

PRIME MINISTERTHE COMMUNITY CHARGE

I reported to you this morning on my discussions last night with the Chancellor. His view might be summarised as follows.

- (a) The Chancellor would be willing in principle to pursue income limits. But he remains very anxious about the practical difficulties of persuading both colleagues to accept the proposal, and Parliament to pass the necessary legislation in the next Session
- (b) But, like you, he wants stronger measures to restrain local authority spending and thus Community Charges. He wishes to explore how far legislation to toughen existing capping powers, so that expenditure could be kept down to as little as SSA + 5%, would be effective. In his view, such legislation would be much less controversial than any on income limits; and he believes colleagues could be led to support this approach. Tougher capping might be combined with referenda: that would allow local authorities to exceed the cap only if the local electorate were prepared to vote for the necessary higher community charges.
- (c) The Chancellor wanted a little time to consider further: he wishes to assess what spending might be under both the income limits and enhanced capping approaches; the likely levels of AEF; and the likely Community Charges - recognising that such numbers would be only broad approximations at this stage.

This morning, Mr. Wilson, Mr. Owen and I met to discuss further how an enhanced capping regime might be made to work. Attached is a first draft note, from Mr. Wilson, setting out the basics of such a scheme.

The main advantages of this approach are as follows.

---

- (i) It would avoid the most controversial feature of income limits - that is central Government setting maximum spending levels for local authorities (and being blamed for any LA cuts in sensitive services like education and social services).
- (ii) It would nonetheless allow central Government to cap a much larger number of local authorities than at present. Indeed the only LAs which would be sure of escaping capping would be those which had budgeted sensibly.
- (iii) It would extend and deepen local accountability. The objection to capping hitherto has been that central Government takes the final decision on spending and Community Charges, not local authorities. With the referendum provision local authorities would be able to override central Government's judgement. But, since this would mean that the authority would have to raise a supplementary charge from the local electorate, it seems unlikely in practice that many authorities would secure a majority in any referendum.
- (iv) It would be very flexible. The Government could act toughly or mildly as appropriate depending on LAs proposed budgets and community charges. Decisions would be left until March or April of next year. Over time, as and when local accountability begins to work, the role of capping could be progressively diminished.

The approach still has some disadvantages relative to income limits. There would inevitably be less certainty about the outcome on both spending and Community Charges. Even more weight would be laid on SSAs - so the proposed review would have to be very careful. And without further work it is not possible to assess whether the logistics of capping can be sufficiently improved to avoid (a) undue dragging out of the process and (b) scope for judicial review. That said, further work and clever drafting of the legislation could remove many of the

latter problems.

Next Steps

My own view is that this is a very promising approach. And, hopefully, the Chancellor will now support it. If it was to be used toughly it is like income limits; if LAs behave well (as Mr. Patten contends they would), the use of the power could be very limited.

Both you and the Chancellor are looking at the attached note tonight. The Treasury are working on some preliminary numbers which should be available by lunchtime tomorrow. You and the Chancellor are meeting for a further discussion at noon. The Chancellor would like the Chief Secretary to attend.

Mr. Patten has been told to keep Wednesday at 1000 hours free so that you can have a further word with him then. He is not aware that you and the Chancellor are looking at this new approach.

In the meantime, I have cancelled the meeting of Ministers on Wednesday 6 June. The way remains open for an E(A) discussion on the basis of a new paper on 14 June.

- Yes
- (i) Are you content for the CST to attend tomorrow?
  - (ii) Do you want to see Mr. Patten (and Mr. Portillo?) alone on Wednesday or with the Chancellor and Chief Secretary?

BHP

mt

Barry H. Potter

4 June 1990

a:\community.dsg