

PO-CH/NL/0251

PART K

part k

SECRET

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MARKET SENSITIVE.

Begins : 20/9/88.

Ends : 8 /11/88.

PO -CH /NL/0251

PART K

Chancellor's (Lawson) papers:

THE COMMUNITY CHARGE AND
SETTLEMENT OF THE RATE
SUPPORT GRANT SYSTEM

PO -CH /NL/0251
PART K

DD's: 25 Years

Philips

15/11/95.

CONFIDENTIAL

FROM: P N SEDGWICK
DATE: 20 SEPTEMBER 1988

PPS

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

RPI - ABOLITION OF DOMESTIC RATES

Ms. Wheldon would prefer the draft letter for the Chancellor to send to Mr Fowler to be altered as on the attached copy.

P.N.]

P N SEDGWICK

Ch
Juliet's point is that it might be dodgy to tell the RPIAC they're going to discuss package holidays & then spring the commitment charge on them. Pretty far-fetched in my view, but no harm in taking point on board.

AA

DRAFT

LETTER

FROM

CH. TO

SJ FOR

EMPLOYMENT

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.

As we are not yet in a position to announce that the implications of the abolition of domestic rates will be on the agenda I think it would be better to delay

~~I have no objection in principle to~~ announcement of the other items for the agenda that you mention in your letter. ~~But given that~~ ^{Because} we will want the Committee to concentrate in the first instance on the implications of the abolition of domestic rates 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.

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 ever 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 the Scottish Office as well as to Sir Robin Butler and the Head of the Government Statistical Service.

[N L]



pur

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

20 September 1988

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

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Edwards
Mr Peretz
Mr Hibberd
Miss O'Mara
Mr Price
Ms Wheldon TSol

Norman

RPI - ABOLITION OF DOMESTIC RATES

Thank you for your letter of 15 September. While I entirely agree that you should 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.

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

When the Committee meets, we shall want it to concentrate in the first instance on the implications of the abolition of domestic rates. It therefore seems more sensible not to announce the other items on the agenda now, but simply 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 government on the issue of the community charge and the RPI.

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

Nigel Lawson

NIGEL LAWSON



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~~ Health

The Rt. Hon. John Major MP,
Chief Secretary to the Treasury,
H.M. Treasury,
Parliament Street,
London, SW1P 3AG.

21 September 1988

Dear Chief Secretary

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

I have seen Nicholas Ridley's letter to you of 8 September pressing his case for a specific grant to support expenditure on preparing for the community charge. I support his case. Although it could be argued in logic that those authorities likely to receive reduced grant in 1989-90 would have received even less without block grant for their Community Charge costs, I agree that this would be a difficult point to present and it would not meet the case of those Shire Districts likely to be out of grant entirely.

It is a pity I did not receive my copy of Nick's letter until after I had written to Cecil Parkinson setting out the case for a specific grant in respect of AIDS. Similar arguments apply to my proposal, only more so. Several of those authorities most closely involved in providing services for people with AIDS are likely to lose grant while others, notably Westminster, are likely to remain out of block grant. AIDS, like expenditure on preparation for the Community Charge, is largely an inescapable pressure. Without a grant those authorities subject to rate limitations would need to meet this pressure either by further resort to creative accounting or by cuts in other services. The latter would be unfortunate in view of its effect on local attitudes to people with AIDS, who are already subject to discrimination and even harassment in some cases.

There is no prospect of developing a GRE to distribute block grant in respect of AIDS expenditure, even were we inclined to complicate the system further in its final year. The case for a small specific grant therefore seems incontrovertible, particularly as in other respects the proposals for the Settlement for 1989-90 are distinctly unfavourable to the personal social services.

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

CH/EXCHEQUER	
REC.	22 SEP 1988
ACTION	CST
COPIES TO	

✓ 22/9

Yours sincerely

Flora Goldhill

for KENNETH CLARKE
(approved by the
Secretary of State and signed
in his absence)

chex.nh/aa/29

UNCLASSIFIED

BF 1/10



FROM: A C S ALLAN

DATE: 21 September 1988

MR O T MORGAN INLAND REVENUE

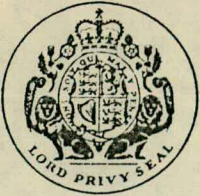
cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr H Phillips
Mr A J C Edwards
Mr Potter
Mr Fellgett
Mr Tyrie
PS/IR
Mr Painter IR
Mr Pitts IR
Mr Fallows IR

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 16 September. He would be grateful for more information about the heavy losers referred to in the last two indents of your paragraph 4.4 (i.e. those losing by at least 100 per cent). What sort of firms are they? And where? In addition, he would find it helpful to have a breakdown of the shops who lose, distinguishing between chain stores and independent shops.

ACSA

A C S ALLAN



CH/EXCHEQUER	
REC.	22SEP1988
ACTION	CST
COPIES TO	

MP

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

21 September 1988

Dear Nicholas,

COMMUNITY CHARGE: STUDENT NURSES

I have seen your letter to Malcolm Rifkind dated 8 September and I agree that, in all the circumstances, your Options i or ii are to be preferred.

Although these options are consistent with the line we have always taken, there will be very real disappointment amongst those in the Lords who voted for the amendment at Report Stage - including some 16 of our own supporters. We can therefore expect a rather acrimonious debate on the Regulations when they come to be approved.

Indeed, if it is the case that the timescale for the implementation of Project 2000 will be as long as 10 years, in view of what was said in the Lords debates in June, I think Option ii is preferred over Option i. At least Option ii holds out the prospect of further review once a majority of student nurses are on Project 2000 and this will go some way towards mollifying our critics.

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

Yours sincerely

BELSTEAD

The Rt Hon Nicholas Ridley MP

Maria
Please make
sure the
Commission
my
signature



Ch

I have ministered out your request for more information about losses from rating revaluation.

But my calculations below do not look v comforting. It looks as if larger firms gain & small firms lose - and very small firms lose lots.

Thanks.
Very awkward
Andrew - why
this so re
cards?
AA

Page



FROM: A C S ALLAN

DATE: 22 September 1988

MR O T MORGAN - INLAND REVENUE

- cc PS/Chief Secretary
- PS/Financial Secretary
- Sir P Middleton
- Mr Anson
- Mr Scholar
- Mr Culpin
- Mr H Phillips
- Mr A Edwards
- Mr Potter
- Mr Fellgett
- Mr Tyrie
- PS/IR
- Mr Painter IR
- Mr Pitts IR
- Mr Fallows IR

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

..... Further to my minute yesterday, the Chancellor saw the attached calculations of the average size (in terms of 1973 rateable values) of gainers and losers before transition. This seems to show that larger firms gain, smaller firms lose and very small firms lose a lot. The Chancellor thought this was potentially very awkward and wondered why this should be the case.

ACSA

A C S ALLAN

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	(%)	(£M)	(%)	(£M)	(£M)	(%)
		(000) (B)		(A)				
EFFECT OF REFORMS ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	971	61	3131	81	9661	-5831	-601
	AT LEAST 25% BUT LESS THAN 50%	2641	171	7651	191	2,2281	-7991	-361
	AT LEAST 5% BUT LESS THAN 25%	2551	161	8281	211	2,2561	-3351	-151
	LESS THAN 5%	611	41	2391	61	6471	-161	-31
NO GAIN/NO LOSS	NO GAIN/NO LOSS	41	01		01	11		01
INCREASES (%)	LESS THAN 5%	611	41	2421	61	5781	141	31
	AT LEAST 5 % BUT LESS THAN 25%	2161	141	6231	161	1,4571	1971	141
	AT LEAST 25 % BUT LESS THAN 50%	2181	141	4941	121	1,0991	4141	381
	AT LEAST 50 % BUT LESS THAN 100%	2091	131	3131	81	7471	5281	711
	AT LEAST 100 % BUT LESS THAN 300%	1791	111	1611	41	3521	5041	1431
	AT LEAST 300 % BUT LESS THAN 500%	221	11	81	01	151	591	3911
	AT LEAST 500%	21	01	11	01	21	151	5871
EFFECT OF REFORMS SUMMARY								
REDUCTIONS (%)		6791	431	2,1461	541	6,0991	-1,7351	-281
NO GAIN/NO LOSS		41	01		01	11		01
INCREASES (%)		9111	571	1,8451	461	4,2531	1,7351	411

Average size
1973 r.v.'s
(£) (*)

3200

2900

3250

3900

-

4000

2900

2300

1500

900

350

-

3160

2025

(* ie (A)/(B))

SECRET



CH/EXCHEQUER	
REC.	27 SEP 1988
ACTION	CST
COPIES TO	

BF 30/19 MP
-2719
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

27 September 1988

Dear Secretary of State,

COMMUNITY CHARGE: STUDENT NURSES

You wrote to me on 8 September about the treatment of student nurses under the community charge system, in the light of earlier discussions and in particular of the debates on this issue during the passage of the Local Government Finance Bill. I have also seen John Major's letter of 16 September.

As you know, my view when this issue came into prominence in late June and early July was that, in the light of the clear opinion in the House of Lords, we should accept the principle that student nurses should receive, irrespective of differences between their training and courses undertaken by full-time students, the same relief conceded to these students - option iv of the paper by officials attached to your letter. In the absence of an agreed decision on this point, I have made regulations on community charge registration which make no mention of special treatment for student nurses: but in doing so I have made clear that that is without prejudice to our eventual decision.

I consider that the choice before us is between option iv and our previous policy of bringing student nurses into the field of eligibility for the concession only as and when they undertake the new-style training arrangements under the Project 2000 proposals - option i identified in the officials' paper. If we were to choose option i, we could not of course rule out some reconsideration later (as under option ii), but I see no advantage at this stage in emphasising our willingness to reconsider. Similarly, option iii would simply deny student nurses in Scotland the benefits of option iv in the first year of the community charge system in Scotland. I therefore rule out options ii and iii.

I find the choice between the remaining two options a difficult one. I accept that option iv carries with it the danger, which you point out, of comparisons being made between student nurses and other salaried trainees. If we were starting with a clean sheet it would, of course, be best to maintain the position that student nurses should not receive the same relief from the personal community charge as that given to full-time

students. But the difficulty now is that the impression has been given on a number of occasions that student nurses will receive special treatment, and the message that this is dependent on the implementation of Project 2000 has simply not got through. It would be difficult to defend ourselves against the criticism that we were being small-minded in obstinately postponing a concession which we are proposing to accept anyway in due course for student nurses and in deliberately not using powers given to us for the very purpose of removing this perceived anomaly. There seems to me to be no advantage in provoking a major row on this issue, and I therefore conclude that the sensible political course, in the circumstances in which we find ourselves, is to go for option iv emphasising that this was the view of their Lordships.

I should add that I do not think that your proposals on the coverage of the concession are right. You envisage that it will apply to nurses undertaking pre-registration courses including those doing such courses for a second time; and you accept that those doing post-registration courses in higher education will immediately qualify as students (ie before the introduction of Project 2000); but you propose to exclude midwifery trainees. It seems to me that this will produce serious criticism and run the risk of undermining the political and presentational value of the favourable treatment we will be giving to nurses in general - and for a very small saving, on the basis of the figures contained in the Officials' paper. It is an added advantage of option iv that midwives can readily be covered under it whereas this could pose considerable problems of timing and definition under option i.

If the question is raised of the position of other trainees in a similar financial position to nurses who enjoy the 80% relief, I think that a decision for option iv can be defended on the grounds that the House of Lords clearly envisaged separate treatment for trainees in nursing and related professions: and that there was no implication during the relevant debates that any argument in favour of special treatment for trainees as such was being put forward.

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

Lynn Shandland

MALCOLM RIFKIND

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

FROM M C SCHOLAR
DATE 28 SEPTEMBER 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton
Sir Terence Burns
Mr Peretz
Mr Sedgwick
Mr Gieve
Miss O'Mara
Miss Wheldon

OK

RPI AND THE COMMUNITY CHARGE

John Gieve tells me that Sarah Hogg has guessed that the RPIAC is being convened to consider whether the Community Charge should be included in the RPI. If she writes about it we may get a wave of press interest tomorrow morning.

2. If so I think we will get ourselves into an increasingly awkward position if we - or rather, the Department of Employment - refuse to confirm or deny this. So the time may soon come that we should say something like this:-

Q. Will the RPIAC be asked to consider whether the Community Charge will be included or excluded from the RPI?

A. The Government will be consulting the Committee on a number of issues, including the implications for the RPI of the abolition of domestic rates. When the Committee has made its recommendations on these issues the Government will study them and then reach its decision.

3. Once this is out someone in the gilts market might think their way to the conclusion that one outcome might be a step fall in the RPI. If that arises I suggest that we should say something on the following lines:-

"Whatever decision is taken on this matter the Government will wish to avoid any significant discontinuity in the RPI arising after the abolition of domestic rates - ie there will be no step reduction in the level of the RPI."

4. The statement in paragraph 2 could be quickly agreed through the Press Office or Private Office nets, and should be put out by the Department of Employment (we don't want the DoE or DSS in on the act). The contingent statement in paragraph 3 seems to me to require something more than that given that it is a substantive policy decision. I suggest therefore that your private office write round as in the attached draft.

5. If the Press Office is asked what other technical issues the RPIAC will consider they could draw on paragraph 10 of the 1986 Report (copy attached).

MLs

M C SCHOLAR

- (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.

LETTER FROM MR A C S ALLAN TO
PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR EMPLOYMENT

From press enquiries we have had today it seems likely that the Press are about to guess that we will be asking the RPI Advisory Committee to consider the implications for the RPI of the abolition of domestic rates. If we are asked directly about this the Chancellor thinks that your Press Office (to whom we would refer enquiries) should say something on these lines:-

Q Will the RPIAC be asked to consider whether the Community Charge will be included or excluded from the RPI?

A The Government will be consulting the Committee on a number of issues, including the implications for the RPI of the abolition of domestic rates. When the Committee has made its recommendations on these issues the Government will study them and then reach its decision.

2. It may be that, once this is out, some commentators will speculate about the possibility that when domestic rates fall out of the index there will be a step fall in the RPI. If so, the Chancellor thinks it would be sensible to rule this possibility out. He suggests, therefore, that if your Press Office are asked directly about this possibility they say:

"Whatever decision is taken on this matter the Government will wish to avoid any significant discontinuity in the RPI arising after the abolition of domestic rates - ie there will be no step reduction in the level of the RPI."

3. I am copying this letter to Paul Gray (No 10), Roger Bright (DOE), Stuart Lord (DSS) and Jack Hibbert (CSO).



BF 7/10

Valuation Office

New Court
Carey Street
London WC2A 2JE

Telephone 01 - 324 1126

Ch
NA v comfortable at all
Comment for LE? AH *yr* *psk: ASAP*

- 1. Mr Pitts *29/9*
- 2. Chancellor

From: O T Morgan

Date: 28 September 1988

RATING REVALUATION

PRELIMINARY RESULTS OF EXERCISE:

TRANSITIONAL ARRANGEMENTS

1. We showed you some preliminary results, under cover of my minute of 16 September, and you asked

(a) for more information about those likely to lose by at least 100 per cent, especially the shops, and

(b) whether it was true that larger firms gain, smaller ones lose, and very small ones lose a lot and, if so, why? (Mr Allen's minutes of 21 and 22 September refer.)

- 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 Shutler
- Mr Pitts
- Mr Calder
- Mr Pawley
- Mr Gonzalez
- Mr Morgan
- Mr Jaundoo
- Mr Quinn
- Mr Heggs
- PS/IR

2. The database has now been further developed so that it can be used as a basis for the draft report which, if you are content, will be shortly issued for inter-departmental consideration. As expected, this has produced some changes to the preliminary tables you have seen, but they are not significantly different. For convenience, updated versions of Table 3 are attached, showing the overall pattern of gainers and losers for England and, separately, for Wales.
3. Table A gives a broad picture for England and Wales using present (1973) rateable values to further sub-divide the estimates. Although rateable values vary between localities, in general terms £1000 RV would be about the value of a standard unit shop in a district shopping locality (ie comprising about 100 shops). Properties of lower value would include smaller and neighbourhood shops, workshops, garages, advertising rights and a miscellany of smaller non-domestic property types.
4. As Table A shows, losers outnumber gainers in this category of small properties; in England 60% of occupiers with properties of less than £1000 RV are losers, in Wales 65%. For larger properties the position is reversed.
5. Table B gives more detailed coverage (for England only) of the distribution of those likely to lose by 100% or more by (a) region and (b) property type. Again, the estimates are sub-divided into present rateable value bands. This shows:

- * that the very heavy losses (increases of at least 300%) are almost entirely restricted to the occupiers of small properties;
 - * that losses between 100 and 300% for larger properties (ie those of £5000 RV and above) are concentrated in the South East and markedly affect shops and offices;
 - * for smaller properties (with a rateable value less than £1000), heavy losses are concentrated on shops, warehouses and other properties (this latter category includes a wide variety of property types such as advertising rights or garages), and in the South East and South West.
6. Comparing Tables A and B, it appears that over 25 per cent of small properties (with 1973 values less than £1000 RV) face increases of at least 100%. For medium sized properties (£1000 to £5000 RV) the figure is 15 per cent, and for large properties (£5000 RV and over) 10 per cent.
7. **Table C** gives further details for shops where losses exceed 100%. There are about 540,000 shops in England, of which about 140,000 are classified in the valuation lists as shops "with living accommodation". About 1 in 9 of all shops face a burden increase of at least 100%, the distribution between the two types of shop being very similar.

8. The limited sample of properties (12,000 in both England and Wales) had to be specially valued in advance of the revaluation itself, and it was aimed at this stage at eliciting the broad changes that are likely to occur nationally. We cannot distinguish between chain stores and independent shops because we have collected no data about occupation. Indeed the present valuation list definition of "shop" is quite general: it can include banks in shopping areas but exclude large out-of-town retail outlets.

What are they classed as, then?

9. As the revaluation proceeds and more data become available we will be able to analyse the changes more thoroughly though, again, we shall have only limited information about actual occupation. This is something which is more relevant to rating authorities, who collect the rates, than to the valuation office, who value the property as though vacant and to let.

10. You ask why the losses should be affecting the smaller properties most. It is difficult to give a general answer. It is tempting to say that this is what the rental evidence shows after a lapse of 15 years (the last revaluation was in 1973), and to speculate that this is the result of a changing pattern of demand, for smaller rather than larger units. But the position is more complicated than that because the reforms include the combined effects of the

W?

reevaluation, and the change to a national non-domestic rate which has a separate set of effects dependent upon the existing pattern of rate poundages. It would be possible to use the database to separate these effects, but we would prefer to concentrate our resources on the first phase of our inter-departmental commitments.

11. Our present conclusion is that there is no one discernible reason for the pattern of gainers and losers that is beginning to emerge, but that a set of explanations may be forthcoming at a later stage of the revaluation process when we can look at a much larger sample of actual valuations.



O T MORGAN

TABLE 3 - FINAL SAMPLE

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)	(%)	
EFFECT OF REFORMS	ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	123	8	343	9	1,052	-637	-61	
	AT LEAST 25% BUT LESS THAN 50%	275	17	869	22	2,503	-905	-36	
	AT LEAST 5% BUT LESS THAN 25%	255	16	740	19	1,952	-278	-14	
	LESS THAN 5%	60	4	184	5	464	-11	-2	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	15	1	30	1	78		-0	
INCREASES (%)	LESS THAN 5%	37	2	128	3	315	7	2	
	AT LEAST 5 % BUT LESS THAN 25%	224	14	626	16	1,500	201	13	
	AT LEAST 25 % BUT LESS THAN 50%	204	13	515	13	1,193	428	36	
	AT LEAST 50 % BUT LESS THAN 100%	199	12	377	9	878	634	72	
	AT LEAST 100 % BUT LESS THAN 300%	168	11	152	4	325	459	14	
	AT LEAST 300 % BUT LESS THAN 500%	23	1	10	0	17	65	38	
	AT LEAST 500%	4	0	2	0	5	35	65	
EFFECT OF REFORMS	SUMMARY								
REDUCTIONS (%)		715	45	2,138	54	5,973	-1,832	-31	
NO GAIN/NO LOSS		15	1	30	1	78		-0	
INCREASES (%)		862	54	1,813	46	4,236	1,832	43	

SECRET

TABLE 3 - FINAL SAMPLE

GAINERS AND LOSERS FROM THE REFORMS (BEFORE TRANSITION)

COUNTRY= WALES		1973 ADJUSTED RATEABLE VALUE				1990-91 UNREFORMED RATES BURDEN		CHANGE IN RATES BURDEN	
		NUMBER OF PROPERTIES (000)	(%)	(£M)	(%)	(£M)	(£M)	(%)	
EFFECT OF REFORMS	ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	21	21	81	51	231	-131	-581	
	AT LEAST 25% BUT LESS THAN 50%	111	121	231	161	671	-231	-351	
	AT LEAST 5% BUT LESS THAN 25%	181	181	361	241	1021	-151	-151	
	LESS THAN 5%	31	41	161	111	431	-11	-31	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	11	11	11	11	31		01	
INCREASES (%)	LESS THAN 5%	21	31	91	61	261		31	
	AT LEAST 5 % BUT LESS THAN 25%	171	181	231	161	651	81	131	
	AT LEAST 25 % BUT LESS THAN 50%	151	161	211	141	571	191	341	
	AT LEAST 50 % BUT LESS THAN 100%	161	171	91	61	241	171	701	
	AT LEAST 100 % BUT LESS THAN 300%	81	91	21	11	51	71	1341	
	AT LEAST 300 % BUT LESS THAN 500%		11		01			341	
	AT LEAST 500%		01		01			6541	
EFFECT OF REFORMS	SUMMARY								
REDUCTIONS (%)		351	361	831	561	2371	-541	-231	
NO GAIN/NO LOSS		11	11	11	11	31		01	
INCREASES (%)		621	631	661	441	1791	541	301	

SECRET

SECRET

TABLE A

ANALYSIS OF GAINERS AND LOSERS
BY 1973 RATEABLE VALUE

NUMBER OF PROPERTIES (000s)
(- = LESS THAN 500)

	1973 RATEABLE VALUE		
	Less than £1000	£1000 but less than £5000	£5000 or more
ENGLAND			
Gainers	457	192	66
No Gain/No Loss	12	3	1
Losers	656	163	43
WALES			
Gainers	26	8	2
No Gain/No Loss	1	-	-
Losers	55	6	1

SECRET

TABLE B

**ANALYSIS OF GAINERS AND LOSERS
BY REGION AND PROPERTY TYPE
OF PROPERTIES FACING A BURDEN INCREASE OF AT LEAST 100%**

**NUMBER OF PROPERTIES (000s)
(- = LESS THAN 500)**

	RATE BURDEN INCREASE - AT LEAST 100% BUT LESS THAN 300%			RATE BURDEN INCREASE- AT LEAST 300%		
	1973 RATEABLE VALUE					
	Less than £1000	£1000 but less than £5000	£5000 or more	Less than £1000	£1000 but less than £5000	£5000 or more
REGION						
Northern Yorks & Humberside	6	-	-	2	-	-
E Midlands	13	1	-	2	-	-
E Anglia	6	-	-	1	-	-
South East	9	1	-	1	-	-
South West	66	18	4	15	1	-
W Midlands	27	2	-	4	-	-
North West	6	1	-	1	-	-
	8	-	-	1	-	-
England	142	23	4	26	1	-
PROPERTY TYPES						
Shops	43	7	1	7	-	-
Offices	15	5	1	1	-	-
Warehouses	33	1	-	5	-	-
Factories	2	-	-	-	-	-
Other properties	48	10	1	12	1	-
England	142	23	4	26	1	-

TABLE C

**ANALYSIS OF ENGLISH SHOPS
FACING A BURDEN INCREASE OF AT LEAST 100%****NUMBER OF PROPERTIES (000s)**

	RATE BURDEN INCREASE - AT LEAST 100% BUT LESS THAN 300%	RATE BURDEN INCREASE - AT LEAST 300%	ALL BURDEN INCREASES (AT LEAST 100%)
Shops with living accommodation	13	2	15
Other shops	39	5	45
All shops	52	8	60

29/9/88.

Handwritten

Page A B I

TO: BARRY SUTLIEFF

cc. HMT press officer

FROM : JOHN GIEVE

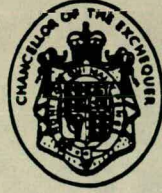
RPI AND COMMUNITY CHARGE

We spoke about the questions that Sarah Hogg had raised with your press office. As I explained the Chancellor has agreed that we should now acknowledge the fact that this issue is to be referred to the RPIAC . We agreed to use the following formula:

"The Government will be consulting the RPI Advisory Committee on a number of issues including the implications for the RPI of the introduction of the Community Charge. When the Committee has made its recommendations the Government will study them and then reach its decisions."

We agreed that it is important not to go beyond this. To further questions, we should simply say that the full Agenda will be circulated in due course .

cc: Sir P Middleton
Sir T Burns
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Gieve
Miss O'Mara
Mrs J Wheldon TSol



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

pmg

29 September 1988

Clive Norris
PS/Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1A 9NA

Immediate

cc Mr Gieve

Mr A.S. Allan

I much prefer this formulation,

and I thought the
Chancellor did, too.

His 30/9

(abolishing domestic rates)

Dear Clive,

RPI - ABOLITION OF DOMESTIC RATES

As you know, your Press Office has now been asked how the Government proposes to handle the implications for the RPI of the abolition of domestic rates and the introduction of the community charge. We have agreed the following line:

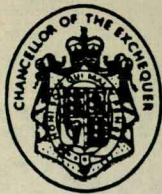
"The Government will be consulting the RPI Advisory Committee on a number of issues including the implications for the RPI of the ~~introduction of the community charge~~. When the Committee has made its recommendations, the Government will study them and then reach its decisions."

We also agreed that Press Offices would not go beyond that: the response to further questions would simply be that the full agenda would be circulated in due course.

The Chancellor has, however, been reflecting further on what should be said if there were a specific question about the possibility of a step reduction in the level of the RPI and the consequent damage to those whose income is uprated by the RPI. If pressed on this point - and this is certainly not something to be volunteered - the Chancellor suggests that the line should be:

"The Government will wish to avoid any significant discontinuity in the RPI arising from the introduction of the community charge."

CONFIDENTIAL



I am copying this letter to Paul Gray (10 Downing Street), Roger Bright (DOE), Geoffrey Podger (DOH), Stuart Lord (DSS), David Crawley (Scottish Office), and to Trevor Woolley (Cabinet Office) and Jack Hibberd (CSO).

*Yours
Alan*

A C S ALLAN
Principal Private Secretary



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~~ Health M

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

CH/EXCHEQUER	
REC.	29 SEP 1988
ACTION	CST
COPIES TO	

29/9 29 September 1988

Dr. Ridley,

COMMUNITY CHARGE: STUDENT NURSES

I have seen your letter of 8 September to Malcolm Rifkind in which you advocate that the 80 per cent relief should be granted to pre-registration nurses only when their pattern of study brings them within legislation's normal definition of student - option (i) of paragraph 10 of the paper by officials. I agree that this is the best of the options available.

I am anxious to avoid a de facto narrowing of the pay differential between pre-Project 2000 student nurses and registered nurses, because we have opened up that differential in recent years as an important inducement to nurses to stay in the NHS when they qualify. I think this is an additional argument in support of yours against exemption of existing students from the community charge. As you say, we envisage that nursing students undergoing Project 2000-type training will receive non-means tested bursaries, based very largely on existing DES guidelines - the exception being students who enter nurse training, aged 26 and over, where we propose some "top-up" as a recruitment aid. These bursaries will be lower than student nurses' current pay, and the introduction of community charge relief for those students will help to smooth the transition to lower income levels.

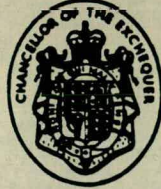
I also agree with you about the position of midwifery students and the other proposals addressed in the note by officials.

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

J. Clarke

KENNETH CLARKE

cc: Sir P Middleton
Sir T Burns
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Gieve
Miss O'Mara
Mrs J Wheldon TSol



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

psp

29 September 1988

Clive Norris
PS/Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1A 9NA

Dear Clive,

RPI - ABOLITION OF DOMESTIC RATES

As you know, your Press Office has now been asked how the Government proposes to handle the implications for the RPI of the abolition of domestic rates and the introduction of the community charge. We have agreed the following line:

"The Government will be consulting the RPI Advisory Committee on a number of issues including the implications for the RPI of the introduction of the community charge. When the Committee has made its recommendations, the Government will study them and then reach its decisions."

We also agreed that Press Offices would not go beyond that: the response to further questions would simply be that the full agenda would be circulated in due course.

The Chancellor has, however, been reflecting further on what should be said if there were a specific question about the possibility of a step reduction in the level of the RPI and the consequent damage to those whose income is uprated by the RPI. If pressed on this point - and this is certainly not something to be volunteered - the Chancellor suggests that the line should be:

"The Government will wish to avoid any significant discontinuity in the RPI arising from the introduction of the community charge."

CONFIDENTIAL



I am copying this letter to Paul Gray (10 Downing Street), Roger Bright (DOE), Geoffrey Podger (DOH), Stuart Lord (DSS), David Crawley (Scottish Office), and to Trevor Woolley (Cabinet Office) and Jack Hibberd (CSO).

*Yours
Alex*

A C S ALLAN
Principal Private Secretary

FROM: P N SEDGWICK
DATE: 30 SEPTEMBER 1988

PPS

Ch
OK?
AA *OK*

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Peretz
Mr Gieve
Mr Hibberd
Miss O'Mara

THE RETAIL PRICES INDEX ADVISORY COMMITTEE (RPIAC)

In the wake of Sarah Hogg's article in the Independent I have received the attached letter from Paul Dworkin on the arrangements for setting up the RPIAC. He would like a response from me sometime on Monday. He will then draft a letter for Mr Fowler to send to the Chancellor seeking his agreement to the proposed arrangements. The experience of the last few months suggests strongly to me that on these issues it is easier to influence DE behaviour at an early stage. I would be grateful for your reactions to the issues I discuss below.

(i) The method of announcing the formal convening of the RPIAC and its agenda

In the light of past practice (summarised in paragraph 2 of the Dworkin letter) I think that a press notice announcing the convening of the RPIAC and giving the terms of reference is unavoidable. I suggest that we agree to this.

The terms of reference in the third paragraph are identical to those in Mr Fowler's letter to the Chancellor of September 15 (copy attached for you only). You should note that these refer to the RPIAC considering "the effect of the abolition of local authority rates" and not to "the introduction of the community charge" as in your letter of September 29 to Mr Fowler's PS. I strongly advise referring to the abolition of rates, which is a more precise description of what the RPIAC will be considering. As far as I am aware the form of words in your letter has so far only been used for oral press briefing.

Sorry about the confusion of this - I took the Green line without appreciating the point.

[Red handwritten mark]

(ii) The arrangements for the first RPIAC meeting

DE would like to arrange the date of the first RPIAC meeting as soon as possible, probably for early November. For such a meeting the papers will have to be circulated in mid-October.

We have still to complete our own deliberations on the implications of the abolition of domestic rates. The Chancellor will then want to report his conclusions to other Ministers. With luck it would be possible to do this before a mid-October circulation of the DE paper for RPIAC members. There is, however, a risk that mid-October will be too soon to complete this process.

On the other hand it is now known that the RPIAC is being convened - and more significantly in this context - is expected to meet soon and no less than three times between now and Christmas (a work rate for the Committee that apparently has no precedent and that has itself caused comment). Delaying announcement of the date of the first meeting, and therefore of circulation of the paper for it, could arouse intense suspicions that we are in disagreement or disarray.

On balance my inclination is to agree to the proposed timing for the first meeting of the RPIAC and the circulation of the first paper. If necessary we could always make the circulated paper for the first meeting a thin and cautious document, promising a fuller paper for the second meeting.

(iii) An interim arrangement for Scotland

This possibility is referred to in the final paragraph of the Dworkin letter. We may well end up seriously considering it, and any delay in fixing the first RPIAC meeting would probably mean immediate discussion of it with DE officials. I do not favour having such discussions before it is absolutely essential to do so and propose that I do not offer DE any comment on this possibility.

P.N.J
P N SEDGWICK

CONFIDENTIAL



Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-
Switchboard 01-

P N Sedgwick Esq
HM Treasury
Parliament Street
London SW1

September 30, 1988

Dear Peter,

RPI ADVISORY COMMITTEE

I am writing to seek Treasury's agreement to the procedure I want to propose to my Secretary of State for announcing formally the reconvening of the RPI Advisory Committee and to make arrangements for its first meeting.

On previous occasions (most recently in 1984) our practice has been to make a brief announcement before representative organisations and potential members have been approached. Typically, the announcement has been made by means of an Arranged PQ, followed by a press notice from this Department, and has included terms of reference. Later, once the Committee has been formally appointed and the first meeting arranged, a second press notice has been issued naming the members.

Given Sarah Hogg's piece in today's Independent I see no point in further delaying a formal announcement about the forthcoming series of meetings and, as we are now almost ready to appoint members, I suggest that the press notice should include their names (except perhaps in the case of Departmental representatives) and terms of reference as follows:

"To advise the Secretary of State for Employment on the effect of the abolition of domestic 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 towards implementation of the longer-term recommendations made in the Advisory Committee's last report. (Cmd 9848)"

603/9

A full press notice along these lines would avoid giving the impression that we were merely reacting to the Independent article. Moreover, I should like to suggest that this be issued during the course of next week to forestall further speculation. I would also suggest that formal letters of appointment go out next week. Could you let me know whether Treasury would be content with this?

As regards the first meeting of the Committee, our soundings amongst potential members suggest that it will be impossible to get a reasonable attendance before early November (Thursday 3rd being a possible date). This timing is very tight if we are to have an orderly and thorough consideration of the issues by the time that decisions need to be taken early next year. Even now there is some risk that the Committee may be forced to deal with the question of Scottish rates on an interim basis. A later meeting will substantially increase this risk. We cannot afford to let the meeting slip beyond early November. We must also give members sufficient time - I would say two clear weeks - to consider the papers. Circulation should therefore take place in the week beginning Monday 17th October. I am aware that there are issues which need to be resolved by then, but I feel that we must now go firm on the date of the first meeting. I would be grateful for your early agreement.

Sincerely

Paul

P D DWORKIN

CONFIDENTIAL



Faxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5802
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

EXCHEQUER
15 SEP 1988
MR SEDGWICK
EST
SIR P MIDDLETON
SIR T BURRIS
MR SCHOLAR
MR EDWARDS
MR PERETE
MR HEBBERD
MISS O'MARA
MS WHELDON (T. SOL)

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

15 September 1988

Nigel

Community Charge and the RPI

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:

X | "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.

3/5/88

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

A large, stylized handwritten signature in black ink, appearing to read "Norman Fowler".

PPS?

- 1. MR POTTER *BHP 30/9*
- 2. CHANCELLOR

FROM: R FELLGETT

Date: 30 September 1988

cc: Chief Secretary
 Financial Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Scholar
 Mr Culpin
 Mr Phillips
 Mr Edwards
 Mr Tyrie

*OK - but that
 v. important
 John was a
 impact on the
 PPS
 v. important*

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

You might welcome a few comments to supplement the Valuation Office response of 28 September to your queries about large losers from the revaluation and move to NNDR.

2. Large percentage losses from the 1985 Scottish rating revaluation seem to have been concentrated among shops, including small shops, in suburban areas and large country towns that had become relatively much more prosperous since the previous revaluation. These are the bulk of the businesses to whom, in all, £60 million of rating revaluation relief has been paid.

3. I would be surprised if the same pattern of losses did not emerge in England. In addition, there are likely to be large losses among shops in the centre of London, where the retail trade has prospered over the last fifteen years and rate poundages are currently much lower than average. (Westminster, the City and Kensington in particular have rates at least 30% below average, despite financing the bulk of ILEA spending, because their rates base is so substantial. As these authorities are currently out of grant, the benefit of the high rates base is not at present shared nationally through the distribution of RSG.)

4. However, this VO survey also suggests that offices are likely to be losers overall (by about 9% on average), compared to an estimate that they would be small gainers in the previous VO survey conducted in the Autumn of 1986. This has helped reduce the average projected loss among shops to under 20%, compared to 30% in the earlier study.

5. It should also be noted that increased rates bills are not necessarily fully translated into increased costs for any business. Those paying direct taxes (Income Tax for partnerships and Corporation Tax for plcs) could offset up to 25%-35% of the increase in their other tax payments. And a redistribution of the rates burden should be offset in part through a redistribution of commercial rents as rents and leases are reviewed (normally on a 3-5 year cycle). But this will be no comfort to those owning their own business premises, where changes in rates are likely to be capitalised into property values, or making no profits.

6. These offsets will also affect gainers. Overall they will help smooth the change to new rates bills for most businesses, and thus supplement the transitional arrangements to which the Government is committed in principle.

7. More generally, I think the Inland Revenue study fulfils rather well the remit which you gave us to estimate the likely effects of the revaluation and transfer to NNDR, in a way that would inform detailed decisions this autumn about how the transition will be managed. We have been consulted about the study's methodology. As the figures now show, these decisions about the transition will not be easy. The preliminary estimate that a 20% limit on losses would require a smaller 12% limit on gains to be financially neutral, because the distribution is not symmetric, may prove difficult to sell to business. We are also discussing with DOE the option of basing the change on 1987-88 bills, not those for 1989-90, to remove one incentive for ratepayers to appeal against their 1973 valuation, about which you wrote to Mr Ridley on 22 July.

8. The Revenue figures will help you and colleagues to address these issues directly, and provide a much better chance than we had during passage of the Local Government Finance Bill, when no similar relevant facts were available, of reaching a conclusion that is both right for business, and protects the Exchequer. (The relief for large losses in Scotland referred to above might if repeated in England be more than £½ billion.)

9. I suggest that you now authorise the Revenue to release their full quantified report for limited circulation within Whitehall at official level. We will then work with DOE and WO to produce detailed nil-cost options for the transition, for E(LF) to consider in November.

Robin Fellgett

R FELLGETT

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0538 (Llinell Union)



BF 4/10

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

CT/6156/88

30 September 1988

COMMUNITY CHARGE : STUDENT NURSES

PPS in

Thank you for copying to me your letter of 8 September to Malcolm Rifkind. As you say, the main question to which we have to find a solution is whether or not to extend the 80% relief to all nurses on pre-registration courses.

So far as the four options presented in the official paper are concerned, I am inclined to favour option iv, although I should be prepared to accept option iii if that makes matters administratively easier in Scotland. Either option would of course have the same effect in Wales, as also in England.

I appreciate that the choice of options - between i and ii on the one hand and iii and iv on the other - is very finely balanced. All the options converge over time: at some point in future all nurses will be undertaking Project 2000 courses and will be eligible for 80% relief. I note also that the effect on all community charge payers' bills of extending the 80% relief to all nurses is minimal.

Of course, as the paper points out, there are inconsistencies inherent in allowing relief to student nurses and not to other groups of trainees. But in my view, whatever we decide, some nurses will be seen by other groups to be receiving special treatment. To me the over-riding problem seems to be one of presentation: I feel that we should only leave ourselves open to be criticised if we were to treat all (and not just some) student nurses as a special case.

For reasons of presentation also, I would be inclined to extend the relief concession to midwifery trainees as well. So far as the treatment of nurses in higher education is concerned, I agree that they should qualify for the 80% relief. Similarly, I accept the paper's recommendation that second registration student nurses should be treated in the same way as student nurses on pre-registration courses.

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

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

CH/EXCHEQUE	
REC.	- 3 OCT 1988
ACTION	CST
COPIES TO	

31/10



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

mp

From the Minister of State for Social Security and the Disabled

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

CH/EXCHEQUER	
REC.	50 OCT 1988
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02 OCT 1988

✓ 5/10

Mr Nicholas,

COMMUNITY CHARGE: DEDUCTIONS FROM BENEFIT

Thank you for your letter of 9 September responding to mine of 9 August about the outstanding issues on deductions from Income Support to pay arrears of community charges. You will have seen the replies from John Major and Malcolm Rifkind on the subject.

On the question of the making of regulations for deductions, I note your arguments but I still feel strongly that we should make a single set of regulations which deal with the mechanics of deductions from benefit for arrears of community charge. They would cover Scotland as well as England and Wales since we operate a single system for Great Britain.

The issue of deductions from benefit is very different from the other methods of enforcement. Those methods are entirely a matter for the local authority to determine and act upon. However, we have already established that once a local authority has asked for deductions to be made from benefit, their part in the process ends and I think that the enforcement regulations should, logically, cease at that point. They will have no locus in deciding whether deduction can be made and if so how and, in my view, this justifies the regulations standing alone. There is no reason for them to be included in regulations which give powers to local authorities.

I think we are all agreed that deductions from benefit is a sensitive issue and whilst I appreciate your desire to contain any debate, I remain convinced that it is best if we handle the deductions regulations.

In my earlier letter I also raised the question of the regulations concerning disclosures from social security records. As I mentioned then, I think it is more appropriate for us to make them.

In view of the support which John Major and Malcolm Rifkind have given in their replies, I hope that you will reconsider the matter and that we can now resolve this question without the need to discuss it in Cabinet Committee.

Turning to the question of priority, by keeping these deductions separate from the usual maximum, we should avoid the need to apply an order of priority but, there will be some instances where the amount of Income Support is at such a low level that we cannot avoid the problem.

As I understood the debates, imprisonment is only an option when a person has the means but wilfully refuses to pay the charge. I think that where there are arrears of rent, gas, electricity and water charges or any combination of these, a court is unlikely to regard non-payment as a wilful refusal. However, even if they did, I think it is arguable whether imprisonment for failure to pay on the one hand or eviction for non-payment of rent, discontinuation of gas or electricity or having the water supply cut off on the other, would have more serious consequences for the family.

Whilst I understand your need to ensure that arrears are collected, I hope you will understand that there are other priorities which we have to consider in relation to a family as a whole and I think we must reserve our position in that respect.

With regard to current liability problems, the deductions for community charge will, in a straightforward case, include current liabilities because the whole year will fall due when only one or two payments have been missed. The comparison you make with other deductions where we deal separately with current liabilities operates in a different context. Taking rent as an example, the arrears will be only for past periods and the on-going benefit will include an amount for rent which can simply be diverted to the landlord.

In the case of community charge, not only will the amount deducted weekly be in excess of what is included in Income Support but will cover future payments as well as past arrears. Once we make deductions for arrears there is no separate element on which we could draw to direct further monies to meet community charge liabilities. I think therefore that we must confine any deductions to £1.70 a week.

I am pleased that you intend to look at the costs of liability orders. The uncertainty about the extent to which such costs would inflate the liability order for what will, on average, be about £50 for a whole year, was at the root of my concern.

I note that Malcolm Rifkind suggested that we might use a separate figure in the case of couples, but deductions are already costly in manpower and we must keep them as simple as possible, particularly as we move towards more computerisation. I hope that you and Malcolm will accept that adding a different level of deduction especially for community charge is not administratively feasible.

FOI.

Finally, I am content for this Department to bid for the running costs.

I am copying this to John Major, Malcolm Rifkind, other members of E(LF) and to Sir Robin Butler.

Yours truly,

Nick.

NICHOLAS SCOTT



any
FROM: A C S ALLAN
DATE: 3 October 1988

MR SEDGWICK

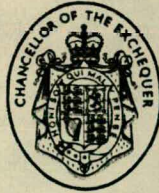
cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Peretz
Mr Gieve
Mr Hibberd
Miss O'Mara

RPIAC: COMMUNITY CHARGE ETC

The Chancellor was grateful for your minute of 30 September. He is content for you to proceed as you suggest.

A handwritten signature in dark ink, appearing to read 'ACSA', with a long horizontal flourish underneath.

A C S ALLAN



FROM: A C S ALLAN

DATE: 3 October 1988

MR O T MORGAN - INLAND REVENUE

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mr Potter
Mr Fellgett
Mr Tyrie

PS/IR
Mr Painter IR
Mr Pitts IR
Mr Fallows IR

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 28 September, and the further information you supplied. He is content for you to proceed with releasing your full quantified report for limited circulation within Whitehall at official level.

A handwritten signature in dark ink, appearing to read 'ACSA', with a long horizontal stroke underneath.

A C S ALLAN



FROM: A C S ALLAN *pan*
DATE: 3 October 1988

MR FELLGETT

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mr Potter
Mr Tyrie

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 30 September. As you suggested, he has now authorised the Revenue to release their full quantified report for limited circulation within Whitehall at official level.

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

A C S ALLAN



MP

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5803
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

CH/EXCHEQUER	
REC.	6 OCT 1988
ACTION	CST
COPIES TO	

6/10

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

Dear Nick. *October 3*

COMMUNITY CHARGE: STUDENT NURSES

You copied to me your letter of 8 September to Malcolm Rifkind. I agree with your view that the 80 per cent relief from the full Community Charge should be confined to nurses following Project 2000 courses and therefore falling within the definition of a full-time student.

As the introduction of the Community Charge approaches, the Government is bound to receive numerous enquiries on behalf of other trainees and apprentices about their status, and it is important that we are in a position to give a consistent and convincing reply. If we can state that nobody will be given full student status unless they satisfy the specified criteria (ie at least 21 hours of supervised study a week for at least 24 weeks in the year), this should help to avoid controversy on this point. But we can only give this reply if we apply the criteria very strictly to trainees for nursing, midwifery and health visiting. I would therefore not be in favour of any bending of the rules.

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

Norman Fowler
NORMAN FOWLER

CH/EXCHEQUER	
REC.	4 OCT 1988
ACTION	LST
COPIES TO	

✓ 4/10



M

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 October 1988

Dear Roger,

✓

COMMUNITY CHARGE: STUDENT NURSES

The Prime Minister has now considered your Secretary of State's Letter of 8 September to the Secretary of State for Scotland and the subsequent comments by colleagues.

The Prime Minister agrees with your Secretary of State that option (i) should be adopted, namely that 80 per cent community charge relief should not be extended to pre-Project 2000 student nurses. She also agrees midwifery trainees should not be brought within the definition of full time students, and with the recommendations on the other groups of nursing trainees set out in the paper by officials.

I am copying this letter to the Private Secretaries to members of E(LF), the Chief Whip and Sir Robin Butler.

Yours
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

FROM M C SCHOLAR
DATE 4 OCTOBER 1988

CHANCELLOR OF THE EXCHEQUER

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

Minutes.
Notes
Ch
No action for you now, but clearly need to get a move on.
AA
10/10

INDEX-LINKED GILTS AND THE RPI

We have now had (Mr Plenderleith's letter of 30 September, attached) the Bank's follow-up to their letters of 6 and 13 September, in reply to my letter of 1 August.

2. The Bank's Counsel has endorsed the legal advice they have already received from Freshfields that it would not be proper for them to make a comparison between the RPI with and without the Community Charge in it. Notwithstanding this the Bank have, as we asked them to, given us their view on this comparison - which is that the balance of probability points to the exclusion of the Community Charge being detrimental to the interests of stockholders compared with its inclusion. They say that they cannot rule out the possibility that the level of detriment would be significant.

3. The Bank are troubled that their legal advisers and ours disagree, and wonder if a meeting might be arranged to attempt to resolve the disagreement.

4. Miss Wheldon is seeking the Law Officers' views on all these points. I will minute you again when we have their views.

MCS

M C SCHOLAR

26/10.

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

BANK OF ENGLAND
LONDON EC2R 8AH

30 September 1988

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

cc Mr Scholar
Mr Sedgwick
Mr Edwards
Miss O'Mara T/Sol
Miss Wheldon

Dear David,

INDEX-LINKED GILTS AND THE RPI

1 We have now consulted Counsel on the question as to whether we should make the comparison requested in Michael Scholar's letter of 1 August between the second and third options set out in his letter of 19 May. A record of the consultation is attached; it also covers a number of other points relevant to our determination.

2 As you will see, Counsel endorses the legal advice we have received and confirms the view that it would not be proper for us to make the comparison suggested by you in reaching our determination under the prospectuses.

3 This means that the difference of view between your legal advice and ours remains unresolved. This seems to us to be an unsatisfactory basis on which to approach a decision of considerable practical significance. Counsel has indicated to us that in similar situations in the past it has been possible to arrange a meeting between the various sources of legal advice in order to try to resolve the differences. We would like to suggest that this possibility should now be given serious consideration.

4 In the meantime, though we remain of the view that a comparison on the basis you have suggested should not be taken into account in our determination under the prospectuses, we have been considering further what advice we can give you, independently of our position under the prospectuses, on the effects on the interests of stockholders of option 2 as compared with option 3.

5 On the basis of the alternative options as you have specified them to us, the assessment of whether the omission of the Community Charge as per option 2, by comparison with its inclusion under option 3, would be materially detrimental to the interests of stockholders involves some difficult judgments. We set out the main considerations of which we are aware in my letter of 13 September. Taking account of all these factors, we continue to think that the balance of probability points to the exclusion of the Community Charge being detrimental to the interests of stockholders as compared with including it. As indicated in our letter of 13 September, we do not at this stage feel able to make an assessment of the scale of detriment, but we certainly do not feel that we can rule out the possibility that the level of detriment would be significant.

Yours sincerely,

John H. ...

SECRET

NOTE OF CONSULTATION WITH MR PETER SCOTT Q.C.

ON 23 SEPTEMBER 1988

RE: INDEX-LINKED GILTS PROSPECTUSES

Present: Ian Plenderleith)
 Merlyn Lowther) Bank of England
 Vivienne Bronk)

 Peter Peddie) Freshfields (Instructing Solicitors)
 Alan Newton)

A. Preliminary Matters

The purpose of the meeting was to consider the questions raised by Instructing Solicitors in their Instructions to Counsel dated 20 September, 1988. Before proceeding to do so Counsel raised three preliminary points.

1. Counsel enquired as to the Bank of England's view of the meaning of "basic calculation". Mr Plenderleith thought that the expression referred to the method of calculation in contrast to "coverage" which related to the contents of the basket comprising the RPI.

Counsel considered that it was desirable for the Bank to be certain as to what it considered the basic calculation to be since the question of whether there had been a change in the method of calculation may be relevant to certain of the proposals (for example where the RPI is adjusted before rates are abolished). Counsel considered that a stockholder was entitled to have the question of coverage and of basic calculation looked at by the Bank both independently and together prior

to a consideration of the issues of fundamental change and material detriment. Counsel thought that it was arguable that the cumulative effect of a change in both coverage and basic calculation could result in a fundamental change which was materially detrimental.

Mr Plenderleith pointed out that it was not unusual for adjustments to be made to the weightings of the RPI. The basket comprising the RPI was a collection of commodities. As spending patterns changed, the quantities of commodities in the basket were adjusted to reflect such changes. Such an adjustment usually takes place annually. In making an adjustment to the weighting of rates to reflect their abolition (and the consequent cessation of expenditure on rates as an item in the basket), no departure from this system would be involved.

Counsel was nevertheless concerned since certain of the proposals under consideration envisaged an adjustment to the weightings of components within the basket prior to the abolition of rates.

2. In making a determination pursuant to the relevant paragraph of the gilts prospectuses, the Bank of England would be acting as an expert. Counsel advised that in its capacity as such it must look to such information as it considers relevant and should avoid giving any impression in correspondence with HM Treasury that it was relying on HM Treasury for the supply of all relevant information.

3. Counsel enquired as to the role and composition of the RPI Advisory Committee. Mr Plenderleith indicated that it was a non-statutory body consisting of representatives of various sectors of the economy with expertise on particular subjects. The committee advised the Department of Employment and its purpose was to establish the credentials of the RPI as something subject to independent scrutiny. Mr Plenderleith thought that in practice questions were only put to the Advisory Committee by Ministers.

Counsel thought that it would be helpful to consider the RPI Advisory Committee's terms of reference in case it was subsequently considered desirable for the Bank of England itself to put questions to the committee or to suggest that Ministers did so.

4. As a general point Mr Plenderleith stressed to Counsel that the Bank approached the issues described in the Instructions with an entirely open mind. He emphasised that no decision had yet been taken at any level in relation to the composition of the RPI. One point to be borne in mind was that in reaching any decision, Ministers would be mindful of the scope for challenge in the courts.

B. Questions raised in the Instructions

1. Would the Bank's determination be susceptible to judicial review

Counsel indicated that he wished to consider this issue in more detail. The law in relation to judicial review was in a state of flux. Counsel would revert to Instructing Solicitors on this question.

2. Is the practical effect of a challenge on private law grounds much the same as challenge by judicial review

Counsel considered that at the stage of litigation by a stockholder there could be very important differences between a private law action and an application for judicial review both in appearance to the public and in effect. Although not exhaustive of the differences, Counsel referred to the following distinctions:-

- (a) an application for judicial review must be made promptly (generally within three months unless the time limits are relaxed) whereas an action for negligence may be brought at any time within the 6 year limitation period;

- (b) the question to be answered by the court is different. In an application for judicial review the court would be concerned to see whether the Bank's determination was in conformity with the law. The construction of the gilts prospectuses was a question of law and the court could quash the determination where it was satisfied that the Bank, even though acting on advice, was wrong. In an action in tort for negligence in arriving at its determination, the stockholder would have to demonstrate that the Bank had breached its duty of care. In these circumstances the fact that it had gone to considerable lengths to obtain expert legal advice could be a complete answer to such a claim;
- (c) the procedural aspects were different. In an application for judicial review discovery is limited and is at the discretion of the court. In an action in tort for negligence, full discovery would ensue. In addition, cross-examination of witnesses is unusual in an application for judicial review; in an action for negligence the persons involved in the making of the determination would be liable to be cross-examined in detail;
- (d) theoretically the technical effect of the two courses of action would be different. A determination of the court pursuant to an application for judicial review is binding on the world whereas an action in tort for negligence is a private law remedy and binding only on the individual stockholder who instigated the action;
- (e) the remedies available pursuant to an application for judicial review are discretionary and may not be awarded even where the plaintiff suffered loss; for example, if others had changed their position in consequence of the determination. In contrast, in an action for negligence, the court is obliged to award the plaintiff his remedy of damages if the elements of the tort are established.

If the Bank of England were faced with litigation in respect of its determination, it would be necessary to decide whether to challenge the route adopted by the plaintiff in any particular case.

3. The meaning of "fundamental change"

Counsel confirmed that he agreed with the analysis of the meaning of "fundamental change" put forward on page 2 of Instructing Solicitors' letter to the Bank dated 30 June, 1988. In particular, Counsel considered that the examples of a fundamental change set out at the bottom of page 2 of that letter were a useful guide to the nature of the changes which the Bank would be concerned about in making its determination.

Counsel considered that the expression "fundamental change" must be construed in its context in accordance with its ordinary and natural meaning. "Fundamental" connotes something that goes to the root or basis. To some extent that would be a question of degree. However, although the weight attached to rates was quite substantial, it was only part of the RPI and it was important to look at the relative importance of the other elements.

Counsel enquired of the Bank as to the closest example of an unequivocal fundamental change that they could envisage. Mr Plenderleith thought staple foods would be a very significant component. There was a discussion of the nature of an item such as petrol the price of which was extremely volatile. Counsel stressed that the motive for including or excluding an item from the RPI was irrelevant to the determination to be made by the Bank. However, the effect on the performance of the RPI could result in a change being a fundamental change for the reasons given in page 2, paragraph (iii) of Instructing Solicitors' letter (a change which produces a result which is incompatible with the purpose and use of the RPI). Mr Peddie thought that the removal of a commodity

such as petrol which has far reaching effects in terms of the RPI could also be a fundamental change of the type described in page 2, paragraph (ii) of Instructing Solicitors' letter (a fundamental alteration of the character of the RPI).

1
0
In the Bank's view, the abolition of rates was not ipso facto a fundamental change; items which were formerly included in the RPI have been abolished in the past without the fact of abolition being considered a fundamental change. However, Mr Plenderleith thought that it could be a fundamental change if the RPI were to continue to contain a non-existent item.

Counsel agreed with Instructing Solicitors' view that the question of what constituted a fundamental change was an extremely difficult one being in large part a judgmental question.

4. The application of Instructing Solicitors' analysis of fundamental change to the three options under review

Counsel confirmed that he agreed with the conclusions drawn by Instructing Solicitors on the application of their analysis of the meaning of fundamental change (contained in page 2 of the letter of 30 June) to the three options put forward by HM Treasury and set out on pages 3 and 4 of that letter, but stressed that the decision was one for the Bank exercising its own judgment.

5. Should the paragraph in the gilts prospectuses be read as a whole

Counsel confirmed that in the context of the meaning to be ascribed to the words "fundamental change", the relevant paragraph of the gilts prospectuses should read as a whole. Indeed, Counsel agreed this was the case whether or not there was any ambiguity. Counsel also confirmed that he agreed with the conclusions drawn by Instructing Solicitors on the interpretation of the paragraph and set out on pages 3 and 4 of their letter of 6 September, 1988 to the Bank.

Counsel indicated that, as a practical matter, he agreed with the point made in HM Treasury's letter of 1 August, 1988 that it is 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. However, in construing the clause the likelihood of material detriment was not relevant to the question of whether there had been a fundamental change.

Counsel observed that if the expressions "fundamental change" and "material detriment" were the same there would have been no need to include the word "fundamental" in the relevant paragraph of the gilts prospectuses. He noted that HM Treasury had stopped short of saying this.

6. Application of the expression "materially detrimental to the interest of stockholders"

Counsel agreed with Instructing Solicitors' view that the test contained in the gilts prospectuses requires the Bank to have regard to the interests of stockholders in their capacity as stockholders and not in any other capacity.

Counsel also agreed that the requirement of materiality, being a question of degree, must add something to the requirement of detriment so that stockholders could reasonably be expected to accept some measure of detriment through a change in the RPI before the provisions for early redemption came into play.

Counsel did not consider that it would be disadvantageous for the Bank to form its view on the issue of fundamental change following the analysis suggested by Instructing Solicitors and, if it concluded that any particular proposal would not constitute a fundamental change, to reconsider that conclusion after considering whether the change would be materially detrimental to stockholders. This did not concede the

argument as to the construction of the relevant paragraph of the prospectus put forward by HM Treasury. Further, if the conclusion on material detriment is also in the negative, it gives the Bank additional comfort.

Market value

In the context of determining material detriment Counsel raised the issue of market value and whether that should be looked at by the Bank in arriving at its determination.

Mr Plenderleith thought that it would be very difficult to determine what movement in the market price could be attributed to a change in the RPI. The market in index-linked gilts was not very deep and was subject to extraneous forces. However, he pointed out that index-linked gilts had in fact risen in the last 7 to 10 days because of published inflation figures.

Counsel observed that the language of the prospectuses required the Bank to determine whether a change would be materially detrimental. To that extent it would be possible to exclude unpredictable factors, unless the unpredictability itself gave rise to material detriment. Counsel expressed the view that if something was taken out of the RPI which had been capable of measurement over time and a new factor was introduced which was uncertain in its effect, the introduction of that uncertainty could constitute the introduction of a factor which was materially detrimental to stockholders. The Bank did not consider that the introduction of a factor which was uncertain as to its future behaviour in itself constituted the introduction of a factor which was materially detrimental to stockholders since it was not known how that factor would behave. However public perception might be different. While the Bank was concerned to make a logical and analytical determination on the basis of all available information, it was concerned that a development such as a material fall in market value could be used to challenge its analysis in the courts.

Counsel thought that it was unlikely that the courts would wish to substitute their own determination for that of the Bank unless there was a strong suggestion that the RPI had been deliberately manipulated to the detriment of stockholders. To a large extent this was a question of how the Government presented the issue. Mr Plenderleith pointed out that public perception will be a difficult issue in the context of rates and the community charge and the distinction sought to be made between the cost of the occupation of property (rates) and a direct tax (the community charge). For example, the proposal for a double community charge where a person owns two properties causes confusion as to whether it is a housing cost.

On the question of market value, Counsel's advice was that in arriving at its determination, the Bank should consider as best it can whether it is likely that there would be a fall in market value as a result of a proposed change. If the Bank concludes that it is unlikely and yet subsequently there is a fall in market value, this should not put in doubt the integrity of the Bank's determination. Counsel acknowledged that the Bank could only do a rough and ready determination given the nature of the market.

7. Comparison of one hypothetical option with another

Counsel confirmed that his opinion on this question was exactly the same as that of Instructing Solicitors as expressed on page 4 of their letter of 6 September, 1988 to the Bank.

Mr. Plenderleith indicated that this was the most difficult issue facing the Bank in the light of the view taken by HM Treasury on the basis of its own legal advice. The Bank had so far declined to make a determination on the basis of comparative effect but they felt that they had to give serious consideration to whether or not they should do so first because the Bank is mindful of the fact that the Government has

taken senior legal advice which would appear to require the comparison to be made and secondly because of the potential danger that, if the Bank's determination was challenged, the courts would expect the comparison to have been made.

Counsel did not agree that the courts would wish to approach the matter in this way. He had a number of reservations in relation to the proposal:-

- (a) he did not see at what stage the comparison could legitimately be made in the light of the construction of the language adopted by the Bank, Counsel and Instructing Solicitors.
- (b) If a comparison was to be made, it seemed inappropriate to make a comparison with just one alternative, rather than with every conceivable option which might be available;
- (c) he did not see what would be achieved by the comparison even if it produced a conclusion that the effect of not including the community charge would be more detrimental than including it. This would not affect the conclusions as to fundamental change or material detriment if the change proposed was simply removing rates;
- (d) embarking on a comparative exercise which was not appropriate to the determination could be treated as part of the Bank's reasoning in reaching its decision;
- (e) the Bank would run the risk of compromising its position as an independent expert by conducting a comparison which it did not consider appropriate;
- (f) if the comparison was carried out it could be damaging for a stockholder subsequently challenging the Bank's determination to have access at the discovery stage to the Bank's views. For example if the Bank concluded that including the community charge

would prevent the removal of rates being materially detrimental, a stockholder complaining that he was not allowed to redeem when rates were dropped would not have to show that the Bank's decision would have been different if it had proceeded as H M Treasury suggest.

In view of the fact that HM Treasury had received advice which appeared to be different in significant respects from that of Counsel and Instructing Solicitors, the possibility of arranging for a meeting to discuss these issues between HM Treasury and the Bank's legal advisers was considered. Mr. Plenderleith was to consider whether this would be feasible.

30 September 1988

Freshfields
PCP/AMN/HGP11



FROM: A C S ALLAN
DATE: 5 October 1988

pyg

MR SCHOLAR

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr A J C Edwards
Mr Peretz
Mr Sedgwick
Mr Hibberd
Miss O'Mara
Miss Wheldon T.Sol

INDEX-LINKED GILTS AND THE RPI

The Chancellor was grateful for your minute of 4 October, and noted that you will be putting up further advice when we have the Law Officers' views.

ACSA

A C S ALLAN

The legal position is v. unattractive, but we are stuck with it. So I think this is the right course. We must nonetheless get a clear

FROM M C SCHOLAR
DATE 7 OCTOBER 1988

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

government proposition to put before the Committee for their consideration.

- cc Chief Secretary
- Economic Secretary
- En.* Sir Terence Burns
- Mr Anson
- Mr A J C Edwards
- Mr Peretz
- Mr P Sedgwick
- Mr Hibberd
- Miss O'Mara
- Miss Wheldon

Ch/content with both minutes?

MPCW 7/10

INDEX-LINKED GILTS AND THE RPI

*OK as an answer
2. How about unamort
Income Tax Re*

Miss Wilmshurst's letter of 5 October (copy attached) tells us that the Law Officers' views, like the Bank's, are unchanged, and that they see no point in a discussion with the Bank's Counsel.

2. So the Bank's view that Option B (rates drop out of the RPI when abolished but without producing a step change in the RPI) is not a fundamental change and would not be materially detrimental runs a real risk, in the Law Officers' view, of a successful challenge on judicial review, because it does not take into account a comparison between Option B and Option C (Community Charge included in the RPI). The Law Officers also say that the assessment made by the Bank - that the exclusion of the community charge would probably be detrimental to the interests of stockholders compared with its inclusion, and that the level of detriment could be significant - does not remove the risk they have identified on judicial review.

3. At your meeting on 14 September you said that Option B 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

*Public Expenditure Charge
DWP a re RPI
notes?*

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. Neither of these conditions are met. Accordingly I assume that your decision will now be - regretfully - to drop Option B. I attach draft minutes to the Prime Minister and to colleagues on this basis.

5. We need to give some thought to the handling of the Advisory Committee on this new basis. When we were on Option B we wanted a clear Government line in its favour given the likely support for Option C amongst some of the outsiders and from the inclinations of the Department of the Environment representative (and from the DoSS). With Option C this is less clear, and it would be best now not to have too strong a government line: both because of Miss Wheldon's point that the government should not seem to be attempting to railroad the Committee; and because we must guard against the possibility, which Sir Terence Burns raised at your meeting, if Option C turned out in the event to be detrimental in comparison with Option B, that we might be arraigned for trying to silence the government statisticians on the Committee.

6. If you agree with this analysis we will need to steer the government members of the Committee (particularly the CSO and the Department of Employment statistician) with a very light touch. (But the touch should not be so light as to risk the Committee veering towards Option B, given the risks we have identified.) Does this seem the right approach?

MCS

M C SCHOLAR

SECRET

cc Michael Scholar



LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

LEGAL SECRETARY

14 September 1988

Miss Juliet Wheldon
Treasury Solicitor's Department
Queen Anne's Chambers
28 Broadway
LONDON S W 1

Copy to Mr Perutz
Mr Sedgwick

Dear Juliet:

INDEX-LINKED GILTS AND THE RPI

Thank you for your letter of 14 September.

The Solicitor General has considered the further papers you have sent to us. He remains of the view which he has previously expressed. He considers that there is a real risk of a successful challenge against the Bank on judicial review if, in making the determination required of it under the prospectuses, the Bank does not take into account a comparison of option 2 with option 3.

Furthermore, the Solicitor's view is that in making that comparison, it is not satisfactory for the Bank to rest on the difficulty of future predictions or the "unknowability" of the buoyancy of the Community charge. It follows that in the Solicitor's view the assessment made by the Bank in Mr Plenderleith's letter of 13 September does not remove the risk which he has identified on judicial review.

Yours ever,

M L Saunders

M L SAUNDERS

7/212

SECRET

SECRET
AND MARKET SENSITIVE

*Please type
this & minute
before to Ch.
signature*

DRAFT MINUTE FROM THE CHANCELLOR TO THE PRIME MINISTER

COMMUNITY CHARGE AND THE RPI : INDEXED GILTS

As you know, following Norman Fowler's letter of 28 July it has been agreed that the RPI Advisory Committee should be convened to consider the implications for the Retail Prices Index of the abolition of domestic rates. A series of meetings is being arranged over the next few months.

2. Although we must wait for advice from the Advisory Committee before making a decision, it may nevertheless be useful at this stage to consider what outcome we would prefer to see.

3. Nick Ridley in his letter of 12 August and John Moore in his letter of 3 October have stated the case for including the Community Charge in the RPI. On the other hand, the arguments for exclusion set out in paragraphs 2(a) and (b) in the paper by officials, of 22 July, are strong ones.

I have had a particular concern

4. 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 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 which, in

**SECRET
AND MARKET SENSITIVE**

the opinion of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the 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.~~

5. 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.

6. 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 would be materially detrimental to IG stockholders, thereby requiring stock to be redeemed. I believe this option in any case to be politically unacceptable.

**SECRET
AND MARKET SENSITIVE**

- 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, 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.

7. 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.

8. 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.

9. While these are the Bank of England's provisional conclusions, based on its own legal advice, I have also to weigh

**SECRET
AND MARKET SENSITIVE**

the risks of the matter being subsequently brought to the courts, and the courts taking a different view. Given the amount of money potentially at stake we need to take a careful look at the risks.

10. I am advised that the Bank might face a challenge in court that it should have triggered the redemption if Option B were chosen. The Solicitor General's advice is that a court might well take the view that in judging Option B the proper comparison for the Bank to have made is not with what the RPI would have been, had rates not been abolished, but with Option C, that is the replacement of rates in the Index by the Community Charge. Although the Bank believes this not to be a proper comparison to make, it also advises that judged on this basis there would probably be detriment and that the level of detriment could be significant.

11. I have therefore reached the conclusion that there is a significantly greater risk under Option B than under Option C so far as Indexed Gilts are concerned.

12. To summarise, while I can see strong arguments for Option B, given the risks for IGs ~~and the arguments deployed by Nick Ridley and John Moore~~ I should on balance prefer to see Option C as the outcome. I should add that I do of course accept that the RPIAC must be consulted and their views be taken fully into account before the Government reaches a decision on the matter. Indeed I understand that the Government might be judicially reviewable if the normal procedures were not followed. I hope however that you and our colleagues will agree that in

**SECRET
AND MARKET SENSITIVE**

putting the Government view to the RPIAC we can suggest that Option C is, on balance, preferable.

13. Finally, there could be undesirable market consequences if there were any suggestion in public that Option A, with a 4% fall in the RPI, were being seriously considered. To reduce uncertainty I therefore hope that in putting the matter to the RPIAC we can make it clear that this is not an option favoured by the Government.

14. Given the general market sensitivity I am sending copies of this note only to Norman Fowler and Nick Lyall. I am writing to Norman and other colleagues separately, summarising my views.

CONFIDENTIAL

DRAFT LETTER FROM THE CHANCELLOR TO NORMAN FOWLER

COMMUNITY CHARGE - RPI

I have now had an opportunity to think further about your letter to me of 28 July, and have seen copies of Nick Ridley's letter to you of 12 August, the letter from the Director of the Central Statistical Office of 26 August to your Private Secretary, Peter Lloyd's letter of 8 September, and John Moore's letter of 3 October.

2. Although the arguments against including the Community Charge in the RPI, set out in paragraph 2 of the draft note by officials, are in my view strong ones, ~~I think we must also weigh in the balance the important points made by Nick Ridley and John Moore.~~ For ~~these and other reasons, and despite the difficulties,~~ my preliminary ^{opinion} ~~view~~ is that the Community Charge should be included in the RPI. We will, of course, need to consider the issue further once we have the Committee's views.


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



Ch

When PM saw your minute on RPI & CC, her reaction was wrong to include direct tax financing LA spending (we don't do this for income tax & health etc). She proposed have a new RPI based on option (a) (4% drop) for new issues of IGs & transitional RPI based on option (c) (including CC) for ~~existing~~ existing IGs. This seems loony - impossible to present, not thought through for pensions etc.

Paul hasn't minuted out & you may like to discuss with her.

(see Ridley letter in separate story below) 



7/10/88.

Treasury Chambers, Parliament Street,
01-270 3000

PRIME MINISTER

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr A J C Edwards
Mr Sedgwick
Mr Hibberd
Miss O'Mara

COMMUNITY CHARGE AND THE RPI : INDEXED GILTS Miss Wheldon - Tsy Sol.

As you know, following Norman Fowler's letter of 28 July it has been agreed that the RPI Advisory Committee should be convened to consider the implications for the Retail Prices Index of the abolition of domestic rates. A series of meetings is being arranged over the next few months.

Although we must wait for advice from the Advisory Committee before making a decision, it may nevertheless be useful at this stage to consider what outcome we would prefer to see.

Nick Ridley in his letter of 12 August and John Moore in his letter of 3 October have stated the case for including the Community Charge in the RPI. On the other hand, the arguments for exclusion set out in paragraphs 2(a) and (b) in the paper by officials, of 22 July, are strong ones.

However, in considering this issue I have had a particular concern 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 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 which, in the opinion



of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the 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.

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.

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



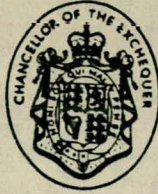
- Option C, under which rates are replaced in the Index by the Community Charge, is a fundamental change in the Index, since payments such as the Community Charge which are statistically classified as direct taxes have hitherto been excluded, but there are no firm grounds for concluding that it would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

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.

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.

While these are the Bank of England's provisional conclusions, based on its own legal advice, I have also to weigh the risks of the matter being subsequently brought to the courts, and the courts taking a different view. Given the amount of money potentially at stake we need to take a careful look at the risks.

I am advised that the Bank might face a challenge in court that it should have triggered the redemption if Option B were chosen. The Solicitor General's advice is that a court might well take the view that in judging Option B the proper comparison for the Bank to have made is not with what the RPI would have been, had rates



not been abolished, but with Option C, that is the replacement of rates in the Index by the Community Charge. Although the Bank believes this not to be a proper comparison to make, it also advises that judged on this basis there would probably be detriment and that the level of detriment could be significant.

I have therefore reached the conclusion that there is a significantly greater risk under Option B than under Option C so far as Indexed Gilts are concerned.

To summarise, while I can see strong arguments for Option B, given the risks for IGs I should on balance prefer to see Option C as the outcome. I should add that I do of course accept that the RPIAC must be consulted and their views be taken fully into account before the Government reaches a decision on the matter. Indeed I understand that the Government might be judicially reviewable if the normal procedures were not followed. I hope however that you and our colleagues will agree that in putting the Government view to the RPIAC we can suggest that Option C is, on balance, preferable.

Finally, there could be undesirable market consequences if there were any suggestion in public that Option A, with a 4% fall in the RPI, were being seriously considered. To reduce uncertainty I therefore hope that in putting the matter to the RPIAC we can make it clear that this is not an option favoured by the Government.

Given the general market sensitivity I am sending copies of this note only to Norman Fowler and Nick Lyell. I am writing to Norman and other colleagues separately, summarising my views.

A handwritten signature in dark ink, appearing to be "N.L.", written in a cursive style.

N.L.



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

10 October 1988

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

PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr A J C Edwards
Mr Sedgwick
Mr Hibberd
Miss O'Mara

Norman

Miss Wheldon - Tsy Sol.

COMMUNITY CHARGE - RPI

I have now had an opportunity to think further about your letter to me of 28 July, and have seen copies of Nick Ridley's letter to you of 12 August, the letter from the Director of the Central Statistical Office of 26 August to your Private Secretary, Peter Lloyd's letter of 8 September, and John Moore's letter of 3 October.

Although the arguments against including the Community Charge in the RPI, set out in paragraph 2 of the draft note by officials, are in my view strong ones, my preliminary opinion is that the Community Charge should be included in the RPI. We will, of course, need to consider the issue further once we have the Committee's views.

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

Nigel Lawson

NIGEL LAWSON

Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



MP

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

THE RT HON PETER WALKER MBE MP

CT/6147/88

13 October 1988

CH/EXCHEQUER	
REC.	14 OCT 1988
ACTION	CST
COPIES TO	

14/10

COMMUNITY CHARGE SPECIFIC GRANT

I have been following your correspondence with Nicholas Ridley on this subject, and I see that you have now agreed to his proposal for a specific grant.

I do not think that one is necessary for Wales. All authorities here are in receipt of grant and none is expected to suffer a drastic reduction from the 1989/90 settlement. To introduce a specific grant in Wales would be merely to add complexity for little practical result. But of course, as you say in your letter of 29 September to Cecil Parkinson, it is vital that both Nicholas and I make absolutely clear that we are simply adopting different approaches to distributing the same overall expenditure and grant which we have both already announced. On this basis, I think it would be simpler if the powers which Nicholas will have to take to pay his specific grant next year were to be exercisable only in England.

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

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



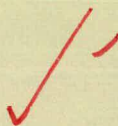
Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5817
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

CH/EXCHEQUER	
REC.	17 OCT 1988
ACTION	MR SEDGWICK
COPIES TO	EST
	SIR P MIDDLETON
	SIR T BURNS
	MR SCHLAR, MR EDWARDS,
MR PERETZ,	
MR HIBBERD, MR PRICE	
MISS O'MARA,	
MISS WHELDON - T. Sec	

✓ A/10

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



ps

October 17

Nigel

RETAIL PRICES INDEX ADVISORY COMMITTEE

Your letter of 20 September agreed to the immediate reconvening of the RPI Advisory Committee but not to the publication of specific terms of reference for it. However, because of the threat of disclosure in "The Independent" that the community charge will be on the agenda, we have now acknowledged that publicly. I understand that our officials have agreed how we should proceed in establishing the Advisory Committee. I have also seen your letter of 10 October which records your preliminary opinion that the community charge should be included in the RPI. As you have indicated, there are strong arguments against that course, but I understand why you have reached your preliminary conclusion.

But we still need the advice of the Committee which I must now formally establish. I propose that its terms of reference should be to advise me on the effect of the abolition of domestic rates on the construction of the RPI 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 Committee's last report. My Department will be announcing these terms of reference during the next few days in a Press Notice which will also name the chairman (Mr I T Manley) and principal non-Governmental members of the Committee, and give the date of the first meeting (which I expect to be early in November).



As you suggested, the Committee will concentrate in the first instance on the issue of domestic rates and the community charge. An essentially neutral paper on this will need to be circulated to the Committee as soon as possible. The officials concerned, in Treasury, CSO and DOE, will be receiving a draft of the paper very shortly, which will take appropriate account of your preliminary conclusion as recorded in your letter of 10 October.

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

Norman Fowler
NORMAN FOWLER

*[Strong of Ministerial
Correspondence]*

PR



2 MARSHAM STREET
LONDON SW1P 3EE

01-212 3434

My ref:

Your ref:

CH/EXCHEQUER	
REC.	18 OCT 1988
ACTION	MR SEDGEWICK
COPIES TO	EST SIR P MIDDLETON, SIR T BURNS, MR SCHOUR, MR EDWARDS, MR PERETE, MR HIBBERT, MR PRICE MESS O'MARA MISS WHELDON - T. Sol

18/10

17 October 1988

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

Dear Secretary of State

COMMUNITY CHARGE AND THE RPI

Your letter of 15 September proposed that the RPI Advisory Committee should be reactivated to consider the effect of the abolition of local authority rates and the introduction of community charge. I entirely agreed with that proposal and I see from the subsequent Treasury letter of 29 September that this has now had to be publicly acknowledged following Press speculation.

As you know my own view, which has been supported by a number of other colleagues including Nigel Lawson in his letter of 10 October, is that the community charge must certainly be included in the RPI. I set out the arguments for this view in my letter of 12 August, and the subsequent Press speculation only serves to underline the importance of this so as to avoid the charge of fiddling the books.

If colleagues generally are agreed on this I would urge that this should be remitted to the Advisory Committee not as an open question, but with a clear indication of the Government's preference. We should only ask them to advise on the implications and practical problems of transition etc. Otherwise there is a risk that they may come up with a different view on the main issue which we should find hard to handle.

I am copying this letter to the Prime Minister, Nigel Lawson, John Moore, Malcolm Rifkind and Peter Walker and also to Sir Robin Butler and Jack Hibbert.

Yours sincerely

R. Ridley

NICHOLAS RIDLEY

N.R.

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

*legally
dangerous*



CONFIDENTIAL

Handwritten scribbles and numbers, possibly "1000"

From: S D H SARGENT

Date: 19 October 1988

MR. FOWLER

Handwritten notes in a circle: "R. Sol" and "Tsy"

PS -
PS/Economic Secretary
Sir P. Munn
Scholar
Mr A. Edwards
Mr Peretz
Mr Hibberd
Miss O'Mara
Mr S Price

Ms Wheldon -Tsy Sol

RPI ADVISORY COMMITTEE

Sir Peter Middleton has seen Mr Fowler's letter of 17 October to the Chancellor about the handling of the RPIAC. He has commented that this all seems much too even-handed. It is not clear how we are going to ensure that departments all pursue the same line. He also wonders how the Government's preferred outcome is to be conveyed.

Handwritten signature

S D H SARGENT
Private Secretary

Date: 19 October 1988



BF 2116

MP

2 MARSHAM STREET
LONDON SW1P 3EE
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
79 Whitehall
LONDON
SW1A 2NS

CH/EXCHEQUER	
REC.	20OCT1988
ACTION	CST
COPIES TO	

✓20/10 19 October 1988

Dear Nick

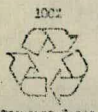
COMMUNITY CHARGE: DEDUCTIONS FROM BENEFIT

Thank you for your letter of 2 October about deductions from income support to pay off arrears of community charge. I have also seen the letters from John Major and Malcolm Rifkind on this subject.

I am prepared to accept that the regulations on deductions and disclosure should be made by DSS. There is, however, a very tight schedule for the implementation of the community charge, and I hope that your Department will be able to make the regulations, which form an integral part of the information and enforcement provisions, on the same timetable as the main regulations dealing with those subjects. We intend to start formal consultation on drafts of those regulations this month.

So far as deductions from income support are concerned, the issue of priority is central, since people on benefit who are in arrears with their community charge are likely to be in difficulties with other debts. I continue to believe that community charge arrears should have a high priority, since the ultimate penalty is imprisonment. It is not true, as you state in your letter, that the courts may imprison a person only for wilful refusal to pay. They may also do so if they are of the opinion that the failure to pay is due to culpable neglect. It is quite possible that the courts will decide that someone with multiple debt problems has failed to pay the community charge because of culpable neglect. I think you need to think again on this point.

You question the need to allow deductions to be made in respect of current liabilities on the grounds that, since the whole of the charge for a financial year will become due on the missing of an instalment, the payment of arrears will automatically take

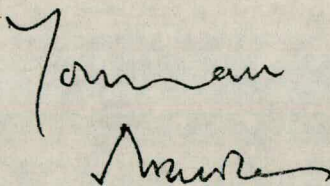


care of current liabilities. Again, this is a misunderstanding of the community charge system. There will certainly be some cases where the deductions have not cleared the debt by the end of a financial year when instalments for the next year's charge became due. I think we do need a provision which will allow extra deductions in respect of current liabilities, if there is sufficient benefit, in addition to the existing deductions.

I agree with Malcolm that there should be a special rate for couples. I do not understand your point about manpower and computerisation. I should have thought that computers would make it easier to deal with this kind of case. I understand that it is possible for fuel debts to be recovered at a maximum rate of 10% of the personal allowance for a single person 25 or over (that is twice the amount we are currently proposing for the community charge). If this particular kind of debt can be separately identified and given special treatment the same ought to be possible in the case of couples. The community charge does, of course, resemble fuel charges, in that it is a charge for services provided, not a housing cost.

While, therefore, I am content that you should begin to draft the regulations with a view to making them separately, there remain a number of points to be resolved. Your officials will need to consult mine to make sure that what you are proposing fits in with other aspects of the community charge system.

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

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

NICHOLAS RIDLEY

CH/EXCHEQUER	
REC.	21 OCT 1988
ACTION	MR SEDGEWICK
COPIES TO	PS / CST, PS / EST
	SIR P MIDDLETON
	SIR T BURRIS
	MR ANSON
	MR A/C EDWARDS
	MR SCHOLAR
	MISS WHELDON - T/Sd

✓ 21/10



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 October 1988

Ray

Dear Alex,

COMMUNITY CHARGE AND THE RPI

The Prime Minister was grateful for the Chancellor's recent minute on this subject. The Prime Minister and Chancellor considered this issue at their bilateral earlier today.

After a brief discussion, they agreed that it would be appropriate in putting the Government's view to the RPIAC to express no opinion on the balance of advantage between Options B and C, while making it clear that the Government would not favour Option A. Further consideration would need to be given to the way forward in the light of the RPIAC's comments.

I am sending copies of this letter to Clive Norris (Department of Employment) and to Michael Saunders (Law Officers' Department, for the Solicitor General).

*Yes,
Pu*

PAUL GRAY

Alex Allan, Esq.,
H.M. Treasury.

CONFIDENTIAL

(passed on) MP

- [1. MR POTTER] *agreed in draft*
- 2. CHIEF SECRETARY

DOE
desire to
an
broader
provision
rather
than
...

FROM: R FELLGETT

Date: 20 October 1988

(see also Health, behind)

- cc: Chancellor
- Sir Peter Middleton
- Mr Anson
- Mr Phillips
- Mr Edwards
- Mr Turnbull
- Mr Odling-Smee

LOCAL AUTHORITY CURRENT EXPENDITURE PROVISION: REVISED GDP DEFLATOR

I understand that the Chancellor has decided to revise the GDP deflator for 1989-90 to 5%. You will recall that provision for local authority current expenditure was set on the assumption that it would be 4½%.

2. So far as colleagues are concerned, the increase in provision of 4.7% (compared to local authorities own budgets, not Government provision for 1988-89) will therefore change from a 0.2% real increase to a 0.3% real decrease. This is similar to the change last year for the 1988 Autumn Statement, and should cause no problem.

3. For the local authorities and public however the change in deflator will be from 4% to 5%, ie provision will represent a real cut of 0.3% rather than a real increase of 0.7%. This might provoke calls for total provision to be increased, with an implication that we should also increase grant. The announcement of the new GDP deflator in the Autumn Statement will come while the RSG closedown Bill is before Parliament, and before the RSG settlement itself goes to the House in December. DOE expect to complete all Commons stages of the Bill on Monday, 7 November and receive Royal Assent on Tuesday, 15 November.

4. We should be able to resist pressures to reopen the totals in this way. But it would be helpful if DOE could ensure that, particularly during the Commons stages of the RSG Bill, they avoided defending provision as a real increase, however small.

5. I should therefore be grateful if you would agree to us alerting one or two key DOE officials to the possibility of a further increase in the GDP deflator forecast, so they can take this into account in briefing Mr Gummer (who will be handling the Bill) and Mr Ridley.

Robin Fellgett

R FELLGETT

21/10/88.

[Handwritten signature]

COMMITTEE IN CONFIDENCE

RPIAC (88)2

DEPARTMENT OF EMPLOYMENT

RETAIL PRICES INDEX ADVISORY COMMITTEE

EFFECT OF THE ABOLITION OF LOCAL AUTHORITY RATES ON THE CONSTRUCTION OF THE RETAIL PRICES INDEX

Paper by the Department of Employment

Fortunately, this will do - this is (the) status (to be) bound to be option B but a vote must be given.

A
This has been sent to RPIAC members. It's not too bad (though outrageous if was not cleared at Minister level) but equally not from enough against option A.

AA

Introduction

1. The abolition of domestic rates in Great Britain presents both conceptual and practical problems for the construction of the retail prices index (RPI). These problems arise because rates, which are currently included in the index as an indirect tax on housing, are to be replaced by a Community Charge, which can be viewed as either a charge or a direct tax on persons, rather than a tax on housing, the revenue so raised being used to provide local services. The charge paid by an individual will be compulsory and unrelated to the amount of services received.

2. The nature of the Community Charge is such that a decision is needed on whether to include it in the RPI as rates are now or to exclude it, as income tax and national insurance contributions are. Whatever decision is reached, its implementation will give rise to problems of a conceptual, methodological and presentational character. The Committee is asked to help clarify the principles on which the treatment of the abolition of rates and the introduction of the Community Charge should be based and to set down guidelines for overcoming any practical difficulties. It is suggested that the focus at the first meeting might be on the former, though the issues of principle should not be settled without reference to practical consequences and these will need to be discussed in detail at a later stage.

Treatment of rates in the RPI

3. Domestic rates have been included in the RPI since its inception. Initially this was because they were generally paid by tenants as part of the rent, and were inseparable from it. In the last fifteen years or so the inclusion of rates has been justified as a tax on the occupation of property, akin to other taxes on consumption which are included in the RPI, not because they are used to finance the provision of local services. The Advisory Committee's 1986 report supported this view:

"We concluded that, as the tax (represented by rates) is on the occupation of property, it is appropriate to include it as a housing cost, just as indirect taxes on beer, cigarettes, petrol etc are included in the indices for these items." [Cmd 9848, paragraph 41]

COMMITTEE IN CONFIDENCE

4. Rates are payable on the rateable value of the property occupied by households, the size of the payment being determined by the "rate poundage" (cost per £ of rateable value). This rate poundage currently provides the RPI price indicator: any increase in the average rateable value is not regarded as a price effect, though it does serve to increase the expenditure "weight" for rates in the following year. Like VAT on other goods and services, rates payments vary with the level of consumption: the larger the house the greater the consumption of housing services and the higher the rates bill. They are therefore part of the price of an item in the basket of goods and services which underpins the RPI.

5. It follows that local authority services as such are not currently included in the RPI "basket", except where specific charges are levied for individual services (e.g. admission to municipal swimming pools).

Nature of the Community Charge

6. Rates are to be replaced by a compulsory flat-rate charge which will vary between local authorities, payable by virtually all adults, called the "Community Charge". This change is to take place in April 1989 for Scotland and a year later for England and Wales. (The rating system is to remain in place in Northern Ireland.) As with rates, the level of the Community Charge will be set by the local authority, and the proceeds will contribute to the financing of locally-provided services. Unlike rates the charge will not be part of the cost of something already included in the RPI basket, except to the extent that those people with second homes will be subject to an additional charge on that property, which could therefore be viewed as a tax on housing. In general the Community Charge will not be directly related to any specific part of consumption. Instead it can be viewed either as a direct tax used to finance local services or as a charge for a "package" of such services, the charge varying between authorities but being fixed for individuals within each authority.

Including the Community Charge in the RPI

7. The main argument here is that the public credibility of the index might suffer if the Community Charge were excluded. As rates are now in the index it will seem natural to many that, in the interests of continuity, their replacement - the Community Charge - should equally be included, particularly as it will be used to finance local services. Recipients of index-linked pensions and benefits will need to finance their share of the Community Charge out of those benefits and might expect it to be taken into account in the index used for uprating. Whatever they are called, payments for local services will still have to be made out of take-home pay, to the same authorities, and the statistical classification of such payments in the national accounts need not determine their treatment in the RPI.

8. If the Community Charge were to be included in the RPI then the Committee would need to consider just what constituted the "price". A simple solution would be to take the Charge itself as the measure of price. This would assume that the volume of services remained unchanged from year to year, or that the package of services could be viewed as a single quantity. However, there have

COMMITTEE IN CONFIDENCE

been significant changes in the past in the provision of local authority services and there is good reason to expect change in the future.

9. It would be difficult to defend a position in which the index rose or fell as a result of an increase or reduction in the Community Charge brought about by a commensurate increase or reduction in the services provided. The concept of pricing a fixed volume of consumption underpins the whole construction of the RPI. As it now stands the index can be said to measure changes in the cost of a fixed basket of goods and services, and this helps significantly in maintaining the confidence of informed opinion as to its integrity. If the Committee were to favour inclusion of the Community Charge in the RPI it would therefore be necessary for it to come to a view on how to measure price and volume changes.

Excluding the Community Charge from the RPI

10. It could be argued that the nature of the Community Charge is such that it has no place in the RPI, any more than income tax and national insurance contributions. The considerations here are both conceptual and practical. On conceptual grounds it has always been accepted that national insurance contributions and direct taxes should be excluded from consumer price indices such as the RPI, because they do not correspond to the purchase of a good or service and do not have a price. A separate index which does include these elements and will include the Community Charge - the tax and price index (TPI) - is compiled by the Central Statistical Office.

11. It is not possible to construct directly a conventional price index for local authority services because there are no prices per unit of the service provided. An alternative approach might be to allow for changes in the aggregate amount or volume of services received by households in return for the payments they make to local authorities. However, there would be considerable practical difficulties in following this approach.

12. The incorporation of a direct tax or compulsory charge would change the nature of the index from what it had been in the past. Such a move would open up the question of what the RPI should cover, and might suggest that this is a matter of arbitrary choice rather than generally-agreed principles. It could be argued that, as local services will continue to be financed partly from national taxation, if the Community Charge were to be included in the RPI then so should that part of central government revenue which is used for financing local services. Furthermore, if locally-provided services were added to the index basket then it would be for consideration whether the basket should also include similar services provided by central government and paid for with revenue generated from general taxation, national insurance charges etc (such as the Health Service).

Dealing with the transition

13. Handling the abolition of rates in the context of the RPI is not straightforward. One approach might be to treat the abolition as a fall in "price" to zero, which would reduce the level of the "all items" RPI by some 4 per cent (in the absence of any compensating effect from the Community Charge). Such an effect would not be unprecedented. In July 1979 the RPI showed a sharp upward step of 4 per cent when VAT rates were increased at the same time as there were

COMMITTEE IN CONFIDENCE

decreases in income tax. The setting to zero of the present "rates tax" on consumption of housing could be seen as the converse of the 1979 increase in VAT on consumption of the goods and services on which it was charged. However, this argument is unlikely to carry conviction with the general public. Moreover, the abolition of rates will lead to a discontinuity in the index which by its nature was different from a change in the level of a tax which continues in the index after the change.

14. It is desirable to start from the premise that the abolition of rates should be dealt with by "linking", so that the index is shielded from the step discontinuity described above. There are various ways in which this might be done but it is difficult to formulate these until the Committee has taken a preliminary view on the broader issues.

15. A further problem, which will need to be addressed whether or not the Community Charge is ultimately to be included in the RPI, is that of constructing an index during the period when rates are in process of being abolished. The problem arises for two reasons: because the changeover from rates to the Community Charge is to be phased as between Scotland (1989) and England and Wales (1990) and because the changeover will take place in April of the year in question whereas the index is geared to taking account of changes in coverage only in January.

Summary and issues for discussion

16. The abolition of rates and their replacement by the Community Charge raises a variety of difficult issues for the construction of the RPI. Some of these have been outlined in this paper and the Committee might like to address the following questions at its first meeting, leaving consideration of more detailed topics for the second meeting:

- a) Should the Community Charge be included in or excluded from the RPI?
- b) If it is to be included, is it to be viewed for RPI purposes as a direct tax or as a charge for services? If a charge for services, what would be the position with regard to other government services?
- c) If a charge, how should its price (and therefore volume) be measured?

Department of Employment

21 October 1988

FURTHER UPHEAVAL FOR LOCAL GOVERNMENT IN THE NEXT PARLIAMENTARY SESSION

LOOMING large in the contents of next month's Queen's Speech will be a far-reaching Housing and Local Government Bill promising further upheaval for local government over the next few years.

Consultation papers released in July portend drastic changes to councils' capital controls systems and housing revenue accounts. The Bill, which is likely to reach its Second Reading in January, is also expected to implement some of the Widdicombe proposals on which the Government has decided to take action.

COUNCILS' CAPITAL PROGRAMMES UNDER THREAT

THE capital controls proposals may decimate partnership schemes between local government and the private sector, in the ADC's view.

"While welcoming some aspects of the new system, we are concerned that, far from delivering the promised flexibility and greater certainty, it could result in a loss of local initiatives," said Chairman Roy Thomason.

"There are many examples among our authorities of excellent arrangements involving the private sector which have helped solve local problems," he said. "But now districts will be severely curtailed and schemes relating to job creation, town centre improvements, house building and improvement will be affected all over the country.

"Anything which adversely affects these projects must not be introduced merely to deliver arbitrarily constructed central Government spending plans," declared Mr. Thomason.

Such partnership schemes should be outside the constraints imposed by capital controls, says the ADC in its response. Their total effect on public expenditure is minimal and they are visible demonstrations of local accountability.

The Association welcomed some aspects of the system, controls on financing rather than spending and the freedom to fund capital spending from revenue. However, the Chairman was angry that only

25% of house sales receipts can be used for capital expenditure, with the rest set aside for debt repayment. "That is clearly inadequate," he said. "We should be able to spend considerably more, perhaps 70%, of what is after all mostly local money".

HOUSING PROPOSALS "UNFAIR"

GOVERNMENT proposals for councils' housing revenue accounts have also drawn strong opposition - from the Association's Housing Committee.

The committee criticised the inclusion of the rent rebate element of benefits subsidy in the HRA subsidy, which would have the effect of indirectly making rent income surpluses pay for rent rebates.

They felt it was unfair to require council tenants to meet the cost of their neighbours' housing benefits. The relief of poverty should not have to be borne by a small section of the community. It was a national responsibility to be met out of central funds.

If this was a Government attempt to deal with HRAs' gathering large financial surpluses - even when rents were reasonable - the Committee conceded that this could be seen to be a problem, and offered assistance in finding an alternative.

The Association's formal response to the consultation paper on the new financial regime for housing says that it does not match up with the Government's own objective of being fairer, simpler and more effective. It stresses that the results of ringfencing on some individual districts would be very serious, and urges the DoE and the Welsh Office to reconsider.

WATER

THE Association has met with DoE Minister, Michael Howard, to discuss concerns about water privatisation in advance of the bill expected before Christmas.

The ADC is particularly worried about the future of sewerage agencies, first time sewerage, water quality monitoring, the reform of water and sewerage law and district council representation on the National Rivers Authority and other committees.

In light of Government unwillingness to return the sewerage function to district councils, the ADC is proposing that termination of a district's sewerage agency should only be permitted if the water company can demonstrate it can provide the service more cost-effectively.

COMMUNITY CHARGE COSTS

THE Environment Secretary's decision this month to meet half the costs of preparing for the community charge by way of a specific grant has been welcomed by the ADC. The move follows a series of discussions with the Association.

By providing a specific grant of £55m towards the £110m in the Rate Support Grant, the DoE has ensured that every local authority will receive compensation, even those that do not receive grant.

It has also been announced that £135m is to be made available for capital allocations. So, in the two years 1988-1990 a total of £160m will have been allocated compared with the Association's estimated need of £232m.

A short series of ADC seminars on planning for the community charge system is being held, the next of which is in Derby on 1 November. Other venues are Cardiff, Taunton, Norwich and Maidenhead.

CONTROLS DUE ON POLLUTION

LESS than a fortnight after publishing its own policy document on pollution control, the Association was happy to welcome the Government's announced intention to legislate on environmental and pollution matters.

"Pollution: Controlling the Problems", available from ADC for £2.50 per copy, calls for stringent

controls on all forms of pollution and positive action by local authorities.

The Government's action is expected to be in the form of a "green" bill to be published towards the end of next year.

The Association's hard-hitting report says that there should be tighter controls on the discharge of radioactive waste and sewage into the sea. Tougher controls should be introduced on the quality of bathing water and on the use of CFCs which damage the ozone layer. The ADC asks member authorities to stop buying aerosols which contain CFCs.

The use of unleaded petrol is also supported and the Association would like tax concessions to encourage people to convert their cars. District councils should make plans to convert their fleets, it recommends.

The report details powers available in the battle against air, water, land and noise pollution. Issues covered include drinking water quality; clinical waste, waste collection and disposal, air traffic noise, contaminated land and litter.

"We want local authorities to be aware of their role and the powers they have to control pollution," said Environmental Health Committee Chairman Lady Anson. "And we want the practical recommendations we have made to be adopted".

FUNDING OF CABX

AN ADC survey comprising results from 251 districts has revealed that 97% give grants to citizens advice bureaux, last year totalling £397,000, an average of £18,000 per district.

Amounts given ranged from £140,000 to £50. In 69 cases, the district council alone funded CABx.

Some 33 districts have expressed concern about the present arrangements for the funding of Bureaux, many reflecting the anxiety expressed by the General Services Committee (see Digest 108) and calling for more, or complete central funding.

STOP PRESS!

THE next ADC symposium, to be held in London on 24 January 1989, will focus on the proposals for capital controls and housing revenue accounts discussed above. Details available shortly.

Any enquiries relating to the contents of this newsletter should be addressed to the Publishers.

ASSOCIATION OF DISTRICT COUNCILS

Secretary: Gordon McCartney

9 BUCKINGHAM GATE · LONDON SW1E 6LE

01-828 7931

FROM M C SCHOLAR
DATE 25 OCTOBER 1988

*This is the best way to
avoid confusion among the Govt. reps*

1. SIR PETER MIDDLETON *at the RPIAC* cc Mr Anson
2. CHANCELLOR OF THE EXCHEQUER *Bm* Sir Terence Burns
Mr Sedgwick
Mr Edwards
Miss Peirson
Miss O'Mara
- OK on W.*

THE COMMUNITY CHARGE AND THE RPI ADVISORY COMMITTEE

One immediate loose end remains to be tied up.

2. The government representatives on the Advisory Committee need to be told how to comport themselves in the Committee (which begins on 3 November) consistently with the conclusions of your discussion last week with the Prime Minister. Because of the difference of views which exist, and the passions which this issue arouses, a three-line whip is needed.

3. There are four options for government representatives:-

- (i) all support inclusion of the Community Charge;
- (ii) all oppose that;
- (iii) individuals argue their own or their department's view;
- (iv) each say as little as possible, ie effectively let the other members of the Committee decide its view.

definitive

4. In view of the conclusion of your discussion with the Prime Minister we think that (iv) is the best of these options. I attach a draft minute for you to send to the Prime Minister and other colleagues. Perhaps Alex Allan or Jonathan Taylor could arrange for Paul Gray to reply swiftly (Messrs Ridley, Moore and Rifkind will not know of the conclusion you have reached)?

MCS

M C SCHOLAR

DRAFT MINUTE TO THE PRIME MINISTER FROM THE CHANCELLOR

My letter to Norman Fowler of 10 October considered briefly the handling of the RPI Advisory Committee on this issue. We now need to reach conclusions on this as the first meeting of the Committee approaches.

2. There are some considerable sensitivities here ~~to which we all need to be alive.~~ It is important, on both political and legal grounds, that there should be no impression that the Government is attempting to railroad the Committee towards either the conclusion that the Community Charge should ^{(in the RPI (the conclusion))} be included, or that it should not be included, ~~in the RPI.~~ For the same reasons it will, on the other hand, be highly desirable to guide the Committee away from what used to be called Option A, which involves a step-change in the RPI. We must also take care not to create any impression that the Government has made its mind up on these issues before the Committee makes its recommendations. Finally, given the strong views which are likely to be held, ^{it is} ~~we must do all we can~~ to avoid a situation in which the media detect ~~and amplify~~ differences between Departments - a situation which our opponents would quickly exploit.

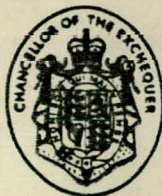
3. I suggest, therefore, that the officials who represent the Government on the Committee should adopt a low profile in its discussions, and avoid where possible expressing ^{any} ~~their~~ conclusions on the ^{choice between the two main options.} ~~main policy issues~~ the Committee will be ~~addressing.~~ They can usefully confine themselves to

providing factual and other material which will enable the non-government members of the Committee to form their views ~~and effectively to determine the Committee's conclusions.~~ ^{strong} They should certainly avoid taking up positions ^{of their own.} ~~which might be represented as flowing from their Departments' views on these topics.~~

4. [I hope that this course is acceptable to you and colleagues. I would be grateful if they would instruct their officials accordingly.]

5. I am copying this minute to the Secretaries of State for Employment, the Environment, Social Security and Scotland, as well as to Sir Robin Butler and the Director of the Central Statistical Office.

And, if necessary, settle
all in a balanced
way, no pros & cons
of each option.



26/10/88.

py

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

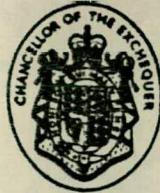
PRIME MINISTER

COMMUNITY CHARGE AND THE RPI

My letter to Norman Fowler of 10 October considered briefly the handling of the RPI Advisory Committee on this issue. We now need to reach conclusions on this as the first meeting of the Committee approaches.

There are some considerable sensitivities here. It is important, on both political and legal grounds, that there should be no impression that the Government is attempting to railroad the Committee towards either the conclusion that the Community Charge should be included in the RPI, or the conclusion that it should not be included. For the same reasons it will, on the other hand, be highly desirable to guide the Committee away from what used to be called Option A, which involves a step-change in the RPI. We must also take care not to create any impression that the Government has made its mind up on these issues before the Committee makes its recommendations. Finally, given the strong views which are likely to be held, it is essential to avoid a situation in which the media detect differences between Departments - a situation which our opponents would quickly exploit.

I suggest, therefore, that the officials who represent the Government on the Committee should adopt a low profile in its discussions, and avoid expressing any conclusions on the choice between the two main options. They can usefully confine themselves to providing factual and other material which will



enable the non-government members of the Committee to form their view, and if necessary, setting out in a balanced way the pros and cons of each option. They should certainly avoid taking up strong positions of their own.

I am copying this minute to the Secretaries of State for Employment, the Environment, Social Security and Scotland, as well as to Sir Robin Butler and the Director of the Central Statistical Office.

N.L.

[N.L.]

26 October 1988



cc Sir P Middleton
Mr Anson
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr A J C Edwards
Miss Peirson
Miss O'Mara

SECRET



purp

EXCHEQUER	
27 OCT 1988	
NO. OF COPIES TO	MR SEDGEWICK
	EST SER P MIDDLTON SER T BURNS
	10 DOWNING STREET MR SCHOLAR, MR EDWARDS LONDON SW1A 2AA
	MR PERETE, MR HERBERT, MR PRIRE, MISS O'MARA
	From the Private Secretary MISS WHELDON -T/SOL

27 October 1988

Dear Alex,

COMMUNITY CHARGE AND THE RPI

The Prime Minister was grateful for the Chancellor's minute of 26 October. She strongly agrees that Government officials on the Committee should adopt the approach he suggests.

I am copying this letter to Clive Norris (Department of Employment), Roger Bright (Department of the Environment), Rod Clark (Department of Social Security), David Crawley (Scottish Office), Trevor Woolley (Cabinet Office) and to Miss A J Large (Central Statistical Office).

*Yours,
Paul*

(PAUL GRAY)

Alex Allan, Esq.,
HM Treasury.

SECRET

CONFIDENTIAL

- [1. MR EDWARDS] *agreed in draft.*
- 2. CHANCELLOR

FROM: R FELLGETT

Date: 1 November 1988

- cc: Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Anson
- Mr Phillips
- Mr Scholar
- Mr Monck
- Mr Turnbull
- Mr Culpin
- Mr Potter
- Mrs Holmans
- Mr H Burns
- Mrs Chaplin
- Mr Tyrie
- Mr Call

Ch
seems OK to me.
Mark's
see my response
in margin of para 32.
AB

NON-DOMESTIC RATING: REVALUATION EFFECTS AND TRANSITIONAL ARRANGEMENTS

I attach a near-final draft of the Inland Revenue's report into the likely effects of the current business rating revaluation and move to National Non-Domestic Rate (NNDR) in England and Wales.

2. The key parts of the report are section 4, about the estimated pattern of gainers and losers, and section 5 about possible transitional arrangements. Section 1 is a summary; I also summarise the main points below. (I have not appended the detailed annexes to the report, but have them if you or others wish to see them.)

3. E(LF) will need to meet to consider the transitional arrangements later this month, probably on the basis of a paper to be circulated by Mr Ridley. The Government is committed to announcing the transition this Autumn. Apart from informing you of the results of the Revenue study, this submission seeks your initial views on the way in which you wish to approach that collective discussion.

Summary of Gainers and Losers

4. After transition to the new bills, on average, shops and offices are expected to be losers from the combined effect of the revaluation and move to NNDR (by 12% in both cases). Most properties in the "other" category which includes a number of Government and NHS buildings are also losers on average, compared to a broadly constant real rates burden. Small offices and large shops may be hardest hit.

5. Gainers on average are expected to be warehouses (-14%) and factories (-26%).

6. Regions where the average property will lose by more than 10% are inner London (+28%), the South West (+21%), East Anglia (+15%), and the South East outside London (+13%).

7. Regions gaining on average are in the North and Midlands and Welsh valleys.

8. There is a tendency for small properties to lose and large ones to gain.

9. There is a very wide distribution of gainers and losers. About 900,000 properties lose, with an average increase in their rates of £2,200 a year. The average loser therefore faces an increase of about 45% in their rates bill. About half the losers, ie very roughly a quarter of properties, face larger increases.

10. There are about 750,000 gainers, who on average will see a reduction of £2,600 a year in their rates bills. The average reduction among gainers is about 30%.

11. I attach a histogram of the distribution of gains and losses, derived from Table 4.4 of the IR report.

12. In all, gains and losses are each about £1.9 billion in estimated 1990-91 prices. This is a redistribution of nearly 20%

of the aggregate business rate revenue. But in addition the NNDR poundage after 1990-91 will be indexed to the RPI, representing a growing general gain to business compared to real rates rises in most recent years.

Transitional Options

13. The Government has announced that there will be self-financing transitional arrangements. Decisions will need to be taken on the rate at which losses are phased-in; how these are paid for; and whether there is to be some special scheme for small businesses.

14. E(LF) agreed last spring, with your strong support, that phasing-in the increases in rates bills for losers should be accompanied by phasing for gainers. It was agreed that the process would be self-financing. This was preferred to Mr Ridley's earlier proposal to pay for phasing for losers by increasing the NNDR for everyone else by very roughly 10%.

15. The main options canvassed in the paper are to phase-in increases at 25% or 20% or 15% a year from 1990-91. (For example, a property facing an increase of 30% would pay 25/20/15% more in 1990-91 and about 5/10/15% more in 1991-92.) These increases are before the annual increase in the NNDR, which will be no more than the RPI the previous September; ie they are broadly in real terms.

16. Because the distribution of percentage gainers and losers is not symmetric, the corresponding percentage reduction for gainers will need to be about 15% or 12% or 9% respectively. Indeed, to be exactly financially neutral the percentage reduction will have to fall a little each year. For example, with a 25% limit on increases, there would be a 15% limit on reductions in 1990-91 falling to 8% by 1994-95. Otherwise, there would be an increasing shortfall in NNDR revenue amounting to around £100 million (or about 1%) by the end of the 5 years.

17. In response to political pressure during the passage of the Local Government Finance Act, Mr Ridley took powers to set the annual limit on losses lower for small businesses. For practical reasons, a small business will need to mean any business property whose rateable value is less than some figure, which might be around £7,000 on the new 1988 rateable values. A lower limit on losses for small businesses, thus defined, which was 5 percentage points below the limit for larger businesses would assist over half of losing properties. It would cost only about £20-40 million a year, because the bulk of NNDR revenue is raised from a relatively few large properties. The paper envisages that this cost would be met by a very slightly lower percentage limit for all gainers, implying a small subsidy from large to small businesses.

18. Because the distribution is so spread, all the options mean that the bulk of businesses would have their rates determined by the transitional arrangements in the early years from 1990. Even in 1994-95, the number of properties still affected by the transition would be between 350,000 (with a 25% limit on losses and 15% limit on gains) and 650,00 (with limits of 15% and 9%). The remainder would have reached their final new bill, based on the NNDR and new rateable value, in time for the next revaluation.

19. A number of these large percentage changes are in fact for relatively small sums. Around 700,000 properties (over 40% of the total) are estimated to face changes of less than £250 a year. Such small changes (gains and losses) could be brought in immediately, without much affecting the arithmetic.

20. The IR have calculated transitional arrangements separately for England and Wales. For the same limit on losses in both countries, gains could be phased in slightly faster through a slightly higher limit on reductions in rates bills in Wales.

Assessment

21. The IR have produced a very useful report directed specifically at the decisions you and colleagues will need to take about the transition. It puts you in a much better position than in the Spring to settle on a transition that will be right, both for business and for the Exchequer. DOE were then inclined to announce a scheme that would meet immediate political pressures, but without knowing whether it would be self-financing and in the (false) expectation that limiting changes to 15% a year would phase-in all but the largest changes within a year or two.

22. Inevitably, from such a sample survey, there remain uncertainties about the figures. We need to explore these further with the VO and IR statisticians.

23. I assume that you wish to stick firmly to the agreement that the transition is self-financing, and that the cost of phasing for losers will be met by phasing for gainers. We do not want to repeat throughout GB the revaluation rate relief grant conceded for Scotland after the 1985 revaluation.

24. Within this framework, our preliminary advice is that you argue in E(LF) for the new system to be phased in as quickly as practicable, given the likely reactions of business. Losers, after all, are largely those who have for some time paid too little in rates. Gainers are conversely those who are paying too much at present. The new bills should, in the interests of equity and to avoid market distortions, be brought in as quickly as possible.

25. It is ultimately a political judgement how fast the new system can be brought in. In reaching your view, you will wish to bear in mind that changes (up and down) in rates bills will often be partially offset in Corporation or Income Tax payments. Over time, they will also tend to be offset in rents. These points

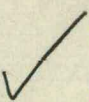
argue for a fast transition. On the other hand, the CBI and others were earlier pressing for just 10% phasing for losers (with the cost borne by the Exchequer not gainers) and E(LF) felt that 15% might be around the right figure.

26. You may wish to argue hard for increases of 25% a year. That would allow gainers to see reductions of 15% a year, and enable over three-quarters of properties to have completed the transition by 1994-95. In practice E(LF) may favour a lower figure, so 20% would be a realistic fallback.

27. A special scheme for small businesses will inevitably be very complex and produce anomalies around the demarcation line, for example between a chain with small shops and a single larger shop. We do not favour it in principle. But the small business lobby may press hard for just such a scheme, which many now expect, given the powers to introduce one. The sums of money at stake for gainers are fairly small. I suggest that you accept Mr Ridley's judgement, if he decides that a special scheme for small businesses is politically unavoidable.

28. There may be a case for bringing in small cash changes in 1990-91, however large they are as percentages of previous (small) rate bills. For example, many of the small changes cover "properties" like advertising hoardings rather than small shops and offices. One way to do this would be to phase-in losses at, say, either £250 a year or 25% (or 20% for small businesses), whichever is larger. The phasing for gainers would then be either £250 or 15%, whichever is larger. This would enable more properties to complete the transition early, and emphasise the symmetric nature of the change by having the same cash figure (£250 in this example) for gainers and losers. But an option of this type would depend on satisfying ourselves that such an arrangement could cover only advertising hoardings etc and not also small businesses. If you agree, we will consider this option further.

Will be. shouldn't you get some credit by proposing it from outset?



29. To be exactly financially neutral, a phasing scheme will have to involve either successively higher percentage losses each year, or successively lower gains. You may come under intense pressure in Committee to accept that the scheme may not be completely self-financing in the later, or indeed any, years. There is a strong expectation among, in particular, businesses in the North and manufacturing that they will see quick large gains. They may not be happy to see those gains deferred; and may particularly object to long-overdue reductions in bills being brought in at an increasingly mean rate. But fixed percentages of, say, 25% for losers and 15% for gainers would lead to an increasing shortfall of up to about £100 million a year. Unless local authorities react by reducing their spending, that would add £3 to the Community Charge or (more likely) have to be met by additional Exchequer grant.

30. Progress towards a uniform business rating system will be reinforced by the estimate that the NNDR will be almost exactly the same in both countries - 34.5p for England and 34.2p for Wales. There are strong arguments for fixing the same poundage in both countries, leaving only Scotland (which will not have a country-wide rate poundage, but where business rates are likely on average to be higher) outside the NNDR system. But it would then be anomalous to have different transitional arrangements in England from those in Wales. It would therefore seem preferable to have identical transitional systems, even if that meant small transfers of grant between the two countries to offset the fact that identical transitional arrangements might not be quite finally neutral either side of the border. The principle could instead be that the transitional arrangements for England and Wales together should be self-financing.

Which way?
 ✓ sensitive
 if Wales →
 England

31. You will finally wish to note that the IR paper assumes that the transitional arrangements are based on 1989-90 rates bills. We are separately considering with DOE the option of re-basing the transition on 1988-89 bills, to avoid an incentive on businesses

to appeal against their existing rateable values, which exacerbates the VO's shortfall of professional valuers. The option looks unattractive, but we hope to report finally to you on it very shortly.

Conclusion

32. We need to examine the figures in more depth, but subject to that should be grateful for your reactions to the following broad approach to the forthcoming E(LF) discussion:

(i) the scheme must be self-financing, and meet the cost of phasing for losers by phasing gainers;

(ii) that you argue that generally increases in rate bills should be phased at up to about 25% a year, financed by phasing reductions for gainers at up to about 15% in 1990-91 falling to 8% by 1994-95;

(iii) if necessary, that a special scheme for small businesses would just be acceptable;

(iv) the transition should be self-financing for England and Wales as a whole, with a presumption in favour of common transitional arrangements and a common NNDR poundage in the two countries;

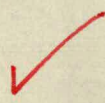
(v) we should consider further options for phasing-in small cash changes early after 1990, even if they represent large percentage changes.

33. If you agree, we will plan accordingly and provide more detailed (and where necessary updated) briefing for the E(LF) meeting.

Robin Fellgett

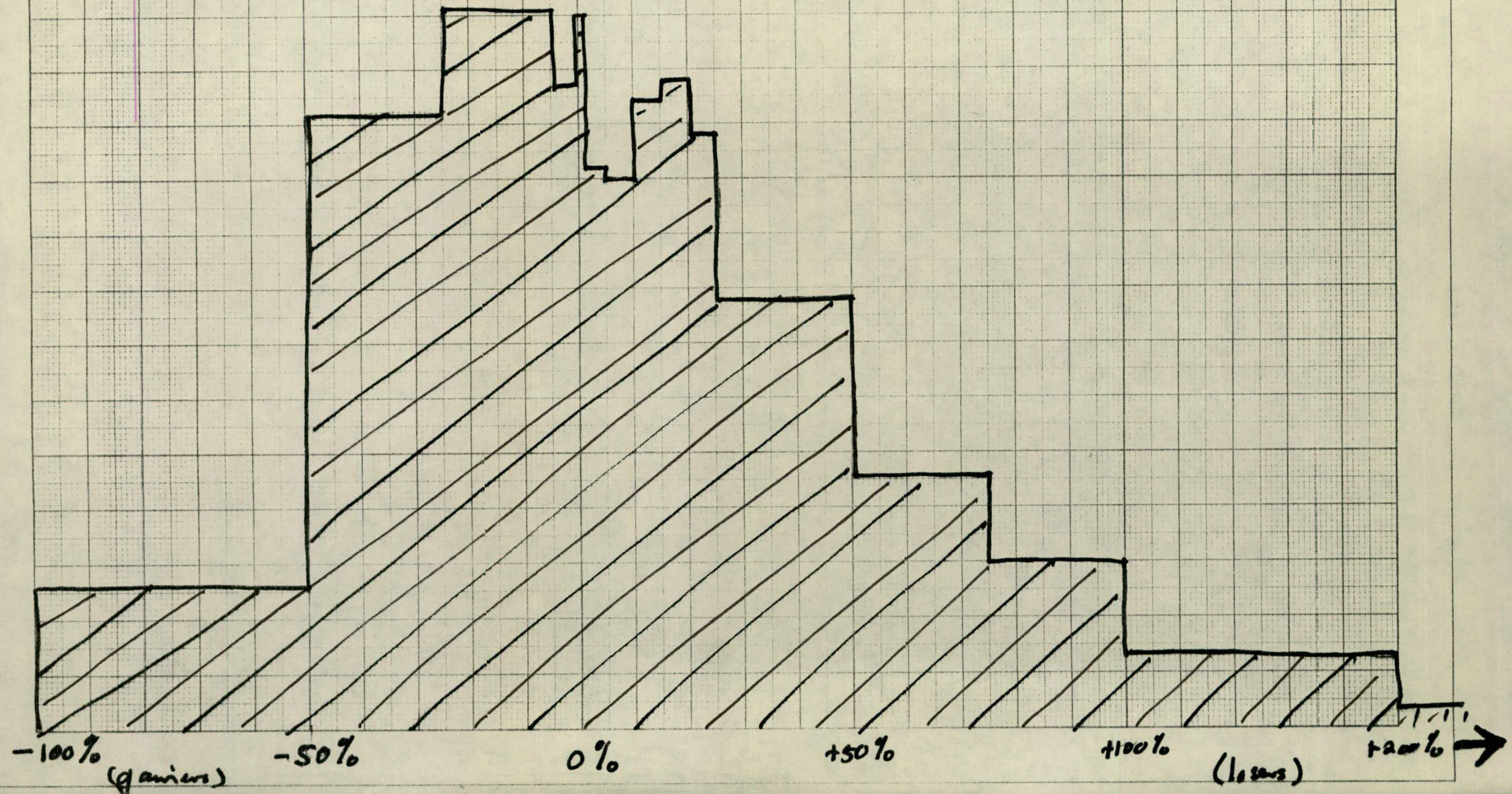
R FELLGETT

*proposed
20/12
OK, but
in guidance
OK provided
transfer of
from the
E(LF) &
under the
VMA*



Proportion of properties showing various % gains and losses

Revaluation and
NINDR



mp

2



PRIME MINISTER

CH/EXCHEQUER	
REC.	-2 NOV 1988
ACTION	Mr Sedgwick
COPIES TO	EST
	SIR P. Middleton
	SIR T. Burns
	Mr Scholar
	Mr Edwards
	Mr Peretz
	Mr Hibberd
	Mr Price Miss O'Mara
	Miss Wheldon T/SOL

COMMUNITY CHARGE AND THE RPI

I have seen the Chancellor's minute of 26 October about the forthcoming discussions concerning the Community Charge at the RPI Advisory Committee.

I entirely agree with his suggestions as to how the official members of the Committee should handle the issue. The Chairman of the Committee (Mr I T Manley from my Department) has held a preparatory meeting with officials from other Departments primarily concerned to go over the ground to be covered and to consider their contributions to the discussion. This, together with the Chancellor's minute, should help to ensure that the sensitivities are suitably handled.

I am copying this minute to the Chancellor, the Secretaries of State for the Environment, Social Security, and Scotland, and to Sir Robin Butler and the Director of the Central Statistical Office.

N F

November 1988



CH/EXCH/POUER	
REC.	-7 NOV 1988
ACTION	CST
COPIES TO:	

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:
Your ref:

Alison Smith
Private Secretary to
The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

2 November 1988

1. ALISA
2 pmp

Dear Alison

RATE SUPPORT GRANT SETTLEMENT 1989/90

My Secretary of State intends to announce his proposals for the 1989/90 Rate Support Grant settlement in a consultation paper to be sent to the local authorities and the associations, probably in the week beginning 7 November. Subject to the Lord President's views, he intends to make this announcement in answer to a written Parliamentary Question.

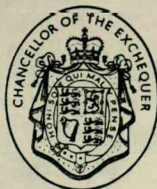
It is possible there may be demands for an oral statement. My Secretary of State proposes to make an oral statement setting out the Government's decisions before the House rises for the Christmas Recess. In addition there will be a full debate on the Report and outstanding supplementary reports in January. I would be grateful for confirmation that the Lord Privy Seal is content with this procedure, which is the same as that followed last year, and agrees that demands for an oral statement when the consultation paper is issued should be resisted.

As last year, we will be providing briefing material to the Whips about the settlement, and I am consulting Murdo MacLean separately about this.

I am copying this letter to Murdo MacLean and Rhodri Walters in the Chief Whips' offices; to the Private Secretaries of E(LF) members; and to Trevor Woolley in Sir Robin Butler's office.

John Bright

R BRIGHT
Private Secretary



FROM: A C S ALLAN
DATE: 3 November 1988

MR FELLGETT

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mr Turnbull
Mr Potter
Mrs Holmans
Mr H Burns
Mrs Chaplin
Mr Tyrie
Mr Call

NON-DOMESTIC RATING: REVALUATION EFFECTS AND TRANSITIONAL ARRANGEMENTS

The Chancellor was most grateful for your minute of 1 November. He had the following comments on the points in your paragraph 32:

- (i) He agrees that the scheme must be self financing, and that the cost of phasing for losers must be met by phasing gainers.
- (ii) He would prefer to argue for phasing increases in rate bills at 20 per cent a year, financed by phasing reductions for gainers at 12 per cent a year (as compared with 25 per cent/15 per cent).
- (iii) He would be ready to accept a special scheme for small businesses, and would not want to appear too grudging.



- (iv) He is content to accept that the transition should be self financing for England and Wales as a whole, with a presumption in favour of common transitional arrangements and a common NNDR poundage, provided the "small transfers of grant" you refer to are from England to Wales and not vice versa.
- (v) He agrees we should consider further the options for phasing in small cash changes early, even if they represent large percentage changes.

ACSA

A C S ALLAN



Valuation Office

New Court
Carey Street
London WC2A 2JE

Telephone 01 - 324 1126

1. Mr Pitts

2. Chancellor

From: O T Morgan

Date: 4 November 1988

*Thanks.
Rs X, post ensure
that circulation is as
narrow as practicable.
M.*

REVALUATION EFFECTS & TRANSITIONAL ARRANGEMENTS REPORT FOR ENGLAND & WALES

- The Valuation Office and Revenue Statistics Division were commissioned to undertake work on the likely combined effects of the non-domestic rating revaluation and the national non-domestic poundage reform. This was to be a preliminary to a decision about the necessary transitional reliefs, to phase in those burden changes from 1990.
- The first phase of that work is now complete and the report is available for circulation inter-departmentally. We have, as requested, agreed the structure of the report with officials in DOE and the Welsh Office, and they have seen a near-final version within the last week. We intend releasing copies of the finished report on Monday.

X


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
 Mr Pitts
 Mr Calder
 Mr Gonzalez
 Mr Morgan
 Mr Jaundoo
 Mr Quinn
 Mr Higgs
 PS/IR

3. You saw preliminary results of the estimated effects (under cover of my minutes of 16 and 28 September). A summary of the findings (Part 1 of the Report) is attached, for all recipients of this note, and copies of both volumes are enclosed (top copy only).
4. The report is in 2 parts: Volume 1 considers the burden changes and shows the range and distribution of both gainers and losers, before exploring the effect of different transitional arrangements. Volume 2 comprises a description of the survey methodology, including some caveats about the limitations of the present work, and it contains some more detailed supplementary tables.
5. Copies of Volume 1 will be circulated separately on Monday to some recipients of this note. If others would like a copy (of either or both volumes), they are available on request.
6. The Secretary of State for the Environment earlier announced that it was intended to publish some details about the estimated changes of burden. That will be the subject of a separate submission shortly.

(I have suppressed this - do you want to see?)

No


O T MORGAN

PART 1**SUMMARY OF THE REPORT**

1.1 This Inland Revenue report looks at the effects of the 1990 non-domestic revaluation and the introduction of a national non-domestic rate (NNDR). It then considers possible options for the transitional arrangements which are to phase in the new (1990) rate burdens. It is in two parts: Volume One contains the main analysis, Volume Two, the survey methodology and supplementary data.

1.2 **PART 2** contains the estimates of NNDR poundages at 1990-91 levels: 34.46p for England, 34.23p for Wales. These have been derived by dividing estimates of the expected rates yield in 1990-91 by estimates of the aggregate values of all revalued properties (paragraphs 2.2 and 2.3).

1.3 **PART 3** looks at the effects of the revaluation, separately from the NNDR reform. It suggests that, in aggregate, rateable values will increase by 7.5 times in England and 8.1 times in Wales (para 3.2). Both countries are then analysed, by region and by property type, with regard to the "revaluation factor" (para 3.4.1), the new list estimates divided by the old (1973) list ones; and the "revaluation effect" (para 3.4.2), the effect of the revaluation relative to the national revaluation factor. This can be either positive (in the case of a rateable value increase greater than the national average), or negative.

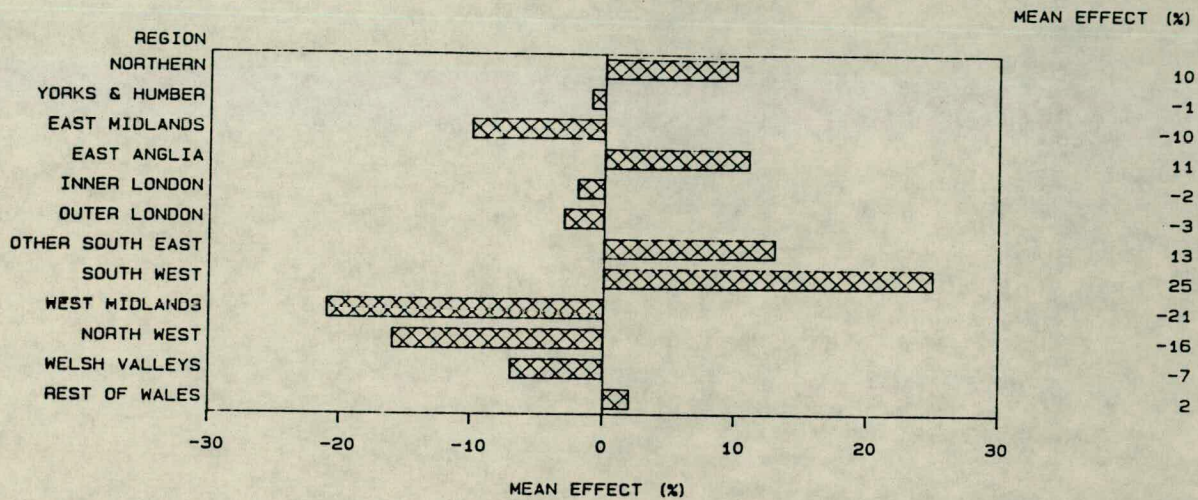
1.4 In terms of revaluation effects, the South West is most affected: its share of national rateable value is increased by 25% (para 3.5.2). The share of national rateable value for shops increases from 15% to 18% and for factories falls from 17% to 14% (para 3.6.2). There is a distribution of present and estimated rateable values in various value bands (Tables T3.3 and T3.4) and an analysis of the revaluation effects, by region and property types (Tables T3.5 to T3.8).

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1.5 In England, 1 in 9 properties have a revaluation effect of at least 100% (1 in 10 in Wales); over 10% of factories in England have a revaluation effect of - 50% or less (paras 3.8.1 and 3.8.2). Mean and median revaluation effects have been estimated and the mean effects are illustrated below, both for regions (Table T3.6) and property types (Table T3.8):

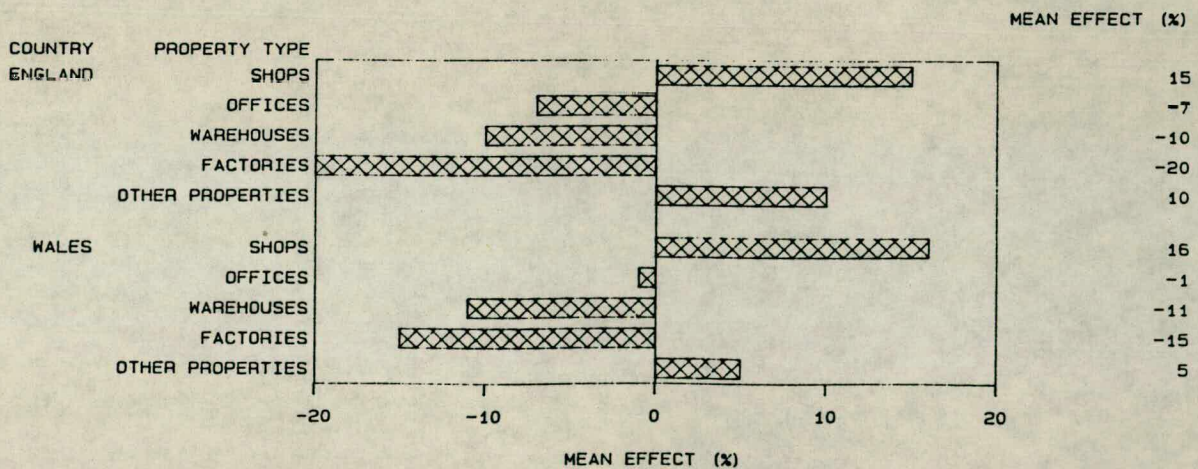
MEAN REVALUATION EFFECTS

ANALYSIS FOR REGIONS



MEAN REVALUATION EFFECTS

ANALYSIS FOR PROPERTY TYPES

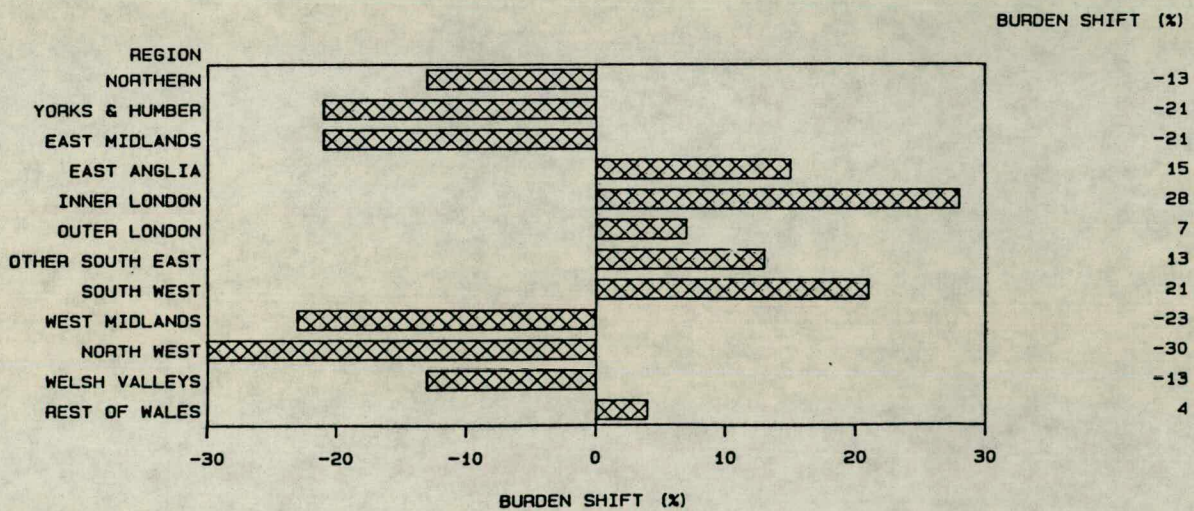


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1.6 PART 4 considers changes of burden that result from both the revaluation and the NNDR, ignoring at this stage the effect of any transitional arrangements. Comparison is here made between the burdens that could have been expected in 1990-91 had there been no reforms (ie no revaluation or NNDR arrangement), referred to as "indexed" 1989-90 burdens, and those that are estimated as a result of the reforms (para 4.2). The position is first considered regionally: East Anglia, Inner London, and the South West face burden increases of between 15% and 30%, all other English regions benefit by between 15% and 30% (para 4.3.2).

The results are illustrated below, the figures are at Table T4.1.

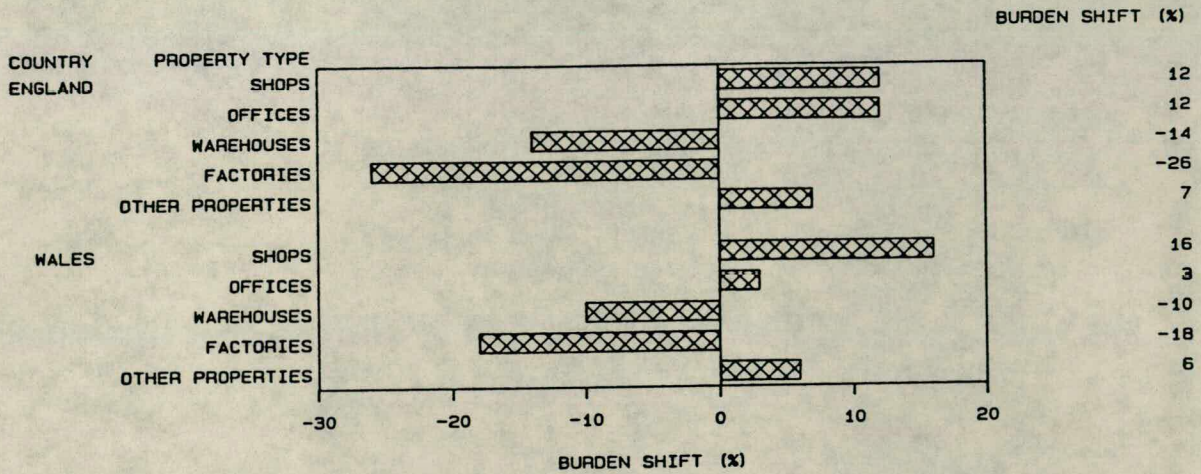
OVERALL SHIFTS IN RATES BURDEN
 COMPARISON OF 1990-91 AND INDEXED 1989-90 BURDENS
 ANALYSIS FOR REGIONS



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1.7 Next, the estimated burden changes are considered by property type, where burden increases are shown for shops (12%), offices (12%) and the residual category of other properties (7%) and decreases for warehouses (14%) and factories (26%). The pattern is broadly the same for England and Wales (paras 4.4.1 and 4.4.2), as shown below:

OVERALL SHIFTS IN RATES BURDEN
 COMPARISON OF 1990-91 AND INDEXED 1989-90 BURDENS
 ANALYSIS FOR PROPERTY TYPES



1.8 Looking at gainers and losers overall (para 4.5.1), it can be seen that losers outnumber gainers. 53% of properties face an increased burden, with an average increase of 47%. 46% benefit from a reduced burden, with an average reduction of 31%. Properties in London which are losers face an average increase in rates burden of 59%, compared with 40% for the rest of England, 30% for Wales. The average reduction for gainers is 22% in London, 33% for the rest of England, 23% for Wales. There is a shift of nearly £1900 million rates burden (19% of the total yield) and the spread of burden changes is very broad. 12% face an increased burden of at least 100%. A more detailed analysis of these gainers and losers is given in paras 4.5.3 to 4.6.4, and the accompanying tables.

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1.9 PART 5 deals with possible transitional arrangements to phase in these changes in rates burden. It assumes that such a scheme should be approximately revenue neutral within each financial year and that a fixed percentage cap will apply, so that losers will not pay more than a prescribed percentage increase (in real terms) from year to year (para 5.1).

1.10 Several different schemes are reviewed. The first is a fixed percentage cap on all losers, either 15%, 20% or 25%, for England (paras 5.2.1 to 5.2.3) and Wales (para 5.2.4). The 15% cap would affect more than 1.3 million properties in England (over 80% of those to be revalued), about half as gainers whose gains would be restricted, and half as losers whose losses would be delayed. Almost three-quarters of the expected shift of rate burden in 1990-91 would be delayed: even 4 years later nearly 20% of that shift would still not have taken place. To achieve revenue neutrality, the cap on gainers would vary between 8% and 10% in different rate years (losers would pay an extra 15% on their rate bills: gainers would get just 8% off theirs, to fund the relief). The higher the percentage cap, the fewer the number of properties affected, but the same percentage cap cannot be used for gainers and losers if the scheme is to be revenue neutral.

1.11 The next scheme is one that confers special relief for small properties, these being variously defined (in para 5.3.1) according to their present or 1990 rateable values. The relief provided by each of the options turns out to be much the same. Between 30,000 and 40,000 additional losers are brought within transitional arrangements in 1990-91 because of the relief for small properties. There is also further relief for those small losers which were already within transitional arrangements with a single 20% cap on all losers. The additional cost is small, and the impact on gainers is also small (para 5.3.2). But, again, there has to be a smaller cap on gainers than on losers, in order to fund the relief (for a 15% cap on businesses less than £5000 RV (1990 values) and 20% on all others - option 2 on Table T5.3 - the cap on gainers is 12%).

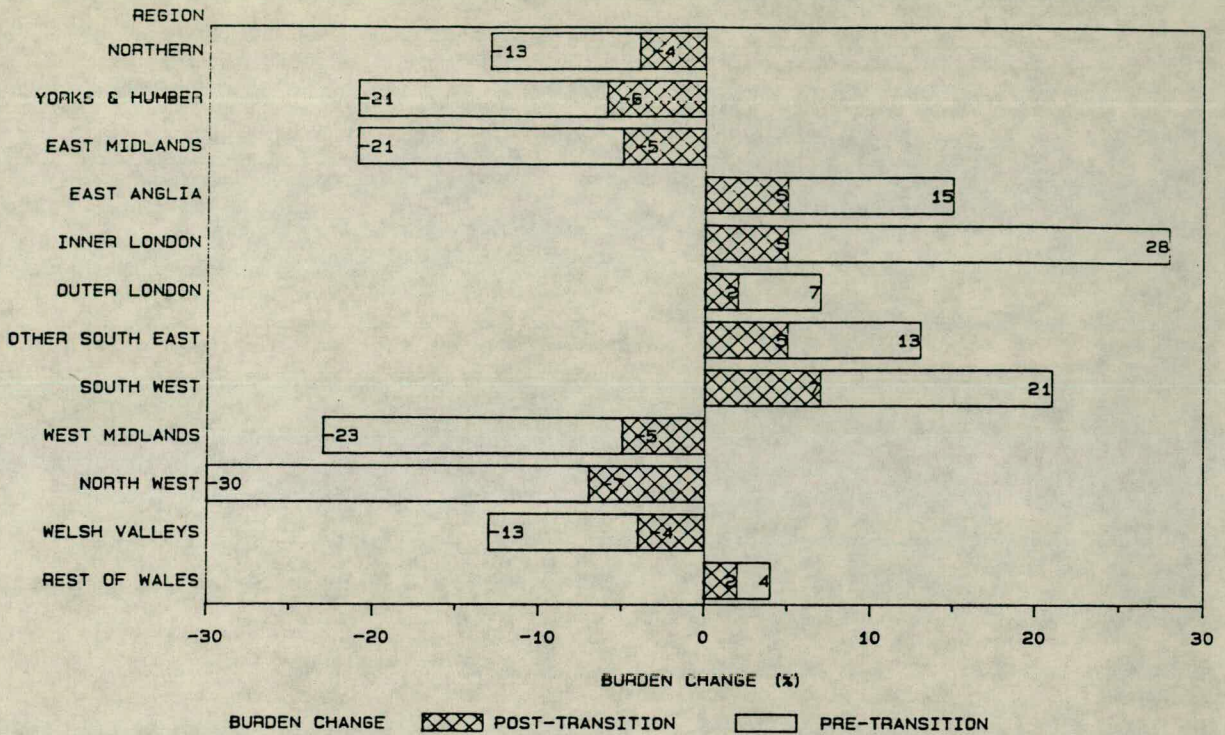
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1.12 The effect of transitional relief (using a scheme with a 15% cap on losers with a 1990 RV of less than £7500, 20% cap on other losers and a cap on gainers of 12% in England, 13% in Wales) on regional rate burdens in 1990-91 is that the shifts in burden that would otherwise occur are reduced by between 65% and 85%. Inner London benefits most, the North West is the most disadvantaged. The regional analysis of these altered burden changes (Table T4.1 compared with Table T5.5) is shown overleaf, followed by the analysis for property types (Table T4.2 compared with Table T5.6).

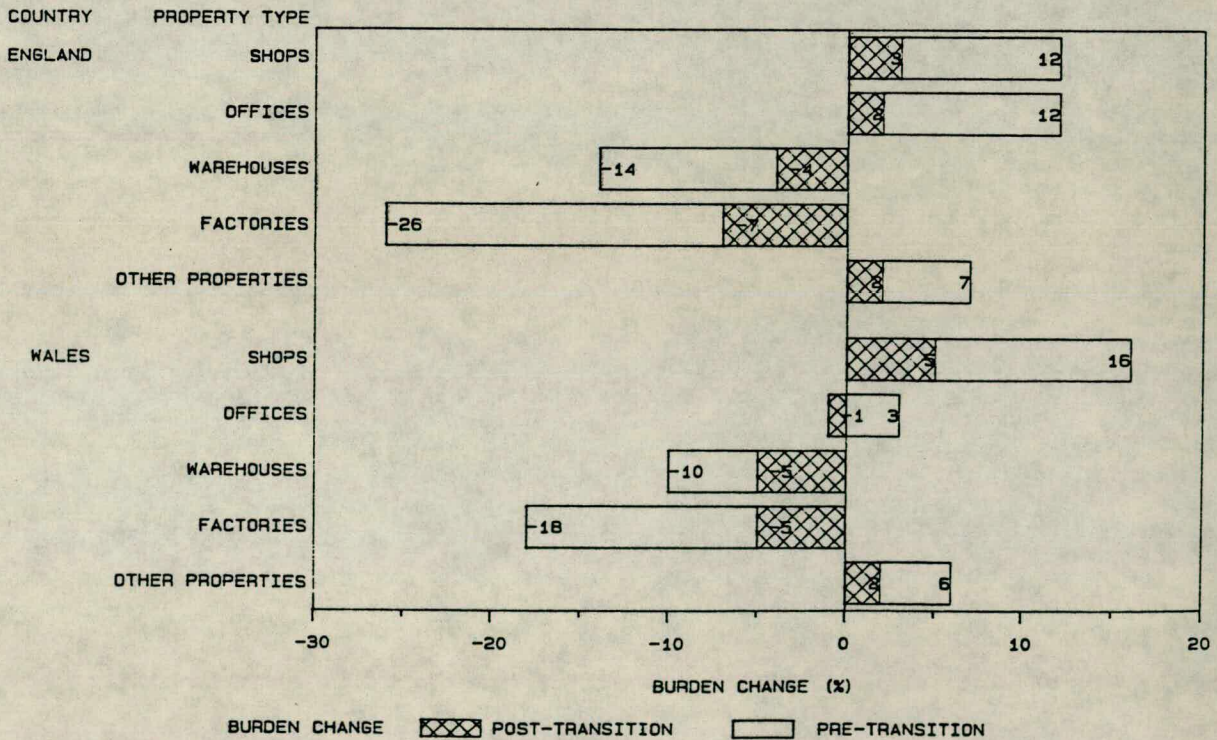
1.13 The report concludes (paras 5.5.1 to 5.5.7 and related tables) with an examination of different percentage caps on gainers and losers, and a consideration of the possibility of setting minimum cash changes in rates burden which would not be phased in by transitional arrangements. Different transitional schemes can be constructed from a comparison of the relevant tables.

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TRANSITIONAL ARRANGEMENTS
COMPARISON OF BURDEN CHANGES BEFORE AND AFTER TRANSITION
ANALYSIS FOR REGIONS



TRANSITIONAL ARRANGEMENTS
COMPARISON OF BURDEN CHANGES BEFORE AND AFTER TRANSITION
ANALYSIS FOR PROPERTY TYPES



M P



FROM: MISS M P WALLACE

DATE: 8 November 1988

MR O T MORGAN

cc Mr Pitts - IR

REVALUATION EFFECTS AND TRANSITIONAL ARRANGEMENTS REPORT FOR
ENGLAND AND WALES

The Chancellor was most grateful for your minute of 4 November.

MOIRA WALLACE



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

CH/EXCHEQUER	
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ACTION	CST
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BF MP

08 NOV 1988

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

Dear Michael,

COMMUNITY CHARGE: DEDUCTIONS FROM BENEFIT

Thank you for your letter of 19 October in reply to mine of 2 October.

Whilst I am pleased that you have accepted that this Department should make the necessary regulations, I am disappointed that we are still clearly far from reaching agreement on the issues of priority and the level of deduction.

As you will doubtless recall, we argued in Cabinet Committee that adding a further deduction to those which we already make, would create tensions in the priorities which we have established after careful consideration and strongly believe ought to be maintained for the sake of the families concerned. Extending the total amount deductible for arrears by a further sum and reserving it for community charge arrears will undoubtedly solve the problem in most cases. However, as I have said previously, where we are already making maximum deductions, we cannot stop payment of rent arrears, fuel or water, in order to give preference to community charge because of the consequences that would have for the family. Similarly, if a family face eviction or disconnection of supply, we must retain the right where necessary to take steps to prevent that happening. It will not happen frequently but assurances will be sought and we must be in a position to give them.

I note what you say about 'culpable neglect' but I was largely relying on a reply which Michael Howard gave to Simon Hughes on this point during the debate on 20 April last [Or Vol 131 Col 838/9]. That reply stated quite categorically that "imprisonment will be available only where there is a wilful refusal to pay by someone who has the means with which to pay".

E.R.

In any event, I find it hard to accept that a court would imprison a person with debts for housing, fuel etc deducted from his benefit leaving no scope for further deduction. His alternative seems to be to pay the community charge arrears but face eviction or discontinuation of fuel and/or water. I am afraid therefore that my view is unchanged that we must retain control of priorities in the relatively few cases where it is likely to arise.

On the question of liability for a subsequent year in which arrears are still being paid on the earlier year, we have always recognised that this would be a problem; it was mentioned in John Moore's letter of 29 February. The justification for making deductions from benefit is that an amount has been included in the income support to meet the minimum liability. The deduction for arrears will manifestly be more than has been put in, which we hope will in itself be an incentive not to get into arrears. However, you are seeking an additional deduction without a liability order, to meet an ensuing year's liability.

It is important to recognise that income support is geared to meeting day to day living expenses and that scope for making deductions whilst allowing sufficient to live on is therefore limited. If the money is available, presumably the individual will be anxious to pay and avoid a further liability order. If he does not do so, presumably the charging authority can seek a further order either to follow the first or to include any outstanding balance from the first.

As I have indicated, we have recognised the problem from the outset but we would not wish to have extra deductions outside the scope of a liability order, indeed there is no power in legislation to do so since Schedule 4 paragraph 6 of the LGFA is framed in terms of a liability order preceding the deduction in accordance with the Cabinet Committee decision. We should not wish to go beyond that.

Turning to the question of amounts, you mention our current position on fuel debts. Effectively, what we do is to allocate £1.70 each to gas and electricity but where there are arrears of only one - usually because only one fuel is used, the amount can be £3.40 for the single fuel debt. I do not think that this conflicts with anything I said in my letter. It is not special treatment and the basic unit is still £1.70 or a multiple thereof.

Even if we were to consider tailoring the amounts to an individual and a couple, this would mean a break away from the £1.70 since we could not contemplate a basic amount as high as £3.40 for a couple. If we start to tailor the deductions closer to the amounts which will be included in income support it will highlight those amounts in a way which we have been anxious to avoid. I thought that we had agreed that £1.70 would apply in all cases since it is a rate we already use and can be justified in the case of a single person because it represents arrears. I can only repeat that any departure from our standard deduction for arrears payable to third parties would create considerable problems not least in our negotiations with the fuel boards, and I am convinced that we ought to stick to the standard £1.70 for community charge arrears.

E.R.

Finally, whilst officials here are poised to instruct solicitors to draft the regulations, until we have reached agreement on these matters there is little they can do to make progress. I hope therefore that you will consider the above points again in the hope that we can reach a final agreement and proceed to draft the regulations.

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

Yours truly,

Nick .

NICHOLAS SCOTT