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

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

COMMUNITY CHARGE AND RPI

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

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

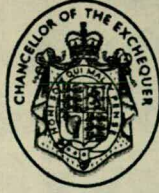


iii. A better alternative might be to let the idea of continuing to use the existing weights post-April 1989 come out as a suggestion from the RPIAC themselves, when they realised they would not be able to complete their deliberations in time.

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

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

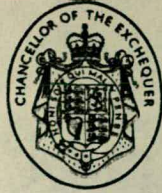
4. Sir T Burns asked whether, if option 3 were chosen but it subsequently emerged that the community charge had risen more slowly than other components of the RPI, we would then be at risk.



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

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

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



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

ACSA

A C S ALLAN

Distribution
Those present

PS/Chief Secretary
Mr Hibberd
Miss O'Mara