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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

with pg?

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

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

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

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

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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.

John [unclear]

[Signature]

NORMAN FOWLER

