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cc: Richard Wilson

COMMUNITY CHARGE AND LOCAL AUTHORITY GRANT SETTLEMENT

Each one percentage point on the RPI between September '89 and September '90 will increase public expenditure on social security benefits by £485 million in 1991/2. (PE White Paper, Table 15.17). A £10 change in Community Charge would cost/save about £45 million in rebates.

Thus:

- the offsetting public expenditure cost of average charge at 320 instead of 300 would be £284 million. Plus the problem of an extra 0.4 on the RPI;
- the offsetting public expenditure saving of average charge at 280 instead of 300 would be £235 million. Plus the benefit of 0.3 less on the RPI.

The Treasury's rule of thumb (for John Major's briefing) seems to be a public expenditure saving of 100 for every 200 of extra grant aimed at keeping down average CC. But I imagine there are other, unquantifiable benefits of keeping the RPI lower than it would otherwise be.

This arithmetic seems not without significance in the light of this morning's discussion with the Prime Minister, and I hope it can be reflected in her E(LF) brief.

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