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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

23 April 1990

*Dear John,*

RETAIL PRICES INDEX

The Prime Minister has seen a copy of the minute from Sir Terence Burns to the Chancellor (which Sir Terence copied to me).

I would be grateful if you could ensure that copies of this letter are circulated only on a named individual basis, and that a record is kept of all those who have received copies.

The Prime Minister was very disappointed that Sir Jack Hibbert felt unable to re-open the decision to include the Community Charge in the Retail Prices Index. She has noted Sir Jack believes that any change would have to be referred to the RPIAC; and that the Committee could only be asked to reconsider their earlier decision, if there were substantive and precise proposals to change the Community Charge such as could constitute a convincing case for overriding their earlier view. The Prime Minister has also noted it is most unlikely that, within the time available, the Government could be in a position to make the kind of revised, firm, proposals on the Community Charge which Sir Jack believes would be a necessary condition for reopening the issue with the RPIAC.

The Prime Minister has commented that the Government is treating the Community Charge in different ways for different statistical purposes - as an indirect tax in the Retail Prices Index and as a direct tax for national accounts purposes. Sir Terence Burns' minute would appear to indicate that Sir Jack Hibbert's professional view is that the Community Charge should have been excluded from the RPI. The Prime Minister sees attractions in Sir Jack Hibbert drawing attention in public to the different treatment of the Community Charge for different statistical purposes and to the uncertainty in professional terms over whether the Community Charge should be within the RPI.

The Prime Minister considers that the next step should be to abolish the present RPIAC as soon as is practically possible. In its place a new advisory Committee on the Retail Prices Index should be set up, comprising mainly professional statisticians and economists. Their first task should be to review the present

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construction of the Index with particular attention to whether the Community Charge should be included within it.

The Prime Minister considers that an attractive way forward would be to announce, when the RPI figure for April is published on 11 May, that a successor Committee to the RPIAC is being created (with the above remit). Estimates of the RPI excluding Community Charge, and perhaps on the pre-1986 basis (ie. including Community Charge measured net of rebates), would also be provided. A written statement by Sir Jack Hibbert on the professional difficulties in determining appropriate treatment of the Community Charge, which would be made public, could form part of this package.

The Prime Minister would be grateful for the Chancellor's views on:

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- (i) whether it would be advisable for Sir Jack Hibbert to make the kind of public statement on the Community Charge and the RPI envisaged; and whether Sir Jack would be prepared to do so; and
- (ii) whether the proposed course of action on replacing the present RPIAC should be followed; and if so, what timing and structure for the new Committee would be appropriate.

Yours ever,

Barry

Barry H. Potter

John Gieve, Esq.,  
H. M. Treasury.