

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).

29/9/88.

Handwritten

Page A B I

TO: BARRY SUTLIEFF

cc. HMT press officer

FROM : JOHN GIEVE

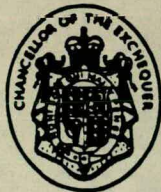
RPI AND COMMUNITY CHARGE

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:

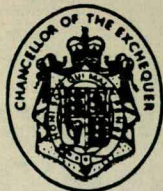
"The Government will be consulting the RPI Advisory Committee on a number of issues including the implications for the RPI of the ~~introduction of the community charge~~. When the Committee has made its recommendations, the Government will study them and then reach its decisions."

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

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
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psp

29 September 1988

Clive Norris
PS/Secretary of State for Employment
Department of Employment
Caxton House
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*Yours
Alex*

A C S ALLAN
Principal Private Secretary