have substantial incomes - for example those who are sponsored by companies or by the armed forces. It should be borne in mind, however, that resentment may be caused if nurses in higher education qualify for a relief which is denied to some pre-registration student nurses.

MIDWIFERY TRAINEES

16. However, if trainee health visitors and other trainees mentioned in paragraph 14 are allowed to retain the 80% relief this will give rise to an anomaly as far as midwifery trainees, of whom there are 5,300, are concerned. They are in many ways comparable to the trainee health visitors, undertaking an 18 month post-registration course; but because of the different nature of their training in midwifery schools they would not automatically qualify for the 80% relief. Their training will not be affected by the main Project 2000 changes, although it is expected that there will be a growth of direct entry midwifery courses. While it may be possible to defend excluding midwifery trainees undertaking post-registration courses from the relief, it would be more difficult to exclude those undertaking direct entry courses who will be in a very similar position to student nurses under Project 2000 in terms of the training they undertake, although the matter of whether or not they will move from salaries to non-means tested bursaries has not yet been considered.

17. The options for their treatment are:

i. Leave them to pay the full charge. The main disadvantage of this option is that it would create an invidious distinction between midwifery trainees and those nursing trainees, pre-registration and post-registration, who will qualify for the 80% relief.

ii. Grant them the 80% relief. This would ensure consistency of treatment among nurses on secondary courses, but it would greatly increase the number of comparatively well-paid student nurses who

benefit from the 80% relief. This might be particularly difficult to defend if salaried student nurses on pre-registration courses were denied the 80% relief.

SECOND REGISTRATION STUDENT NURSES

18. There is a third group of salaried, post-registration student nurses on whose treatment a decision is required. These are qualified nurses who switch from one clinical speciality to another (eg from mental health to general nursing) by undertaking what would otherwise be a pre-registration course. It is difficult to avoid the conclusion that they should be treated on precisely the same basis as pre-registration student nurses (in accordance with the decision taken on the first part of this note), despite being salaried. This is, once again, a consequence of the decision that the student relief should be based on the length and nature of study, rather than on a means test.

COST

19. These decisions on nurses following post-registration courses could have costs of up to £2 million in the first year in which they were implemented.

SUMMARY

20. There are four options for treating pre-registration student nurses:

i. Grant the 80% relief to Project 2000 student nurses only and leave salaried student nurses to pay the full charge.

ii. Grant the 80% relief initially to Project 2000 student nurses only, but reconsider the decision once a majority of student nurses are on Project 2000.

iii. Grant the 80% relief to all student nurses with effect from 1 April 1990.

iv. Grant the 80% relief to all student nurses with effect from 1 April 1989.

21. Three decisions are needed for post-registration student nurses:

- a) On the treatment of those in higher education. It is recommended that they should qualify for the 80% relief, despite being salaried.
- b) On the treatment of midwifery trainees. The options are to put them on the same footing as those in higher education, or stick to the line that they should pay the charge in full.
- c) On the treatment of second registration student nurses. It is recommended that they should be treated in the same way as pre-registration student nurses.



CONFIDENTIAL
DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Parliamentary Under Secretary of State for Social Security

*prep
(tree, and the
strong on this)*

CH/EXCHEQUER	
REC.	08 SEP 1988
ACTION	MR SCHOLAR
COPIES TO	SIR P. MIDDLETON, PS/CST, PS/FST, PS/EST,
	SIR T. BURNS, 8 SEPTEMBER 1988
	MR ANSON,
	MR PERETZ,
	MR SEDGWICK, MR HIBBERD,
MISS O'MARA, MR POTTER, MISS PEIRSON, MISS WHELDON (T. SOL).	

1/8/9

The Rt Hon Norman Fowler MP
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

Dear Norman

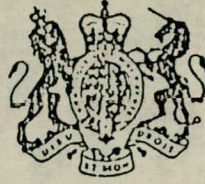
COMMUNITY CHARGE - RPI

In John Moore's absence, I am writing in response to your letter of 28 July to Nigel Lawson.

As you well know, the issue has important implications for social security benefits, most of which are uprated annually by the movement in the RPI. I know that John Moore will want to consider the issues when he returns to the office. For the present I can readily agree that members of the Retail Price Index Advisory Committee should be approached in readiness for when this matter is referred to them. I should add that my own view is that the community charge should be included in the RPI. The public perception would I think be quite clear: rates are in the RPI and the community charge should be too. The Index is used for uprating Retirement Pension and other national insurance benefits, and we can expect there to be accusations of "short changing the pensioners" if future upratings did not take account of the community charge.

I am copying this letter to Nigel Lawson, Nicholas Ridley, Malcolm Rifkind as well as to Sir Robin Butler and the head of the Government Statistical Service.

PETER LLOYD



10 DOWNING STREET

LONDON SW1A 2AA

Subsequent Correspondence to 9/5/88

c Mr. Russell
c Mr. Robson

Bob

THE PRIME MINISTER

9 September 1988

c Dr. Holling
c Mr. Sulmond

PM
→
GLASGOW
CC
9/9/88

Dear Mr. Campbell,

Thank you for your further letter about business rates.

May I first reiterate what I said to you in my own letter of 26 August: "In our Green Paper "Paying for Local Government" we made clear that we saw advantage in moving to a common non-domestic poundage in all areas and since then our policies have been aimed in that direction. We have no intention of going back on what we have set out to accomplish."

I understand your concern that the rates bills facing Scottish business should not be out of line with those in the South. And I am most anxious to ensure that you are treated fairly compared with others elsewhere in Britain. The harmonisation of valuation is one aspect of the problem and it is under consideration now. As I went on to explain in my letter of 26 August, the issues here are complex and it is important to get the right solution.

I am also concerned at the underlying problem of high local authority spending, which has been one reason for the level of rates you pay. We have to consider that too. The new community charge arrangements should of course produce more moderate spending policies.

These and other aspects must and will be looked at together. Malcolm Rifkind and I will be taking a very close

personal interest in any further action that may be necessary.
And let me repeat my earlier assurance of our resolve to see
through the programme of reform on which we have embarked.

Yours sincerely

Raymond Hunter

David Campbell, Esq.



M

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

Nicholas Scott Esq MBE MP
Minister of State for Social Security
and the disabled
Department of Social Security
Richmond House
Whitehall
LONDON
SW1A 2NS

CH/EXCHEQUER	
REC.	12 SEP 1988
ACTION	CST
COPIES TO	

9 September 1988

✓ 12/9

Dear Minister

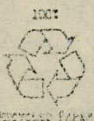
COMMUNITY CHARGE: DEDUCTIONS FROM BENEFIT

Thank you for your letter of 9 August about the way forward in implementing our decision to permit deductions from income support to pay off community charge arrears.

Clearly, your lawyers must draft the regulations and the substance of the community charge deductions scheme must align with your other schemes. I am not convinced, however, that it would be sensible to have the deduction regulations separate from the main regulations. Deduction from benefit is part and parcel of our system of enforcement. It was specifically intended to parallel exactly the provisions for attachment of earnings and the Act provides for the two remedies in neighbouring paragraphs of the same schedule of the Bill. I understand your wish to be able to amend all deduction powers in parallel; but the fact that these particular powers would be included in a larger set of regulations would not, I think, make them any more difficult to amend. And the problems you foresee for local offices could be overcome simply by retaining copies of only those parts of the regulations which apply to DSS.

Against your arguments we must set the administrative inconvenience of having an enforcement system, which was specifically intended to be all of a piece, contained in two separate instruments. Local authorities will complain that there is no logical reason for the distinction - an argument which it would be difficult to deny. And, as you will know, the deduction provisions are particularly sensitive. To have them contained in separate regulations would draw attention to them and would give our opponents a further opportunity to prolong debate on them. For all these reasons I think it would be more sensible for them to be included with the main administration and enforcement regulations.

I am broadly content with the details of the scheme as you set them out with one exception. I agree that 5% of the personal rate



for a single person would be an appropriate maximum deduction: you will recall that this was the amount I suggested in my letter of 11 March to John Moore. I agree also that appeals should lie in the first instance to a Social Security Tribunal. I am not happy, however, with your proposals for priority.

As I explained in my letter of 11 March, I believe that community charge should be given a high priority. Its importance is reflected in the fact that failure to pay is punishable by imprisonment. It is possible that income support recipients facing multiple debt problems would be held by the courts to have been culpably negligent if they are unable to pay their community charge. Culpable neglect is one of the two grounds on which a person can be sent to prison for not paying the charge. Clearly this would have very serious consequences for the claimant and his family. I think, therefore, that we must ensure that the system will enable community charge deductions to be made even where there are other claims on the income support.

You are concerned about the possibility of current liability accruing while a debt is being paid off. You will recall that in my letter of 11 March I suggested that this situation could be tackled in the same way as is provided for in the existing deduction schemes, by making the deduction the aggregate of two amounts. The first would be an amount towards the debt, up to the maximum of £1.70. The second would be an amount towards the continuing liability, which may consist of anything up to the actual weekly cost of the charge. As with housing costs, there would be a power for the adjudicating authority to direct that the actual weekly amount could continue to be deducted and paid directly after the debt had been discharged.

As to the addition of costs to liability orders, I agree that we will need to look at this in the context of the costs provisions of the enforcement regulations.

Finally, you raise the matter of PES transfer. I do not understand your reference to John Moore's letter of 20 February (which I take to be a misprint for 29 February). That implied that he would be making a running costs bid in this survey. There was no mention of PES transfers. Nor, in my view - contrary to the view set out in John Major's letter of 23 August - would a PES transfer be appropriate in a case such as this, involving a collectively agreed policy central to our overall programme. The correct course would be for DSS Ministers to make and justify a bid.

I am sending a copy of this letter to members fo E(LF), Malcolm Rifkind and to Sir Robin Butler.

Yours sincerely
R. Bigler
NICHOLAS RIDLEY

*MR (approved by the Secretary of State
and signed in his absence)*



ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

M
BF 12/9

CH/EXCHEQUER	
REC.	09 SEP 1988
ACTION	CST
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CONFIDENTIAL

Nicholas Scott Esq
Minister of State for Social Security
and the Disabled
Department of Social Security
Richmond House
79 Whitehall
LONDON
SW1A2 2NS

9 September 1988

Dear Nicholas,

COMMUNITY CHARGE: ATTACHMENT OF BENEFIT

Thank you for copying to me your letter of 9 August to Nicholas Ridley. I agree with your basic proposal, that the regulations setting out the rules for attachment of benefit should be made by your Department and should be free-standing. There are separate provisions for Scotland incorporated by the Local Government Finance Act 1988 in our Abolition of Domestic Rates Etc (Scotland) Act 1987, and it is essential that the arrangements for attachment of benefit in Scotland in accordance with these provisions should be fully in operation by 1 April 1989. The regulations will in fact have to be made some time in advance of that so that your offices and local authorities can work out their procedures.

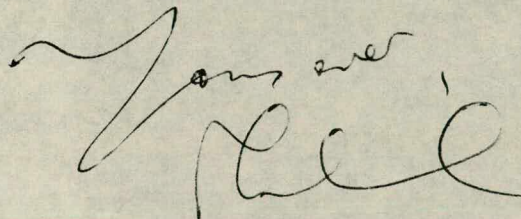
Your letter proposes an upper limit for the amount which may be deducted in any week, of 5% of the personal rate for a person aged 25 or over. That seems a reasonable figure for a single person, since it would enable the level of arrears likely to have built up before local authorities are able to obtain attachment of benefit to be paid off over a reasonable period of time. I do not understand, however, why you propose that the same weekly sum should apply for couples. Where both members of a couple are in arrears, as is presumably likely to be the normal case, the weekly deduction you are proposing would mean that it could easily take in excess of a year to pay off the sort of accumulated arrears we are likely to be talking about. I suggest that your figure of 5% should be applied to the couple's rate in this case.

I have no comments at this stage on the various operational points you have made but I hope there will be an opportunity for my officials to be fully involved in discussions of these matters before the regulations are finalised, and that there will be suitable consultations with local authorities.

Finally, I turn to your proposal that there should be a PES transfer in respect of the administrative costs of operating direct deductions. I am

surprised that you are raising now, for the first time, an issue which John Moore did not, as you suggest, refer to in his letter of 29 February. What he did say was that he would need additional running cost provision and that your department were currently looking at your estimates in the light of these decisions and that the requirements would be included in the Public Expenditure Survey. The only reasonable inference from this is statement following so closely on and in the light of what was agreed collectively on 4 February that he would (if necessary) make a bid for a running cost increase. Neither your nor Treasury officials have initiated any discussions with my Department on your new proposition. In any case I cannot as a matter of principle see why the cost of administering this aspect of the arrangements which your Department makes to help its clients meet their debts should be paid for by the Environment Departments. As John Major and you point out, the decision to attach benefit in this case is in furtherance of a collective decision that defaulting income support recipients should be treated in the same way as persons at work and that direct deductions in respect of community charge are no different in principle from a range of other deductions you make for such things as rates, rent and fuel. There is quite properly no PES transfer for these. I do not, therefore, consider it necessary or appropriate for me to make a PES bid for this element.

I am copying this letter to Nicholas Ridley and other Members of E(LF).

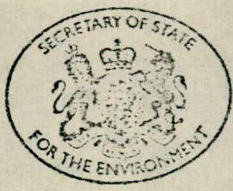
A handwritten signature in black ink, appearing to read 'Malcolm Rifkind', with a stylized flourish above the name.

MALCOLM RIFKIND

CH/EXCHEQUER	
REC.	13 SEP 1988
ACTION	CST
COPIES TO	

✓ 13/4

MP



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

Stuart Lord Esq
Private Secretary to
The Rt Hon Kenneth Clarke MP
Secretary of State
Department of Health
Richmond House
79 Whitehall
LONDON
SW1A 2NS

12 September 1988

Dear Stuart

COMMUNITY CHARGE: STUDENT NURSES

I am afraid that in the absence, as yet of a revised list of the membership of E(LF), your Secretary of State did not receive a copy of my Secretary of State's letter of 8 September to Malcolm Rifkind. I am now rectifying that omission. A copy has already been sent to John Rogers in your Department.

Copies of this letter go to No 10, Private Secretaries to Members of E(LF), Murdo MacLean and Trevor Woolley.

Yours sincerely
Rose Bright

R BRIGHT
Private Secretary

SECRET

IAN PLENDERLEITH
ASSISTANT DIRECTOR
HEAD OF GILT-EDGED DIVISION
01-601 4491

BANK OF ENGLAND
LONDON EC2R 8AH

13 September 1988

D L C Peretz Esq
H M Treasury
Parliament Street
London
SW1P 3AG

Dear David,

INDEX-LINKED GILTS AND THE RPI

not copied to us.

- 1 In your letter of 12 September you asked us, in the context of current consideration of how the Community Charge should be treated in relation to the RPI, to consider the differential effect of the second option described in Michael Scholar's letter of 19 May as compared with the third option in that letter.
- 2 In trying to respond to your question, I should stress at the outset that, so far as concerns our function under the prospectuses relating to index-linked gilts, we do not consider that a comparison of that kind would be a relevant factor in reaching the determination required of us under the index-linked prospectuses and we would not think it appropriate to take it into account for that purpose. We remain of the view that what is required in relation to any particular option is a comparison of the position prior to the change with that applicable after it, rather than with alternatives other than that actually implemented. You indicated in your letter, however, that your legal advice on the interpretation of what is required under the prospectuses is different from our own. That there should be a divergence of views on so significant a question is a serious matter that we believe we need to address. We therefore think that we need to consult Counsel in order to obtain a third opinion.
- 3 In the meantime, we have endeavoured to make what comparison we can of the two options in question. The second option would, as Michael Scholar's letter describes it, provide for rates (apart from Northern Ireland rates) to be progressively removed from the RPI, with the Community Charge not substituted, but with adjustments being made to the weights attaching to the components

of the index as rates were progressively abolished to "avoid major discontinuities" in the level of the RPI. Under the third option, as we understand it, rates would similarly be progressively removed from the RPI, but they would in the process be replaced by the Community Charge.

4 It is helpful to consider differences in the effect of these two options under two heads - the one-off impact effect on the level of the RPI and the continuing effect thereafter on the future rate of growth of the RPI.

5 Differential impact effects could arise in a number of ways and we would need to study the details of precisely how any such change was to be implemented before we could reach a firm view. But one of which we are aware from Michael Scholar's letter of 19 May is that progressive inclusion of the Community Charge as rates were removed from the RPI (the third option) would be likely at that point to raise the level of the RPI above the level produced by the second option because "index households" - which do not include the richest 4% of households and certain pensioners - are, we understand, likely to pay a relatively higher proportion of the Community Charge than of domestic rates. In the papers we have seen, the scale of this effect is put at around 1/4 percentage point, once-for-all.

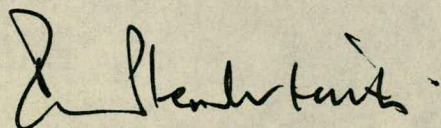
6 The difference in continuing effect between the two options would depend on the extent to which the Community Charge rose faster or slower than the rest of the RPI. This is unknowable; and the historical performance of rates, which as you know we have already considered in our letter to you of 22 June, does not seem to us likely to be a useful guide to the future performance of the Community Charge.

7 The impact effect identified above does not in itself appear likely to be substantial, though it would be disadvantageous to the interests of stockholders and we would need to satisfy ourselves as to whether there were other impact effects. On the continuing effect, we are conscious that it is very difficult to reach any considered view, because there are so many unknown quantities. We are aware of a view expressed by some commentators, and noted in the Treasury's paper of 14 July on "Prospects for local authority finances", that local authorities may "see the new system as an opportunity to raise expenditure (and the Community Charge) in the belief that the level of the Community Charge will be seen as a government responsibility". We also note from the Department of Employment's paper of 22 July on "Treatment of rates and the Community Charge in the RPI" that future uprating of business rates will be limited to an amount not greater than the increase in the RPI, so that excluding the Community Charge from the RPI "could be seen as a means of further depressing the non-domestic contribution to local authority costs and increasing the burden on Community Charge payers". We are, of course, aware of the Government's view, expressed in the Treasury paper noted above, that "over time the greater accountability of local authorities resulting from the Community Charge system will reduce expenditure compared to what it might otherwise be, reducing the Community Charge for any given level of business rate income and grant receipts". On the Treasury's own projections in that paper, the Community Charge does not look likely to grow substantially in 1990-91, but the projections

suggest that it could rise more sizeably in 1991-92; and we have seen no projections for the years beyond.

8 On these considerations the second option would appear likely to be disadvantageous to stockholders as compared with the third option. But we do not at this stage feel able to make an assessment of the scale of the disadvantage.

Yours sincerely,





cc: Sir T Burns
Mr Anson
Mr Scholar
Mr Peretz
Mr Sedgwick
Miss O'Mara
Mr Potter
Miss Wheldon - T,Sol

H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 4360

Sir Peter Middleton KCB
Permanent Secretary

J Hibbert Esq
Director
Central Statistical Office
Great George Street
London SW1P 3AQ

13 September 1988

Dear Jack,

RETAIL PRICES INDEX

not copied to us

Thank you for your letter of 26 August. I quite take the points you make.

However, in the second paragraph of your letter to the office of the Secretary of State for Employment you say that it would be ironic if "the distinction between prices and costs were now to be abandoned at a time when this would be likely to lead to an upward bias in the RPI as a measure of prices changes". Does any statistical analysis underlie this statement? There is great uncertainty about the future growth of the Community Charge, which seems to me to be wholly unpredictable. It will largely turn on decisions which will be taken by Ministers and local authorities over many years. But if the present Government's aim in introducing the Community Charge is successful we would expect the growth of the charge to be restrained in the coming years.

As regards the line of approach to the Advisory Committee, I think it most important that the representatives of central government on the committee should speak with one voice during its deliberations on this sensitive issues, though of course the final decision must await the advice of the Committee.

Johns
P

P E MIDDLETON



? Want for Bank
 Swift ?

Rates and base
 NICS hypothesis

Financial taxes, New sec.
 TP1
 (absurd to include all the
 tax wh. the gov. is
 committed to reduce)

~~Future~~ Ordinance:
 State as engine of
 Finance (as well
 as in 1886: (S. 18))

pv

FROM M C SCHOLAR
DATE 13 SEPTEMBER 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr A J C Edwards
Mr Peretz
Mr Sedgwick
Mr Hibberd
Miss O'Mara
Miss Wheldon

Ch
Choice is between waiting for BAE, or writing to Fowler saying you news are subject to clarifying one legal point on indexed gilts (what about a wider audience - but surely they must know why we've taken so long?)

THE RPI AND THE COMMUNITY CHARGE

AA

You asked us (Mr Allan's minute of 5 September) to consider a quick reply to Mr Hibbert's recent letter to the Secretary of State for Employment's office, contesting his premise that if the community charge were included in the RPI that would be likely to lead to upward bias in the RPI as a measure of price changes. Sir Peter Middleton has now written to Mr Hibbert in this sense (copy attached).

2. We have been hoping each day to be able to give you a draft letter to send to Mr Fowler and colleagues setting out your views on the substance of the matter (with a separate minute to the Prime Minister on the indexed gilts dimension), as a prelude to a decision on the government's approach to this matter. But we are held up by the Bank, whose letters of 6 and 13 September (copies attached) do not answer an important question posed in my letter of 1 August.

3. My letter, on the Solicitor General's advice, invited the Bank in reaching their view to compare the RPI without the community charge with an RPI which included the community charge - ie to make option 3 the comparator in assessing whether option 2 would be a fundamental change in the RPI which would be materially detrimental to the interests of holders of indexed gilts. The Bank's initial reply declined to make this comparison. We have pressed them to reconsider this, or at least to add a sentence to

7

say what their view would be if, in disregard of their legal advice, they were to make this comparison. Their response is first to think again about the legal advice they have received - so they intend to seek the opinion of Counsel; and second, despite some generally helpful comments, to decline to give a definite assessment of the scale of the likely disadvantage to stockholders on option 2 as compared with option 3.

4. I do not think that we could advise you to minute your colleagues while so much remains unresolved. It cannot be ruled out that the Bank after consulting Counsel will alter their views they have expressed so far. We also need to consult the Law Officers again in the light of the Bank's letters, and Miss Wheldon is arranging this. We cannot rule out that either of these further consultations could cause you to reconsider the judgement that the risk attaching to option 2 is acceptably low.

5. Meanwhile we are running short of time. A final decision, taken in the light of the Advisory Committee's views, is needed by February if we are to have the RPI ready for the abolition of domestic rates in Scotland. If the RPIAC is to consider this matter and report in time for the Secretary of State to announce a decision by this date the invitations and terms of reference need to go out very soon. The attached note by Mr Sedgwick discusses the timetable.

6. We are urging the Bank to take their further advice as quickly as possible. To hasten matters once we have that reply you may care to glance at the draft letter and minute we have already prepared on the basis that this and the Law Officer's further advice will lead to no change of view.

Public Expenditure

7. There are two other matters I should mention. First, Miss Peirson has asked me to draw attention to the scale of public expenditure cost there could be if option B led to pressures that could not be resisted to uprate state pensions by earnings instead

of prices. If earnings rose at 8 per cent a year and the RPI at 4 per cent a year, then the extra cost on state pensions would be £0.8 billion in the first year, £1.7 billion in the second year and £2.7 billion in the third year.

8. As you have noted, Mr Hibbert has drawn attention to this risk in his letter of 28 August, as has Mr Lloyd in his letter of 8 September. The draft letter to Mr Fowler rebuts the suggestion that the exclusion of Community Charge from the RPI would be 'unjust' - to state pensioners or to anyone else.

Disclosure

9. Second, there is another aspect to do with index-linked securities, about which we will have to take care. This is disclosure. You may remember we faced the same problem when the RPIAC last met in 1986. Treasury Counsel then advised that we were at risk from claims based on misrepresentation if we sold IGs and indexed-linked securities after having taken decisions about the RPI but before those decisions were made public. (The same applies to IG sales by the Bank if they know of the decisions.) This is a separate matter from the IG prospectus clause about which we have been consulting the Bank: an aggrieved investor could not claim redemption of his stock but would try to set aside the purchase contract or claim damages for any actual loss he had suffered. The Bank's opinion about the likelihood of the investor suffering loss would be irrelevant.

10. Treasury Counsel advised in 1986 that the legally safest option was to stop selling index-linked investments before the decision making period. Instead we adopted the other option of publicising the Advisory Committee's terms of reference and recommendations, so reducing the price sensitivity of the final decision, and of cutting to a minimum the period between the taking of relevant decisions and their announcement.

SECRET

11. We have discussed this with Miss Wheldon. We will need to do what we can to ensure that decisions once made are announced promptly (this would apply, for example, to making a prompt announcement about the terms in which the issue has been referred to the RPIAC, and about any formal recommendation made to the RPIAC by government members); and that internal papers do not accidentally suggest that decisions have been made when in fact they have not.

MCS

M C SCHOLAR

RPI ADVISORY COMMITTEE TIMETABLE

	Preferred Date	Last Date*
1. Official invitations to RPIAC members (from SOS) and circulation of terms of reference	September	Mid-September
2. Circulation of short paper for first meeting	Mid-September	Late September
3. 1st meeting To outline problems and get the members' initial reaction on the main question of inclusive/exclusive. (Paper handed out for 2nd meeting.)	Early October	Mid-October
4. 2nd meeting To discuss specific alternatives, implications, methodological details etc. (Possible extra meeting to be arranged if necessary - ie if there are major disagreements.)	Early-November	Mid-November
5. 3rd meeting To discuss and agree and draft Report	Early December	Mid-December
6. Report submitted to Secretary of State	Early January	Mid-January
7. Final decision made and announced	Early February	Mid-February

* This involves some risks. It assumes that preparations can be made for the index to be computed in a number of ways in anticipation of the decision.

SECRET
AND MARKET SENSITIVE

DRAFT MINUTE TO THE PRIME MINISTER

Ch
This seems much too long.

AA

COMMUNITY CHARGE AND THE RPI : INDEXED GILTS

1. As you know from Norman Fowler's letter of 28 July and my reply of 4 August, [he]^{Norman} is proposing to convene the RPI Advisory Committee to consider the implications for the Retail Prices Index of the introduction of the Community Charge. [There is not as yet agreement between colleagues on these issues, though I understand Norman hopes this can be settled quickly so as to give the Committee the maximum time in which to complete its work.]

2. I have no doubt that the right course is to exclude the Community Charge from the RPI. The arguments in paragraph 2(a) and (b) in the paper by officials, of 22 July, are strong ones. *I have written separately to Norman setting out my views in greater detail.*

3. I have however had a particular concern in considering this issue, which my officials have been discussing with the Bank of England. This is the possible implication for index-linked gilts (IGs), given the standard clause in IG prospectuses^{i?} that gives investors the right to require HMG to redeem stock at "indexed par" (ie the current redemption value) "if any change should be made to the coverage or basic calculation of the Index^[Retail Price] which, in the opinion of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the

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AND MARKET SENSITIVE

interests of policy holders". All IGs at present stand below their current redemption value in the market, and if we were required to redeem and refinance them with new stock there would be a cost to the Government of some £3 billion. Moreover, after such an event the IG market would be likely to remain disrupted, and [less attractive to the Government].

it would be both harder & more expensive for the Government to issue new IEs

4. Officials have therefore been considering with the Bank whether any of the options set out in the paper [by officials] circulated with Norman's letter of 28 July would be likely to trigger this clause. Although the key to this is "the opinion" reached by the Bank of England, we have been mindful that the Bank's decision could be open to challenge in the Courts, and have taken extensive legal advice, consulting the Law Officers.

5. The Bank has considered the three Options set out in paragraph 14 of the paper by officials. The Bank's view, in summary, is as follows :

- Option A, which produces a 4% step downward change in the level of the RPI, would represent a fundamental change to the RPI that was materially detrimental to IG stockholders, thereby requiring stock to be redeemed. I believe this option in any case to be politically unacceptable.
- Option B, under which rates drop out from the RPI as they are abolished but without producing a major discontinuity, is not a fundamental change in the Index,

**SECRET
AND MARKET SENSITIVE**

and even if it were, there are no firm grounds for concluding that it would be materially detrimental to the interests of stockholders.

- Option C, under which rates are replaced in the Index by the Community Charge, is a fundamental change in the Index, since payments such as the Community Charge which are statistically classified as direct taxes have hitherto been excluded, but there are no firm grounds for concluding that it would be materially detrimental to the interests of stockholders.

6. At this stage these can only be provisional conclusions. The Bank cannot give a definitive opinion until the decision on the RPI has been made. At that stage the Bank would need, for example, to take account of any comments made by the RPI Advisory Committee and any other relevant information known to Government.

7. [In reaching these conclusions the Bank has considered the evidence of relative growth of rates and other elements in the RPI in the past; and it has been shown such assessments as have been made within Government of the likely future growth of the Community Charge.]

[8. It is possible that the RPI will rise more slowly under Option B than under Option C. An aggrieved investor might seek to argue Option B had therefore operated to his disadvantage. He might argue that because local authority spending consists largely of pay, which tends to rise faster than prices, it is

Do we need all this for PM?

SECRET
AND MARKET SENSITIVE

therefore likely to continue to be buoyant; and that with the limitation of the growth of the business rate poundage within the growth of the RPI the Community Charge is likely to grow faster than the RPI. On the other hand, the level of the Community Charge will depend on decisions by Ministers about the level of grant to local authorities, and its growth will be restrained to the extent that it achieves its intended effect of holding back local authority spending through increased accountability.]

9. The Bank [might well] ^{may} face a challenge in court that it should have triggered the redemption clause, [particularly if Option B is chosen.] [The legal advice given on the basis of the information available to the lawyers so far is that the risk of a successful challenge is low, and I believe acceptably low.]

10. [To summarise,] I am clear that on merits Option B is the right course to pursue, and I have reached that conclusion after considering the implications of the different options for IGs. I believe that the risk with Option B, insofar as there is one, is acceptable. Indeed the Bank's conclusion that the prospectus clause was not triggered could also be open to challenge under Option C, although the practical risk of this is less. Option B can be defended as the normal statistical treatment. Indeed including Community Charge in the RPI (Option C) would be a clear breach with previous practice, and would set a difficult precedent for the future.

*This para
only worth
including
if last
sentence
retained*

SECRET
AND MARKET SENSITIVE

11. [I should add that despite my own firm view that Option B is the better course I accept that the RPIAC must be consulted and their views be taken fully into account before the Government reaches a final decision on the matter. Indeed I understand that the Government might be ^{subject to} judicially [] reviewable [] if the normal procedures were not followed. I hope however that you and our colleagues will agree that in referring the matter to the RPIAC we can suggest that Option B is preferable.]

12. There could be undesirable market consequences if this issue were discussed publicly on the basis of inadequate information, particularly if there were any suggestion that Option A, with a 4% fall in the RPI, were being considered. We must do what we can to reduce uncertainty, and this is a further reason for making a clear recommendation to the RPIAC and for publicising that as soon as it has been made.

13. Given this market sensitivity I am sending copies of this note only to Norman Fowler and Patrick Mayhew. [I am writing to Norman and other colleagues separately with my views on other issues that have been raised in the correspondence.]

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DRAFT LETTER FROM THE CHANCELLOR TO NORMAN FOWLER

COMMUNITY CHARGE - RPI

I am sorry not to have been able to reply before now to

1. [I have now had an opportunity to think further about] your letter to me of 28 July; [and] I have [also] seen copies of Nick Ridley's letter to you of 12 August, and the letter from the Director of the Central Statistical Office of 26 August to your private secretary.

2. I am in no doubt that the Community Charge should not be included in the RPI. The arguments against inclusion, set out in paragraph 2 of the draft note by officials, are in my view overwhelming. The RPI is a measure of the general price level and it is perfectly clear that the Community Charge is not a price.

The reason that
^ Domestic rates, [on the other hand,] are included in the RPI *is that they are*
^ [as] part of the price of housing and vary with inter alia the level of consumption: the larger the house the greater the consumption of housing services and the higher the rates bill. If we were to include the Community Charge in the RPI on the grounds that it finances local authority spending we ought in logic to include central government taxes in the RPI too, on the grounds that they too finance government services. That would be absurd: yet to include the one and not the other would be to pick and choose arbitrarily among what to include in the index; and it would, as the Director of the Central Statistical Office points out, change

the RPI from a price index to a hybrid statistical indicator measuring a mixture of changes in prices and changes in costs.

[Indeed we would be but a short way from including all direct taxes in the RPI.]

← sounds as if that would be a bad idea?!

3. Nevertheless I am sure that it would be right, and indeed necessary, to prevent sudden discontinuities in the RPI at the moment when local authority domestic rates disappear first in Scotland and then in England. I therefore support Option B, in paragraph 14 of the notes by officials, which avoids any step downward in the RPI when the domestic rates are abolished.

4. Nick Ridley suggests that the Government's critics will assert that the Community Charge will rise more quickly than the rest of the RPI and to exclude it will therefore penalise the recipients of state pensions and other benefits. I am sure that some will argue in this sense because they believe local authority spending, and hence the Community Charge, must rise much more rapidly than the RPI. But this view is mistaken, assuming as it does that our aim in introducing the Community Charge will be frustrated from the start. We will need to deal robustly with these arguments. It would be quite wrong to be driven by them to adopt a manifestly incorrect statistical treatment for the Community Charge (which would incidentally be likely to be interpreted as acknowledging by implication that the views of such critics about council spending were well-founded). We should instead point out that a key aim of the Community Charge is to restrain local authority expenditure by making local councils more accountable to their electorates and that past trends in local

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authority expenditure and domestic rates cannot therefore be considered a reliable guide to what will happen under the new system. The future growth of the Community Charge will reflect the extent to which councils are more careful about spending their electorates' money, the level of central government grants and the growth in business rate revenue as business property expands and improves. In the light of this there can be no certainty as to whether inclusion or exclusion of the Community Charge will be to the advantage of those receiving state benefits.

It is clearly important that we

5. [I hope, that, on reflection, Nick Ridley will see the force of these arguments. Once we have reached] an agreed view on the line the government will recommend to the Retail Price Index Advisory Committee, we should put the matter to that Committee and await the outcome of its discussions. Because this is a sensitive issue we will need to follow the deliberations of the Committee carefully,] and it will be important that the central government representatives should speak with one voice during the discussions. [I accept of course that the Committee's conclusions must be taken fully into account before any final decision is reached.] *I am clear that our position should be to*

recommend Option B, namely that the community charge should not

6. I am copying this letter to the Prime Minister, and the Secretaries of State for the Environment, Social Security, and Scotland, [as well as] ^{and} to Sir Robin Butler and the Director of the Central Statistical Office.

be included in the RTI

I think this is a very important matter and all such a communication

the same as the other

(N.L.)

SF/0



Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-273.....
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

CH/EXCHEQUER	
REC.	14 SEP 1988
ACTION	FST
COPIES TO	

MP

14/9

Our Ref: PO 23412

Dr Marjorie Mowlam MP
House of Commons
LONDON
SW1A 0AA

/3 September 1988

Dear Marjorie Mowlam

As you will be aware Norman Lamont has passed me a copy of your letter of 6 July enclosing a table from the Forum of Private Business, Barclays Bank Chambers, Cheshire to reply to question 5 which concerns this Department's Small Firms Service.

I was interested to see that nearly two thirds of the Forum's members, according to the national ballot result, are in favour of the Government expanding the Small Firms Service by creating more Small Firms Centres in major towns. As you may be aware, as part of the Government's Action for Cities initiative, the Service is establishing six new inner city offices by September to meet the particular needs of the business communities in these areas.

The Small Firms Service is a national service operating through 11 regional Small Firms Centres. It maintains an extensive network of 231 area counselling offices throughout England in which clients can meet with SFS Counsellors to discuss their business problems.

I hope this reply is helpful.

Yours ever
John Cope

THE RT HON JOHN COPE, MP

TABULATION CENTRE OF THE FORUM OF PRIVATE BUSINESS

BARCLAYS BANK CHAMBERS, KING STREET, KNUTSFORD, CHESHIRE, WA16 6EH

Dear MP

Set out below is the response from Forum members to "Referendum 83".

Enclosed are the ballot forms with a question or comment for your attention. Also enclosed are the blank ballot forms for your information.

You will note that some of these addresses will be addresses for **businesses outside your constituency**, but we are assured that these businessmen and women do live in your constituency.

If you have any problems or difficulties, please write or telephone;

Mr S A Mendham
The Forum Of Private Business
Ruskin Chambers
Drury Lane
KNUTSFORD
Cheshire
WA16 6HA

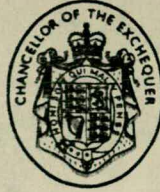
Telephone 0565-4467

THE FOLLOWING ARE OUR MEMBERS' OPINIONS TO "REFERENDUM 83"

	For	Against	No Opinion
1. Are you for or against phasing-in decreases in business rate bills from 1990 onwards ?	62.5%	37.5%	—
2. Are you for or against a "safety-net" for small firms badly affected by increased rate bills ?	100%	—	—
3. Are you for or against the Chancellor's new tax strategy for businesses ?	75%	12.5%	12.5%
4. Are you for or against the revaluation technique known as "zoning" ?	25%	75%	—
5. Are you for or against the Government expanding the Small Firms Service by creating more SFS centres in major towns ?	100%	—	—

NATIONAL RESULT TO THE ABOVE QUESTIONS

	For	Against	No Opinion
1.	53.6%	38.7%	7.6%
2.	87%	9.5%	3.3%
3.	73%	21.5%	5.3%
4.	12.4%	75.6%	11.9%
5.	64.5%	20%	15.4%



pyg

NOTE OF A MEETING IN NO. 11 DOWNING STREET
AT 5pm ON WEDNESDAY 14 SEPTEMBER 1988

Present: Chancellor
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr A J C Edwards
Mr Peretz
Mr Sedgwick
Miss Wheldon - T.Sol

COMMUNITY CHARGE AND RPI

The Chancellor said he wished to consider whether we should continue to wait for the Bank's advice before he wrote to Ministerial colleagues; and whether we really needed to decide what course to adopt in time for the new RPI to be in place by April 1989, when the community charge was introduced in Scotland. An alternative would be to leave the weight for rates unchanged but to apply average rate increases in England and Wales only rather than in England, Wales and Scotland. In discussion the following points were made.

- i. The alternative would probably make only a negligible difference to the RPI compared with either including or excluding the community charge in Scotland, unless there was a completely unexpected surge in local authority spending in Scotland.
- ii. We could not meet the end September deadline for submitting a paper to RPIAC. But the more the timetable given to the RPIAC for their deliberations was squeezed, the greater risk of judicial review of the procedures being followed.

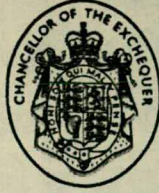


iii. A better alternative might be to let the idea of continuing to use the existing weights post-April 1989 come out as a suggestion from the RPIAC themselves, when they realised they would not be able to complete their deliberations in time.

2. It was probably reasonable to let Mr Fowler go ahead and formally constitute the RPIAC and start sounding members out on dates for meetings, but without at this stage revealing what the agenda was. As soon as news of the topics to be discussed was made public, the Government would come under intense pressure and it was vital that a common line was agreed before then. The Chancellor asked for a draft letter for him to send Mr Fowler making these points, and for advice on who was likely to be nominated as members of the RPIAC (including whether the union representatives should be restricted to TUC members).

3. The Chancellor said he saw little option but to continue to wait for the Bank's further letter before he replied to Mr Fowler on the general issues, though it was most unattractive that the comments from Mr Ridley and others had lain unchallenged on the table for so long. Option 2 still seemed clearly right in principle. But unless (a) the Bank were able to say that they had made their assessment and that the scale of any disadvantage would not be material, and (b) the Solicitor General was satisfied that the procedures adopted by the Bank in making that assessment could be successfully defended, we would probably have little choice but to drop this option.

4. Sir T Burns asked whether, if option 3 were chosen but it subsequently emerged that the community charge had risen more slowly than other components of the RPI, we would then be at risk.



Miss Wheldon said that the Bank's assessment would be judged on the circumstances at the time they made it. If they gave their assessment in good faith, taking account of all relevant factors, that would be sufficient.

5. Summing up, the Chancellor said that it was clearly not possible to minute the Prime Minister about the indexed gilt point. And it was not worth writing to colleagues on the other points yet. If we did decide that the risks in pursuing option 2 were acceptable, the points he would want to make were:

- i. rates were a tax on housing and formed part of the price of housing; the community charge was not part of the price of anything.
- ii. The question or not whether something was called a tax was irrelevant: we had made much of NICs not being a tax, but they were not in the RPI.
- iii. The community charge was a direct tax, and it was absurd to include that direct tax but not other direct taxes which the Government was committed to reducing.
- iv. Since the community charge was not a price, the only reason for including it would be if we thought it would go up much faster than the other components of the RPI, so that excluding it would be to the disadvantage of pensioners and indexed gilt holders. But this was a very curious view to hold, since it was confession of failure about the purpose of the community charge in



making local authorities more accountable, and was a green light to local authorities that the Government expected them to bump up spending.

ACSA

A C S ALLAN

Distribution
Those present

PS/Chief Secretary
Mr Hibberd
Miss O'Mara

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ppp p1.

CHIEF SECRETARY

chrd

FROM: B H POTTER

Date: 15 September 1988

cc: PS/Chancellor *←*
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Edwards
Miss Peirson
Mr Turnbull
Mr Fellgett
Mr Call**COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS**

In his letter of 8 September attached, the Environment Secretary presses his earlier proposal for a specific grant for Community Charge (CC) preparation costs next year. I recommend that you again oppose a specific grant for this purpose.

Background

2. Mr Ridley first raised the possibility of such a grant in July. Following letters from Mr Rifkind and you opposing the idea, Mr Ridley indicated that he might well return to the point in the autumn. However this second letter does not contain any new arguments in favour of a specific grant. Rather the arguments focus on the presentational advantages of a specific grant, with references to how local authorities will "feel" if they do not receive "visible identifiable additional support".

Assessment

3. On the one hand, it might be argued that we should acquiesce. Now that AEG is fixed for 1989-90, it does not matter in Exchequer or public expenditure terms whether grant towards CC preparation costs is paid as block grant or specific grant. And if Mr Ridley feels there are presentational advantages in introducing a specific grant (which would only last for one year) then given his responsibility for introducing the policy, Treasury should not object.

4. But there are strong arguments of principle against a specific grant (reflected in my earlier submission of 8 July attached) - that specific grants reduce local accountability; that they reduce the amount available to meet differences in need through block grant; and that, having required LAs by law to introduce the CC, it should not be necessary to "bribe" them as well through additional specific grants.

5. I recommend your reply should pick up three other points. First the argument is all about presentation. All but the handful of local authorities out of grant, receive block grant from DOE; and all authorities get specific grants from DOE and other Departments. Providing the same method of distribution is adopted therefore, most local authorities should be indifferent whether grant comes in the form of block or specific grant.

6. It is true that local authorities will not notice how much grant they get for Community Charge costs if it is contained within their general unhypothecated block grant. But the importance of this can be much exaggerated by DOE officials. Assume an authority is entitled to £1 million grant towards Community Charge preparation costs (whether delivered as block or specific grant). Also assume that its block grant entitlement has fallen between 1988-89 and 1989-90 for other reasons, (ultimately related to its relative needs and resources) by £5 million. The heart of Mr Ridley's case is that the local authority will "feel" better if their block grant does down by £5 million but there is an identifiable extra £1 million in the form of a specific grant for Community Charges, than if their block grant goes down by a net £4 million and there is no specific grant for Community Charge preparation costs.

7. It would require a particular lack of financial sophistication amongst councillors to be deceived by this. And certainly any Treasurer ought to be able to explain what was happening. We are not convinced that the Government ought to start paying specific grants for essentially presentational purposes. Indeed we are sceptical of the whole premise that LAs will only prepare properly for the CC if they receive overt grant support: post 1990, the Community Charge will be virtually their only source of own revenue - they have a considerable incentive to collect the money efficiently.

8. Secondly Mr Ridley has understated the importance of the Scottish dimension. Scottish local authorities did not get specific grant paid to them this year to help with their preparation costs. (And arguably, their costs are likely to be proportionally greater as the burden of the learning process is placed on them.) It would be very awkward for Mr Rifkind now if there were a specific grant introduced in England; and you will have noted his suggestion (letter of 11 July) that it would look like a panic measure. Mr Ridley argues that the distributional problems were less in Scotland because no authorities there were out of block grant - his other main reason for seeking a specific grant. But the only authorities responsible for introducing the CC in England which are out of grant tend to be rich resource authorities like Westminster and Kensington; they seem unlikely to grumble too loudly. Moreover, and importantly, Welsh Office also do not want a specific grant for this purpose. In short we are being told that specific grant is necessary to introduce the CC in England but not in Scotland and Wales.

9. Thirdly there is an extraordinary contradiction in Mr Ridley's own proposals. He is arguing for earmarking grant to provide visible identifiable additional support on the current costs of introducing the Community Charge. But his proposals for handling the larger capital expenditure on preparation costs do not involve any central Government direction of the resources.

10. You are to discuss with Mr Ridley shortly capital allocations for new computer equipment, additional office space etc. But Mr Ridley is not proposing to earmark ie "top slice" allocations within the total capital allocations given under the LA cash limit DOE/LA1. (Thus they can in principle be vired to other expenditure purposes.) Even more extraordinary, he is content to leave the distribution of these capital allocations to the local authority associations - as part of the LES block. Why is it necessary to have "visible identifiable support" for current costs while the larger capital costs are neither reserved for this purpose nor distributed according to central government's own assessment of need?

Conclusion

11. Our view remains that this is something of a panic measure which in large part reflects pressure from the Association of Metropolitan Authorities (AMA). (The ADC are more modestly supportive of the idea.) But Mr Ridley takes the issue seriously; and we are aware of strong lobbying both by senior DOE officials to us and to the Prime Minister's office. Our understanding is that the Prime Minister is likely to regard this as an issue for Mr Ridley to sort out as the Minister responsible for the policy. But Mr Ridley may appeal to the Prime Minister if you and colleagues again reject the proposal.

12. The attached draft therefore takes a rather less aggressive line than your previous letter. It acknowledges the presentational point, while nonetheless bringing out our doubts about its importance. It also draws attention to the points about Scotland; the position on capital; and restates the wider points of principle.

Barry H. Potter

BARRY H POTTER

DRAFT LETTER TO SECRETARY OF STATE FOR THE ENVIRONMENT

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

Thank you for your letter of 8 September pursuing the case for a specific grant in 1989-90 towards the current costs of preparing for the introduction of the Community Charge.

I have carefully reconsidered the proposal. I appreciate that you believe there would be presentational advantages in introducing a specific grant towards the preparation costs. But I do wonder how important these would be.

The bulk of authorities responsible for setting up a collection fund will be in receipt of block grant and therefore would get grant support for Community Charge preparation costs. We have already announced that the full £110m for such costs is to be added to GREs. It is true that local authorities will not be able to identify a specific sum within their total block grant and that some authorities will nonetheless see their total block grant payment fall between 1988-89 and 1989-90 - for example, because their relative needs have fallen or resources increased. But how much difference will it make to such authorities whether they receive say £3m less in block grant in 1989-90 and no specific grant for CC preparation costs or £4m less in block grant plus £1m specific grant? I would be surprised and dismayed if councillors thought the latter presentationally important.

Moreover I would not be so inclined to dismiss Malcolm Rifkind's objections to the specific grant. I think it would be difficult to explain why a specific grant was necessary in England but not in Scotland. (I take the point about some authorities being out of block grant in England but these are all either rich and need no grant assistance or overspenders and deserve none.) I also understand that Peter Walker sees no need for a specific grant in Wales for this purpose.

We also need to consider the position on capital expenditure for CC preparation costs, where you have an outstanding bid for £150m in additional capital allocations. We will be discussing that bid shortly: but I understand it is your intention not to "top slice" any allocations agreed ie not to earmark them for this particular purpose and to leave it to the local authority associations to distribute them. It seems odd that you see a requirement for a specific grant so as to channel visibly grants towards the current preparation costs, while being content neither to earmark nor control the distribution of the larger amounts proposed for capital expenditure.

In short I remain unconvinced that the presentational case is made. As you and I have so often argued in the past specific grants are inherently undesirable since they reduce the amount available within AEG for block grant and reduce the financial incentives for efficiency and value for money. Moreover the Local Government Finance Act requires LAs to prepare for the CC; and they have a strong financial incentive to meet that requirement,

in order to collect their main source of own revenue. Quite simply I do not believe it is desirable for us to appear to offer additional grant support in order to encourage LAs to do something they are required to do by law and is in their own financial interests.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

[J.M]

psp

FROM: P N SEDGWICK
DATE: 15 SEPTEMBER 1988

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Edwards
Mr Peretz
Mr Hibberd
Miss O'Mara

Ch
This is overtaken by Fowler letter below. Presumably write and say can proceed to sound people out about dates for meeting but no indication yet about agenda.

Ms Wheldon - Tsy. Solc.

RPI - ABOLITION OF DOMESTIC RATES

Following the decision at your meeting yesterday I attach a draft letter for you to send to Mr Fowler on the formal convening of the RPIAC.

2. You might like to see as well DE's list of the proposed membership of the RPIAC. So far there have been no formal invitations to potential members of the Committee. All that has happened is that the usual outside bodies have been asked if they would be prepared to nominate representatives and certain academics or other experts have been asked if they would be available. (DE have not told any of these what topics would be on the agenda.)

3. As far as I am aware the Central Government and Bank of England representatives have not yet been formally approached. I will be interested to see whom DOE nominate.

4. It is possible that Mr Fowler may choose not to invite trades union representatives even though they have been asked if they would be prepared to serve. As you will see the TUC has said that it would again nominate David Lea. He has asked what matters DE want the RPIAC to consider and has said that the TUC has a few issues of its own (as yet unspecified) that it would like to put to the Committee.

P.N.S
P N SEDGWICK

One issue is do you want to float possibility of not doing anything by next April (see Fowler letter) Not @ this stage.
AA

DRAFT LETTER FROM CHANCELLOR TO SOS FOR EMPLOYMENT

RPI - ABOLITION OF DOMESTIC RATES

I am sorry that, following my letter to you of August 4, it has not been possible for me to come back to you earlier on the treatment of the RPI once domestic rates are abolished. I am afraid that we have not yet resolved the difficult issues to which I referred in that letter, though I hope that matters will be clearer within the next month.

Nevertheless given the relatively short time before domestic rates begin to disappear I imagine you will wish to convene the RPI Advisory Committee (RPIAC) as soon as possible. If formal invitations were issued now the Committee could meet next month, once we have agreed our approach and your officials have had time to draft the necessary paper for the Committee.

I remain firmly of the view that in the light of the extreme sensitivity of this issue the RPIAC should not know at this stage that the implications for the RPI of the abolition of domestic rates will be on the agenda.

I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Health, and Social Security, and the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

[N.L]

MEMBERSHIP OF RPI ADVISORY COMMITTEE

<i>Organisation represented</i>	<i>Representative in 1984-6</i>	<i>Representative for 1988-9</i>
Trades Union Congress	Mr David Lea	Mr David Lea
Confederation of British Industry	Mr Richard Price	Not yet nominated
British Retailers' Association	Dr David Thorpe	Not yet nominated
National Chamber of Trade	Mr L Seeney	Not yet nominated
Co-operative Union Ltd	Mr G V J Pratt	Not yet nominated
National Consumer Council	Ms Frances Williams / Ms Jill Johnstone	Not yet nominated
National Federation of Consumer Groups	Mr Ken Frere	Mr Ken Frere
National Federation of Women's Institutes	Mrs Jean Varnam	Not yet nominated
Consumers' Association	Mrs Anne Rigg	Not yet nominated
Department of Employment	Mr Dworkin	Mr Dworkin
Central Statistical Office	Mr Flaxen	Not yet nominated
Department of the Environment	Mr W H Stott	Not yet nominated
Department of Health & Social Security	Mr M V Wilde / Miss A J Cleveland	Not yet nominated
Ministry of Agriculture	Mr C Capstick	Not to be invited
Her Majesty's Treasury	Mr H P Evans	Not yet nominated
Bank of England	Mr Flemming	Not yet nominated
Nationalised industries	Mr Terry Boley	Not invited
Academic representation	Prof Harold Rose	Has agreed to serve
	Prof John Pickering	Has agreed to serve
	Prof Tony Atkinson	Invited but has not yet responded
	Prof Alfred Ilersic	Not invited
	Mr Ronald Fowler	Not invited
		Prof Bill Robinson has been invited but not responded

As at 15 September 1988

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MP

PPS PL 15/288

FROM: R FELLGETT

DATE: 15 SEPTEMBER 1988

1. MR POTTER ^{BHP 18/19}
2. CHIEF SECRETARY

cc PS/Chancellor
 PS/Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr Edwards
 Mr Turnbull
 Miss Peirson
 Mr Saunders
 Miss Seammen
 Mr MacIntyre
 Mr H Burns
 Mr Call

COMMUNITY CHARGE: STUDENT NURSES

Mr Ridley wrote on 8 September to Mr Rifkind about whether student nurses should be liable to pay the Community Charge, pending implementation of project 2000. No 10 wish to reach a collective decision shortly, to enable the Scots to promulgate appropriate regulations ahead of the introductions of the CC there next April. There was considerable pressure in the Lords for all student nurses to be exempt forthwith. However, Mr Ridley believes that student nurses should be liable to pay until project 2000 is implemented, and I recommend that you write briefly to support his view.

Pre-registration student nurses

2. The officials paper (which was discussed with us) attached to Mr Ridley's letter estimates that it would cost about £15 million a year to exempt all these student nurses from 80% of the Community Charge, like students at University and similar courses. This cost would fall directly on other Community Charge payers, although we must expect it to add to pressures for more grant and thus indirectly to fall on the Exchequer. The cost must be borne at some time, because the government is already committed to granting the student relief from the Community Charge to student nurses when they move onto project 2000 courses, during the

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1990's. The only question is whether the concession to student nurses should be linked closely to the implementation of project 2000, or offered earlier (eg as soon as the Community Charge is introduced in Scotland in April 1989 or in England in April 1990).

3. Mr Ridley argues that the concession should be linked closely to project 2000, although he would not rule out reconsidering this when a majority of student nurses have moved onto project 2000 courses. He says that it would be invidious to grant a concession to student nurses so long as they are salaried employees with on the job training. It would then be difficult to explain why apprentices and many other trainees will be liable to pay the full Community Charge. We agree that it is important to maintain the principle that salaried employees do not get automatic exemption from 80% of the Community Charge. Any concession, if agreed and eventually extended beyond student nurses, could cost considerably more than £15 million.

4. Linking the concession to student nurses closely with the implementation of project 2000 would also help ensure that, when the project is implemented, student nurses do indeed move from salaries to (lower) bursaries as intended. It will clearly not be easy to reduce the financial payments to student nurses in this way, although such a reduction was an important part of the costings which led to your agreement to project 2000. Statements by the Government that student nurses will receive the concession of relief from much of the community charge only when, and because of, the move from salaries to bursaries are therefore helpful.

5. You wrote supporting the line Mr Ridley proposes, for broadly these two reasons, on 10 June during an earlier round of correspondence. However, we recommend that you do not press your earlier detailed suggestion that mature student nurses, whom DoH envisage being offered more than the basic bursary, should not be eligible for the concession. There is no means test for the general student relief and it would be difficult to require some Project 2000 student nurses to be liable for the full Community Charge while others received the discount.

Post-registration student nurses

6. The direct cost of a concession to post-registration student nurses would be only £2 million. No new issues arise, and Mr Ridley proposes in effect to follow the logic of whatever is agreed for pre-registration of student nurses, and students at large. There seems no reason to disagree with this general approach and the details of exactly who qualifies in exactly what circumstances can be left primarily to DOE and DOH.

Conclusion

7. Both to avoid unnecessary and early costs, and to support the idea that project 2000 will be accompanied by a change from salaries to (lower) bursaries for student nurses, I recommend that you support Mr Ridley's approach. A draft letter is attached.

8. ST agree.

Robin Fellgett

R FELLGETT

DRAFT LETTER FOR CHIEF SECRETARY'S SIGNATURE

Secretary of State for Scotland

COMMUNITY CHARGE: STUDENT NURSES

I was grateful to Nick Ridley for copying to me his letter of 8 September to you.

2. I agree with Nick, that 80% relief from the full Community Charge should be confined to nurses following project 2000 courses. That would be consistent with the view that we have always taken that salaried people should be liable to pay the full Community Charge. An exemption for pre-project 2000 student nurses would, as Nick points out, be difficult to defend to the wide range of salaried trainees in many occupations.

3. We have agreed that, when project 2000 is implemented, student nurses will move from their present salaries to bursaries, which will be rather lower and in line with the financial support that is given to students at universities and similar institutions. It will then be much easier to defend a concession to student nurses, in view of the smaller financial resources that will be available to them to pay the Community Charge.

4. I am copying this letter to the Prime Minister, Nick Ridley, other members of E(LF), David Waddington and to Sir Robin Butler.

[J M]

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5802
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GTN Code 273 Facsimile 01-273 5124

CH/EXCHEQUER	
REC.	15SEP1988
ACTION	MR SEDGEWICK
COPIES TO	EST
	SIR P MIDDLETON
	SIR T BURAS
	MR SCHOLAR
	MR EDWARDS
MR PERETZ	
MR HIBBERD	
MISS O'MARA	

✓ 15/9

MS WHELDON (T.Sol)

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

15 September 1988

Community Charge and the RPI

7
0
Following my letter of 28 July, it was agreed that my officials should approach potential members of the RPI Advisory Committee seeking their agreement to serve on the Committee. This has been done and, bearing in mind your concerns, no indication was given as to the likely agenda. Although I am aware that you are still not able to come to a final view, I am very concerned that if we do not now move on to the next stage, we may find ourselves in a position next Spring in which the Community Charge is to be introduced in Scotland and yet we have no definite plan for coping with it in the RPI. The political embarrassment of this is obvious and I am also aware that such a situation might create adverse consequences on the practical issues about which you are now concerned.

I therefore want to send out letters in the very near future, appointing the members of the Advisory Committee so that its first meeting can take place early next month. In doing so, I propose to announce the following terms of reference:

"To advise the Secretary of State for Employment on the effect of the abolition of local authority rates on the construction of the retail prices index and on the way in which expenditure on holidays should be taken into account in the index; and to review progress on implementing the longer-term recommendations made in the Advisory Committee's last report (July 1986 - Cmnd 9848)."

You will see that these terms of reference stress the technical aspects of the problem and, by including some other issues avoid focussing attention solely on the Community Charge. One consequence is that the Committee would need to make two reports, the first dealing with the Community Charge issue to be available early next year, followed by a second later in the year. There is precedent for this.

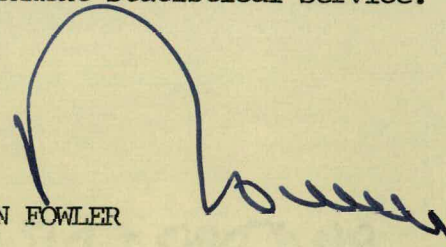
CONFIDENTIAL



Given the time pressure, I would appreciate receiving your reactions and those of others to whom I am copying this letter within the next week.

I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Social Security, Scotland and Wales, to Sir Robin Butler and to the Head of the Government Statistical Service.

Yours ever,



NORMAN FOWLER

CONFIDENTIAL



CC CXI SR PMIDDLETON

Mr ANSON, Mr PHILLIPS

Mr EDWARDS, Miss REESON

Mr TURNBULL, Mr POTTER

Mr FAIGETT, Mr AUL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

16 September 1988

Dear Secretary of State,

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

Thank you for your letter of 8 September pursuing the case for a specific grant in 1989-90 towards the current costs of preparing for the introduction of the Community Charge.

I have carefully reconsidered the proposal. I appreciate that you believe there would be presentational advantages in introducing a specific grant towards the preparation costs. But I do wonder how important these would be.

The bulk of authorities responsible for setting up a collection fund will be in receipt of block grant and therefore would get grant support for Community Charge preparation costs. We have already announced that the full £110 million for such costs is to be added to GREs. It is true that local authorities will not be able to identify a specific sum within their total block grant and that some authorities will nonetheless see their total block grant payment fall between 1988-89 and 1989-90 - for example, because their relative needs have fallen or resources increased. But how much difference will it make to such authorities whether they receive say £3 million less in block grant in 1989-90 and no specific grant for CC preparation costs or £4 million less in block grant plus £1 million specific grant? I would be surprised and dismayed if councillors thought the latter presentationally important.

Moreover I would not be so inclined to dismiss Malcolm Rifkind's objections to the specific grant. I think it would be difficult to explain why a specific grant was necessary in England but not in Scotland. (I take the point about some authorities being out of block grant in England but these are all either rich and need no grant assistance or overspenders and deserve none.)

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We also need to consider the position on capital expenditure for CC preparation costs, where you have an outstanding bid for £150 million in additional capital allocations. We will be discussing that bid shortly: but I understand it is your intention not to "top slice" any allocations agreed ie not to earmark them for this particular purpose and to leave it to the local authority associations to distribute them. It seems odd that you see a requirement for a specific grant so as to channel visibly grants towards the current preparation costs, while being content neither to earmark nor control the distribution of the larger amounts proposed for capital expenditure.

In short I remain unconvinced that the presentational case is made. As you and I have so often argued in the past specific grants are inherently undesirable since they reduce the amount available within AEG for block grant and reduce the financial incentives for efficiency and value for money. Moreover the Local Government Finance Act requires LAs to prepare for the CC; and they have a strong financial incentive to meet that requirement, in order to collect their main source of own revenue. Quite simply I do not believe it is desirable for us to appear to offer additional grant support in order to encourage LAs to do something they are required to do by law and is in their own financial interests.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours sincerely
P. Major

PP JOHN MAJOR

*[Approved by the Chief Secretary
and signed on his behalf.]*



Valuation Office

New Court
Carey Street
London WC2A 2JE

Telephone 01 - 324 1126

- 1. Mr Pitts
- 2. Chancellor

16/9

From: O T Morgan

Date: 16 September 1988

Thanks. I had been to know how all the houses were approx. to X.9. Who are the shops? In addition to the shops for help. Have a look at the shops. No change in shops. Pps pl.

RATING REVALUATION

PRELIMINARY RESULTS OF EXERCISE:

TRANSITIONAL ARRANGEMENTS

1. // Following discussions at E(LF) in February, and subsequent correspondence with Mr Ridley, you agreed with him that no announcement would be made about the intended transitional arrangements (to phase in the effects of the 1990 rating reform) until after Valuation Office data were available this Autumn.
2. We have accordingly been working on the exercise that was then commissioned (a joint project by the Valuation Office and Revenue Statistics Division) and the preliminary results of the work are now available. Mr Ridley, and his

- cc
- Chief Secretary
 - Financial Secretary
 - Sir Peter Middleton
 - Mr Anson
 - Mr Scholar
 - Mr Culpin
 - Mr H Phillips
 - Mr A J C Edwards
 - Mr Potter
 - Mr Fellgett
 - Mr Tyrie

- Chairman
- Mr Painter
- Mr Fallows
- Mr Heard (O/R)
- Mr Shutler (O/R)
- Mr Pitts
- Mr Calder
- Mr Gonzalez
- Mr Morgan
- Mr Jaundoo
- Mr Quinn
- Mr Heggs
- PS/IR

officials, are understandably anxious to have any information as soon as possible, but we consider it appropriate to let you have first sight of the figures. Accordingly circulation is restricted to the Treasury and Revenue only.

3. We have agreed a strategy for the work with DOE and WO officials (with Treasury representation) and have already circulated to them a skeleton of the report (without any figures). We hope to issue a first draft of the report by the end of this month for further inter-departmental consideration. As it is structured to show how several different options work in relation to the estimated pattern of gainers and losers, we expect that we will then be asked to experiment with further options before the report can be finalised, and circulated.

4. We are also exploring with DOE officials how best to restrict ratepayer appeal rights, so as to off-set some of the valuer shortages in the VO. It has been suggested that the opportunity might be taken to link any such arrangement to the announcement about transitional provisions, which adds to the urgency of this work. It is possible that DOE Ministers might want to use the appeal curtailment issue as a counter-balance when the transitional regime is being considered.


PRELIMINARY RESULTS

5. You agreed with the Secretary of State that the transitional arrangements should:-

- be financially neutral (ie no Exchequer cost);
- be broadly symmetrical for the phasing of gainers and losers;
- have an annual cap on real gains and losses which would be announced this Autumn; and
- have a smaller cap on rate increases for small businesses.

6. We have included a small selection of broad estimates at this stage to give you a flavour of the results as they are beginning to come through. These are shown, with a brief commentary, at Annex 1 and we have included some technical comments at Annex 2.

7. In selecting the Annex 1 material, we have assumed that your main interest at present is the distribution of gainers and losers, together with the implications that then follow for transitional purposes. We shall, of course, be pleased to supply further information at this early stage, if required. But you may prefer to consider the report when it is circulated inter-departmentally.


O T MORGAN

This annex comprises a brief commentary on the preliminary results of the exercises and 5 Tables which give greater detail.

The assumptions used, and some caveats, are mentioned in Annex 2.

1. NNDR POUNDAGE

1.1 We presently estimate that the national non-domestic rate poundage (NNDR), as at 1990/91 levels, will be 36.2p for England, 35.5p for Wales.

2. CHANGES IN RATES BURDEN BY REGION (BEFORE TRANSITION)

2.1 Estimates of the combined 1990 revaluation and NNDR effects in 1990/91 are shown in Table 1. In percentage terms, the main GAINERS are likely to be:-

North West (-27%)

West Midlands (-22%)

East Midlands (-20%)

2.2 As expected, the LOSERS are likely to be:-

South West (+20%)

East Anglia (+19%)

South East (+16%)

2.3 These figures represent reduced or increased rates burden within the region as a whole. At this stage London has not been separated out of the South East region, although it is to be shown separately in the report.

3. CHANGES IN RATES BURDEN BY BROAD PROPERTY CATEGORY (BEFORE TRANSITION)

Table 2 shows the redistributive effects by property category, separately for England and for Wales. Again, the results are much as expected.

The GAINERS are:-

	<u>England</u>	<u>Wales</u>
Factories	-24%	-17%
Warehouses	-12%	- 8%

Shops

The main LOSERS are:-

YI

Shops	+16%	+19%
Offices	+ 9%	+ 6%

? GAINERS

4. DISTRIBUTION OF GAINERS AND LOSERS (BEFORE TRANSITION)

4.1 We have defined gainers and losers by comparing the rates burden as it is estimated it would have been in 1990-91 (using RPI assumptions) had there been no reform, with our

estimate of the post-reform position for that same rate year.

4.2 On this basis, **Table 3** gives an early indication of the broad picture, for England, and for Wales, both by numbers of property and by changes in rate bills.

4.3 There are more losers than gainers in both England and Wales:-

Estimating the position by numbers of properties, in England 57% of occupiers will receive increased rate bills (ie greater than they could otherwise expect in an unreformed 1990/91), only 43% will gain. In Wales the figures are 65% losers and 35% gainers.

4.4 Looking further at the position in England:-

+ Some 8% of occupiers will be affected, either as gainers or losers, by no more than a 5% change of rate burden.

+ 23% will be gainers by at least 25% of their present rate bills. The amount of current rateable value upon which they are liable is 27% of the total, and the effect is that their expected total pre-reform rate burden of £3,194 million would be reduced, by the reform, by £1,382 million (43%).

X + 12% of occupiers (about 200,000 properties) will be losers by at least 100%. Instead of paying £369 million in rates, the effect of the reform (without any transitional relief) is that they would pay a further £578 million (an increase of 157%).

+ Some properties have been found in this small sample which were subject to increases of more than 500%.

5. SCALE OF TRANSITIONAL ARRANGEMENTS

5.1 The transitional arrangements to be costed are being considered inter-departmentally but, for illustrative purposes, we have used the one referred to by the Secretary of State during the passage of the Local Government Finance Bill. This assumes that for more valuable properties, burden increases in 1990/91, and each year thereafter, would be limited to 20% (in real terms) of the previous year's burden. Smaller assessments would have a limit of 15% (in real terms). We have defined more valuable properties as those with a rateable value in the new lists of more than £7,000 rateable value, and estimate that about 30% of properties in England and Wales would thus qualify for the 15% regime.

5.2 We estimate that in 1990/91 about 1.3 million properties (nearly 80%) would be affected by this transitional scheme. About $\frac{3}{4}$ million would be losers - whose increases would be capped (to 20 or 15%) - and over $\frac{1}{2}$ million would be gainers

- whose gains would be capped (to 12%). Even in 1994/95, the year before the next revaluation, there would still be over 300,000 properties affected.

5.3 On this basis, Table 4 shows the cost of the relief that would have to be recovered from other ratepayers. If this was done merely by limiting gains (ie from ratepayers whose burden will fall because of the reforms), and those gains are capped at a standard percentage, the limit on their gains year-by-year would be in the region of 12%.

6. DURATION OF TRANSITIONAL ARRANGEMENTS

6.1 Properties which qualified for 20% relief would only be fully phased into their new rate burdens by 1995 (the date of the next revaluation) if the increased rate burden was less than 150%. Where the 15% applied, the increased rate burden would have to be less than 100%.

6.2 In 1995/96, the first year to be based on the next (1995) revaluation, over 200,000 properties (more than 10%) would carry over transitional effects from the 1990 reform.

7. EFFECT OF TRANSITIONAL RELIEFS

7.1 Table 5 shows the effect such a transitional arrangement (20 and 15% losers; 12% gainers) would have at a regional level. For example, without transitional relief the rate burden on the North West would have reduced by £321 million:

SECRET

in the first year the relief would reduce that gain by £230 million to £90 million. By contrast, the South East would have had an increased burden of £779 million, but relief would reduce that increase by £551 million.

TECHNICAL NOTES

1. The present results are based on a database which is not yet finalised, but even when it is the estimates will remain provisional. When these preliminary results were extracted the database still excluded about 400 sample cases - some of which may be the most extreme and a few technical issues still had to be resolved inter-departmentally.
2. The estimates are derived from a sample of 10,000 properties in England and 2,000 in Wales which were specially valued in July 1988, in advance of the actual revaluation process.
3. The sample was stratified to attempt a good spread both geographically and by property type. A large sample would be required to give a reliable estimate of extreme values but this would have conflicted unduly with the revaluation itself.
4. At present relatively few properties have actually been revalued, and there are several imponderables (some requiring Ministerial consideration) which could have important consequences for a significant fraction of the list. In those cases valuers were asked to make "best estimates".

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5. Current (1988/89) rates burdens are estimated from the present value times the local poundages in each relevant rating authority area. To estimate pre-reform 1990/91 burdens, those poundages were uplifted by 2 years' RPI increase (we have used 4% per annum for this report).

TABLE 1

ESTIMATED RATES BURDEN CHANGES IN ENGLAND & WALES BY REGION (BEFORE TRANSITIONALS)

COUNTRY	REGION	1990-91	1990-91 RATES	CHANGE IN RATES BURDEN	
		UNREFORMED RATES BURDEN (£M)	BURDEN POST- REFORM (£M)	(£M)	(%)
ENGLAND	NORTHERN	527	445	-81	-16
	YORKSHIRE & HUMBERSIDE	953	768	-184	-19
	EAST MIDLANDS	842	677	-164	-20
	EAST ANGLIA	271	323	51	19
	SOUTH EAST	4,824	5,603	779	16
	SOUTH WEST	719	859	140	20
	WEST MIDLANDS	1,007	788	-218	-22
	NORTH WEST	1,208	887	-321	-27
	TOTAL	10,354	10,354		-0
	WALES	WELSH VALLEYS	123	108	-15
REST OF WALES		314	329	15	5
TOTAL		438	438		-0
ENGLAND AND WALES		10,792	10,792		-0

SECRET

TABLE 2

ESTIMATED RATES BURDEN CHANGES IN ENGLAND & WALES BY PROPERTY TYPE (BEFORE TRANSITIONALS)

COUNTRY	PROPERTY TYPE	1990-91	1990-91 RATES	CHANGE IN RATES BURDEN	
		UNREFORMED RATES BURDEN (£M)	BURDEN POST- REFORM (£M)	(£M)	(%)
ENGLAND	SHOPS	1,599	1,856	257	16
	OFFICES	1,872	2,049	177	9
	WAREHOUSES	1,228	1,081	-147	-12
	FACTORIES	2,014	1,529	-484	-24
	OTHER PROPERTIES	3,639	3,837	197	5
	TOTAL	10,354	10,354		-0
	WALES	SHOPS	68	81	12
OFFICES		18	19	1	6
WAREHOUSES		33	31	-2	-8
FACTORIES		122	101	-20	-17
OTHER PROPERTIES		194	204	9	5
TOTAL		438	438		-0
ENGLAND AND WALES		10,792	10,792		-0

SECRET

TABLE 3

GAINERS AND LOSERS FROM THE REFORMS (BEFORE TRANSITION)

COUNTRY= ENGLAND		1973 ADJUSTED RATEABLE VALUE				1990-91 UNREFORMED RATES BURDEN		CHANGE IN RATES BURDEN	
		NUMBER OF PROPERTIES (000)	(%)	(£M)	(%)	(£M)	(£M)	(%)	
		(B)		(A)					
EFFECT OF REFORMS ON RATES BILLS									
REDUCTIONS (%)	AT LEAST 50%	97	6	313	8	966	-583	-60	
	AT LEAST 25% BUT LESS THAN 50%	264	17	765	19	2,228	-799	-36	
	AT LEAST 5% BUT LESS THAN 25%	255	16	828	21	2,256	-335	-15	
	LESS THAN 5%	61	4	239	6	647	-16	-3	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	4	0		0	1		0	
INCREASES (%)	LESS THAN 5%	61	4	242	6	578	14	3	
	AT LEAST 5% BUT LESS THAN 25%	216	14	623	16	1,457	197	14	
	AT LEAST 25% BUT LESS THAN 50%	218	14	494	12	1,099	414	38	
	AT LEAST 50% BUT LESS THAN 100%	209	13	313	8	747	528	71	
	AT LEAST 100% BUT LESS THAN 300%	179	11	161	4	352	504	143	
	AT LEAST 300% BUT LESS THAN 500%	22	1	8	0	15	59	39	
	AT LEAST 500%	2	0	1	0	2	15	58	
EFFECT OF REFORMS SUMMARY									
REDUCTIONS (%)		679	43	2,146	54	6,099	-1,735	-28	
NO GAIN/NO LOSS		4	0		0	1		0	
INCREASES (%)		911	57	1,845	46	4,253	1,735	41	

Average Size
1973 revs

3200

2900

3250

3900

—

4000

2900

2300

1500

900

350

(* ie (A)/(B))

TABLE 3

GAINERS AND LOSERS FROM THE REFORMS (BEFORE TRANSITION)

COUNTRY= WALES		1973 ADJUSTED RATEABLE VALUE				1990-91 UNREFORMED	CHANGE IN RATES BURDEN	
		NUMBER OF PROPERTIES (000)	(%)	(£M)	(%)	RATES BURDEN (£M)	(£M)	(%)
EFFECT OF REFORMS ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	21	21	91	61	261	-141	-571
	AT LEAST 25% BUT LESS THAN 50%	101	101	231	151	671	-231	-351
	AT LEAST 5% BUT LESS THAN 25%	171	171	361	231	1041	-151	-151
	LESS THAN 5%	41	51	81	51	221		-21
NO GAIN/NO LOSS	NO GAIN/NO LOSS		01		01			01
INCREASES (%)	LESS THAN 5%	31	41	211	141	581	11	31
	AT LEAST 5 % BUT LESS THAN 25%	171	171	311	201	841	111	131
	AT LEAST 25 % BUT LESS THAN 50%	161	161	161	101	441	151	361
	AT LEAST 50 % BUT LESS THAN 100%	171	171	81	51	231	161	701
	AT LEAST 100 % BUT LESS THAN 300%	91	91	21	21	61	91	1361
	AT LEAST 300 % BUT LESS THAN 500%		11		01			3531
EFFECT OF REFORMS SUMMARY								
REDUCTIONS (%)		351	351	761	491	2201	-541	-251
NO GAIN/NO LOSS			01		01			01
INCREASES (%)		661	651	801	511	2171	541	251

SECRET

TABLE 4

COST OF TRANSITIONAL ARRANGEMENTS FOR LOSERS

FINANCIAL YEAR	COST OF TRANSITION (£M)
1990-91	1,147
1991-92	712
1992-93	430
1993-94	253
1994-95	146

SECRET

TABLE 5

EFFECTS OF THE REFORM WITH AND WITHOUT TRANSITIONAL RELIEF
1990-91 RATES BURDEN BY REGION

COUNTRY	REGION	UNREFORMED BURDEN	CHANGE IN BURDEN WITHOUT TRANSITION	CHANGE IN BURDEN DUE TO TRANSITION	OVERALL CHANGE IN BURDEN
		(£M)	(£M)	(£M)	(£M)
ENGLAND	NORTHERN	527	-81	53	-28
	YORKSHIRE & HUMBERSIDE	953	-184	123	-61
	EAST MIDLANDS	842	-164	113	-51
	EAST ANGLIA	271	51	-35	16
	SOUTH EAST	4,824	779	-551	227
	SOUTH WEST	719	140	-106	34
	WEST MIDLANDS	1,007	-218	165	-53
	NORTH WEST	1,208	-321	230	-90
	TOTAL	10,354		-61	-61
WALES	REGION				
	WELSH VALLEYS	123	-15	11	-3
	REST OF WALES	314	15	-8	7
	TOTAL	438		3	3
ENGLAND & WALES		10,792		-21	-21

SECRET

cc-cxi Sir P.M. DORSETON

- 2 Mr. ANSON, Mr. PHILLIPS
- Mr. EDWARDS, Mr. TURNBULL
- Miss PERSON, Mr. SAUNDERS
- Mr. POTTER, Mr. FELGETT
- Mr. SAUNDERS, Miss SEARREN
- Mr. MacINTYRE, Mr. H. BURNS
- Mr. CALL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

MP

16th September 1988

Dear Malcolm,

COMMUNITY CHARGE: STUDENT NURSES

I was grateful to Nick Ridley for copying to me his letter of 8 September to you.

I agree with Nick, that 80 per cent relief from the full Community Charge should be confined to nurses following project 2000 courses. That would be consistent with the view that we have always taken that salaried people should be liable to pay the full Community Charge. An exemption for pre-project 2000 student nurses would, as Nick points out, be difficult to defend to the wide range of salaried trainees in many occupations.

We have agreed that, when project 2000 is implemented, student nurses will move from their present salaries to bursaries, which will be rather lower and in line with the financial support that is given to students at universities and similar institutions. It will then be much easier to defend a concession to student nurses, in view of the smaller financial resources that will be available to them to pay the Community Charge.

I am copying this letter to the Prime Minister, Nick Ridley, other members of E(LF), David Waddington and to Sir Robin Butler.

Yours Ever,
John Major

JOHN MAJOR



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

MF

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

19 September 1988

Dear John,

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

I have seen Nick Ridley's letter of 8 September to you about a specific grant to local authorities for their community charge preparation costs.

My interest is primarily in the implications for the community charge benefit scheme. The costs of preparing for the introduction of the benefit scheme are of course very closely tied up with those of preparing for the community charge generally and we had not proposed to make separate provision for them: the benefit scheme preparation costs are reflected in the provision of £110m.

I support Nick's argument for a specific grant, which would help ensure that support is properly targeted and is manifestly fairer to the shire districts. At the same time, your proposal to distribute it on the basis of population, rather than actual expenditure, would give authorities a firm incentive to economy.

I am copying this letter to the Prime Minister, to Nick Ridley, other members of E(LF) and to Sir Robin Butler.

CH/EXCHEQUER	
REC.	19SEP1988
ACTION	CST
COPIES TO	

✓ 19/9

John Moore

JOHN MOORE

FROM: P N SEDGWICK
DATE: 19 SEPTEMBER 1988

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Edwards
Mr Peretz
Mr Hibberd
Miss O'mara
Mr Price
Ms Wheldon - Tsy
Solicitor

OK?
OK
in yr.

RPI - ABOLITION OF DOMESTIC RATES

Mr Fowler wrote to you on Friday proposing that he should now issue formal invitations to members of the RPI Advisory Committee and as well send them terms of references mentioning domestic rates.

2. Mr Fowler asked for a reply within a week of sending his letter. As we are not likely to hear from the Bank within that period on the upshot of their fresh discussions with their lawyers I think that there is no point in delaying a response to Mr Fowler to the end of the week. I have recast the draft letter setting out your opposition to any explicit reference to abolition of rates (copy attached).

3. It is perhaps worth pointing out that the proposed inclusion of the price of foreign holidays in the RPI - something that has been mooted for a little while - would unambiguously involve a change of coverage of the RPI. It is one of the "long-term recommendations" in the last RPIAC report to which Mr Fowler refers in his letter. I attach a copy of the recommendations section of the last report with manuscript comments on progress with each item.

4. Information that we have received in confidence at official level suggests that Mr Fowler is not likely to respond in the foreseeable future to your letter of July 25 (copy attached) on the RPI and mortgage interest payments. I have added a short paragraph in square brackets in the draft letter in case you want to take the opportunity to remind Mr Fowler that he owes you a reply.

P. N. S.
P N SEDGWICK

I raised this with Fowler's office last week & he is planning to send you a reply. But we need answers to get ahead with publishing

RPI & MI ourselves

✓
AA

Plene loge
for signature

DRAFT LETTER FROM THE CHANCELLOR
TO THE SECRETARY OF STATE FOR EMPLOYMENT

RPI - ABOLITION OF DOMESTIC RATES

Thank you for your letter of September 15, in which you propose sending out formal invitations to those who will serve on the RPI Advisory Committee. You also propose announcing terms of reference that explicitly state that the effect of the abolition of domestic rates should be on the RPIAC's agenda.]

While I entirely agree that you should now issue the formal invitations to those who will serve on the RPIAC, I cannot agree to publication of an agenda that explicitly refers to the abolition of domestic rates. As you know this whole subject gives rise to some serious and sensitive problems for us. I am afraid that we have not yet resolved these, though I hope that matters will be clarified in the next month, and before the RPIAC has its first meeting.

^{would} I have no objection in principle to ^{your announcing} ~~announcement~~ of the other items ^{on} ~~for~~ the agenda ~~that you mention in your letter~~. But given that we will want the Committee to concentrate in the first instance on the implications of the abolition of domestic rates ^{it seems more sensible} ~~you might prefer~~ to tell prospective members that the agenda will be circulated with a paper before the first meeting. By that time we should have completed our initial discussions within ~~central~~ government.

PP I believe it would be very dangerous to announce that we wish the Committee to consider whether or not the comments charge shall be included in the RPI before we have established a common position with the Government. We would immediately be faced by all sorts of lobbying and it would be almost impossible to avoid comment.

CONFIDENTIAL

[Another matter of considerable current sensitivity relating to the RPI is the treatment of mortgage interest payments in a way that few other countries follow. In my letter to you of July 25 I suggested that we should make public the figures for the RPI less mortgage interest payments as well as those for the total RPI, numbers that commentators have great difficulty obtaining. If anything I feel even more strongly about this than I did in July, and look forward to hearing from you on it.]

I am copying this letter to the Prime Minister, the Secretaries of State for the Environment, Health, ~~and~~ Social Security, and ^{Scotland, and} ~~the Scottish Office as well as~~ to Sir Robin Butler and the Head of the Government Statistical Service.

[N L]

DEF V I



Sir T Burns
Mr Sedgwick
Mr Gieve
Mr P F L Allum
Mr S J Davies
Mr Matthews
Mr S Brooks

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Mr S P.

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

25 July 1988

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

THE RPI AND MORTGAGE INTEREST PAYMENTS

We had a word about this recently, and you agreed to look again at publishing figures for the RPI excluding mortgage interest payments alongside the other material you publish.

You may remember that I raised this with you a year ago, and gave you the attached note. We are certainly not seeking to do this for short-term reasons now that the mortgage rate has gone up: we have been pressing this for years! And we are not suggesting re-opening the composition of the RPI itself, simply that the figures for the RPI excluding mortgage interest payments should be made more widely available.

We have consistently used the RPI excluding mortgage interest payments in our briefing, but it is a source of considerable frustration to many of our customers that it is almost impossible for them to get hold of this information regularly, since it is not in the official statistics. I am sure it should be.

NIGEL LAWSON

Principal recommendations

9. We now summarise briefly our main recommendations for change, leaving to later sections of this report discussion of the considerations we took into account in reaching our collective view. They fall into two groups: those we would wish to see implemented as from the beginning of 1987 and those for which we recognise that further work and feasibility testing are required before implementation can take place. The recommendations for implementation from the beginning of 1987 are:

- (a) The RPI should be re-referenced to 100 and the compilation of regular time series on the present base discontinued once the index for January 1987 has been published. This would have no material effect upon the percentage changes shown by the index. (See Section A.)
- (b) The definition of the "index households" covered by the RPI should be adjusted so as to exclude those households with the highest incomes, as opposed to the present convention of excluding those whose heads of household have the highest incomes. The cut-off point should be set so as to continue to exclude about 4 per cent of households at the upper end of the income distribution. (See Section C.)
- (c) The special price indices for pensioner households with low incomes should be continued and, where relevant, all the changes recommended for the general index should be applied to them. (See Section D.)
- (d) The structure of published component indices below the "all items" RPI should be recast in the way shown in Annex 1 of this report. (See Section E.)
- (e) The general aim should be to publish indices for all categories of expenditure having a weight of 5 or more parts per thousand in the general index, and for any others which are of general interest, subject to their being of sufficient reliability. As regards indices for smaller categories which are not of general interest, the Department of Employment should be prepared to release these to particular users provided the reliability criterion is satisfied. (See Section E.)
- (f) If the recommendations in this report are accepted the Department of Employment should publish at the time of implementation a succinct and authoritative statement of the principles and concepts underlying the construction of the RPI, as laid down by ourselves and our predecessors. (See Section E.)
- (g) The RPI should be based on prices charged. In establishing the prices charged subsidies and discounts should be deducted where they are funded by the seller, or where they are available to all purchasers, but not in the case of selective benefits funded by a third party. (See Section F.)
- (h) Mortgage interest payments should continue to be in the index as a proxy for the housing costs of owner-occupiers (other than rates, repairs, etc which are separately covered). Changes in the weight attached to mortgage interest payments (in relation to other goods and services in the RPI) should reflect changes in house prices, interest rates and the extent of owner-occupation (as opposed to the actual amount of mortgage debt). Both the price indicator and the weight should be based on a standardised mortgage, so limiting the effect of changes in financial arrangements. (See Section G.)
- (j) The range of price indicators for fruit and vegetables should be extended to cover more items, including some which are not available throughout the year. The use of variable monthly weights for fruit and vegetables should be continued for fresh produce, but not for processed items. (See Section H.)
- (k) For RPI items where problems are caused by articles selected for pricing becoming unavailable the Department should experiment with the collection at the beginning of each year of quotations for additional items, which would not be followed up in subsequent months unless the original article became unavailable, in which case the "reserve" could be substituted in order to provide a direct "like with like" comparison. (See Section J.)

RECOMMENDATION

OF 1986

RPI AC.

Fully implemented.

Fully implemented.

Fully implemented.

Fully implemented.

Accepted as standard practice.

Fully implemented.

Fully implemented.

Fully implemented.

Fully implemented.

Has been attempted, but with limited success.

- (l) Where prices do not change from month to month but are charged for a period of time (such as rates and electricity charges) any adjustments which are announced after the start of the period should be taken into the index at the earliest opportunity. No allowance should be made to compensate for their previous exclusion. (See Section K.)

Fully implemented.

10. We recommend the following changes for implementation as soon as possible after the foregoing proposals have been put into effect at the beginning of 1987:

- (m) The RPI should be extended to cover certain types of expenditure not currently included, notably holiday accommodation and package holidays, various fees and subscriptions paid by consumers, the prices of financial services (but not of credit as such) and some other small items. The objective should be to introduce appropriate price indicators for each of these, and for items which are currently covered only by somewhat unsatisfactory proxy measures (most notably new cars). (See Section B.)
- (n) Regular indices should not be produced for any individual type of household other than low-income pensioners but the Department of Employment should revive its past practice of periodically carrying out and publishing historical analyses of the impact of price changes on different household types. It should also make available to outside users the information they would need to construct their own price indices on alternative bases. (See Section D.)
- (p) A technical manual describing in detail the sources and methods used in constructing the RPI should be published. (See Section E.)
- (q) The Department should seek to divide the range of articles used for pricing into "specification bands" grouping together those with similar characteristics. Differences between the average price levels of these bands should be taken as indicating the value of the quality difference between them, which should then be discounted when an article from one band has to be replaced by one from another because it is impossible to make a direct comparison with a January "base price". (See Section J.)
- (r) The Department should seek ways of obtaining from the Family Expenditure Survey (FES) information classified by type of retail outlet, to provide a sound basis for the "stratification" of price quotations collected for the RPI. In the meanwhile the existing "stratification weights" should be kept as up-to-date as possible using statistics of retail sales. (See Section L.)
- (s) The Department should also pursue the possibility of extending the record-keeping period used in the FES, particularly for those items for which large sampling errors make it necessary to base RPI weights on three years' data. The aim should be to base all the RPI weights on the latest available 12-month period. (See Section L.)

This is the main outstanding issue; some fees and subscriptions now included.

Has not been seriously implemented.

Not implemented.

Has been attempted, but without a practical payoff.

Work still continues on methodology: not yet implemented.

Work still continues on methodology: not yet implemented.

11. Finally we suggest that the Advisory Committee should be convened more frequently in future than in the past, and consulted on any significant proposals for changing the coverage and construction of the RPI. It might also be helpful if certain of our members—in particular those who have served on the Technical Working Party—were to be consulted on matters of statistical methodology as and when these arise, without waiting for a formal meeting of the Committee to be arranged.