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PRIME MINISTER

**THE COMMUNITY CHARGE**

Following today's discussion with the Chancellor, I agreed with Andrew that it might be useful to set out the policy options which seem to be emerging.

Any package will have to include extra grant to keep down community charges (the Chancellor talked about injecting a further £1<sup>3</sup>/<sub>4</sub> billion in 1991-92). It is also common ground that there will have to be measures to improve and extend transitional relief. And it now seems less likely that the earlier idea of an extra community charge, set on a national basis for those on higher incomes, will be pursued.

The central policy issue is whether to introduce cash limits for the large local authorities; and if so how.

At the extremes are:

- i) Do nothing (which both you and the Chancellor have rejected but Mr. Patten may well support);
- ii) Implement the cash limits from 1 April 1991 with no "safety valve" i.e. no derogations and no referendums (very difficult in political and legislative terms).

Intermediate options would be constructed from the following building blocks:

- cash limits generated as described in the officials' paper for all large local authorities;
- single issue referendum (i.e. higher spending and higher community charge above a cash limit only following a referendum);
- annual elections for one third of the council;

- separate bills from each tier of local government;
- restructuring of local authorities i.e. unitary authorities in place of counties and districts.

The main options seem to be:

- Option A:
- Permanent cash limits for large local authorities from 1991-92, with derogation power for Secretary of State.
  - A referendum power also from 1991-92.
  - No restructuring of local government or community charge bills.

- Option B:
- A one year cash limit from 1991-92, with temporary derogation power from Secretary of State.
  - Firm intention announced to introduce permanent cash limit plus referendums from April 1992 onwards.
  - No restructuring of local government or community charge bills.

- Option C:
- A one year cash limit from 1991-92, with temporary derogation from Secretary of State.
  - White/Green Paper floating:
    - i) options of permanent (or at least longer term) cash limits plus referendums; or
    - ii) permanent cash limit plus local elections; and
    - iii) restructuring of local government; or
    - iv) separate bills for counties and districts etc.

Other variants are possible e.g. option B plus White Paper floating option C iii) and iv).

The main criterion to be applied in selecting amongst these options (or variants) should be policy effectiveness in constraining community charges and local authority spending. But other criteria must include the political acceptability, in particular in getting the measures through the House; the legal difficulties in drafting the legislation within the timescales available; and, critically, how proof against judicial review different approaches might be.

Advice from the Chief Whip

The Chancellor mentioned today that it might be desirable to seek the Chief Whip's views in advance of Thursday's discussion. He is already no doubt considering the merits of different approaches.

- 1) Would you like to hear his views on the approaches outlined above beforehand? (There is a slot available before Cabinet?)

*Yes please not*

Attendance at the Meeting on Thursday 17 May

At present the proposed cast list comprises the Chancellor and Chief Secretary, Mr. Patten and Mr. Portillo. Both Mr. Hunt and Mr. Rifkind are expecting to attend. And it seems only sensible to have both the Chief Whip and the Solicitor General there to give advice.

- 2) Do you also wish to invite the Lord President and Chancellor of the Duchy (who attended the previous discussion)? (It is probably best to keep service Ministers out of the discussion until the formal E(LG) meeting scheduled for Thursday 21 May.)

*Yes not*

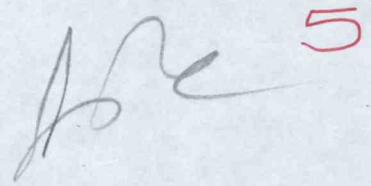
*BHP*

(B.H. POTTER)

14 May 1990

*Thank you very much.*

*This note clearly sharpens the decisions we have to make not*

5MR. MILLS

cc Professor Griffiths

I submitted the officials' report on the community charge to the Prime Minister over the weekend, along with your briefing note.

I also included the usual Private Secretary note and brought to the Prime Minister's attention the sort of package which you and I discussed with Brian Griffiths last week.

On this occasion I think - exceptionally - it may be helpful to let you see the note along with the Prime Minister's underlining and comments.

The conclusion would appear to be that the Prime Minister does want such a package considered further - although I am not quite sure of <sup>his</sup> ~~our~~ views now on the idea of a higher rate of levy. Perhaps when you have had a chance to consider the note we might have a further word. I should also add that, in the margins of other meetings taking place today, we may get a better indication of the Treasury's position. If so, I will let you know.

BHP

BARRY H. POTTER14 May 1990

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