

PRIME MINISTER

THE COMMUNITY CHARGE

You are meeting Mr. Patten to discuss the community charge at 10^{.15} a.m. tomorrow. You are also due to meet the Chancellor for the regular bilateral discussion at 5.15 p.m.: he wants to use the opportunity for a further discussion on the community charge.

You discussed the new approach developed over the weekend with the Chancellor at lunchtime today, and with the Chief Whip this afternoon. Separately, the Chancellor has seen Mr. Patten this evening.

The position is as follows.

You and the Chancellor would be content to pursue the scheme which you discussed at lunchtime today.

It was clear that the Chief whip was anxious about the referendum component of the scheme: but he would be willing to pursue the enhanced capping from next year, and to put forward the idea of a referendum for future years.

According to the Chancellor's Private Office, Mr. Patten's position might be summarised as follows.

- (i) He prefers enhanced capping to the income limits approach.
- (ii) He considers that referenda are a useful adjunct to community charge capping and are better than other forms of derogation.
- (iii) BUT he argued (like the Chief Whip) that the necessary legislation was massive in its political significance; that it would require a substantial and awkward bill; and that it would be difficult to get through Parliament.

- iv) Moreover, it could not be introduced with a tight settlement; indeed it would require a more generous settlement than without any legislation at all. (Mr. Portillo took the same line.)
- (v) Both DOE Ministers were worried about the practical difficulties of enshrining SSAs in legislation.

No

Assessment

The approach developed over the weekend is running into certain predictable difficulties. But it still represents the only way forward on which there is at least some agreement between you, the Chancellor, the Chief Whip and Mr. Patten. These areas of agreement might be summarised as follows.

- It is accepted (at least just about in Mr. Patten's case) that there needs to be strengthened controls to limit local authority expenditure. Enhanced capping would be more acceptable to colleagues, to Parliament, and to local government than income limits.
- There is a willingness to take primary legislation in order to secure the enhanced capping powers. But there is concern about the scale and scope of any bill: the shortest and narrowest (in scope) bill is to be preferred.
- The referendum or community charge poll adjunct to enhanced capping is a useful form of derogation from capping: it enhances rather than detracts from local accountability, (as capping otherwise does). And accountability is at the heart of the policy. But there are doubts about the difficulties of drafting the necessary legislation in the time available and about the political response from back benchers.

You need to build on that common ground: there are in principle four ways forward.

- (A) Take enhanced capping powers only to operate from 1991-92.
- (B) Take enhanced capping powers plus referenda from 1991-92.

- (C) Take enhanced capping powers from 1991-92 and powers to introduce referenda either from 1992-1993 onwards or at some future date to be specified in secondary legislation.
- (D) Take enhanced capping powers only as from 1991-92; float the idea of referenda in a White Paper issued at the same time.

Way Forward

First, I understand Mr. Patten is feeling bruised. He believes that you and the Chancellor have agreed the approach in advance. I see no reason why you should not indicate the sequence of events - that the Chancellor first put forward the idea which was then built up in co-operation with the Cabinet Office; that the proposal was then put to you; and that you are consulting key Ministers individually before taking matters forward.

Second, Mr. Patten seems anxious to start talking about money: he wants to extract more grant in return for taking difficult legislation through the House. Your position - and the Chancellor's - has been that grant cannot be decided before there is a mechanism to keep spending under better control. You should not move from that at this stage.

Third, you need to move Mr. Patten forward. How far does he agree the "common ground" identified above; and which of the four options (A) - (D) above should be pursued to assess their merits and disadvantages? My guess is that he might go for (B), (C) or (D): while you and the Chancellor would favour (B), the Chief Whip might accept (A), (C) or (D). (My own view is that the referenda are vital. Without them enhanced capping frustrates accountability and central government gets blamed for service levels. The referenda proposed make tougher capping acceptable. So option (A) should be dropped.)

Fourth, you need to agree that further analysis of the selected options should encompass:

- i) the scope, scale and technical difficulty of the legislation;

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- ii) some illustrative numbers showing spending, AEF and community charges - and how many LAs might be capped under various assumptions.

Conclusion

If the above way forward can be agreed, I am sure the Chancellor would be content to go ahead on that basis. Cabinet Office would be asked to prepare the necessary papers for a meeting of an expanded E(LG) next week.

But if Mr. Patten will not consider an approach along these lines, you may wish to talk again to the Chancellor tomorrow afternoon. A possible next step would be a trilateral (with Mr. Patten and the Chancellor); or a meeting with the Chief Whip as well.

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5 June 1990

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