

PRIME MINISTER
COMMUNITY CHARGE

I attach a copy of the Chancellor's minute (Flag A) on the community charge for discussion at Thursday's meeting. I will provide a brief tomorrow evening once the further note expected from Mr. Patten has arrived.

Three points strike me on a first reading of the Chancellor's note.

- (i) Paragraph 7 seems to indicate that the Chancellor wants to delay decisions on the cash limit approach until decisions are also made on AEF for next year. This makes handling the review more difficult in the short term.
- (ii) At the end of paragraph 9, a possible compromise option is floated. This would involve legislation on cash limits for next year; and the idea of referenda, or more frequent local elections, would be set down in a Green or White Paper at around the same time. It is like option C in my earlier note (at Flag B).
- (iii) The note sets down the Chancellor's public position. Privately, he has told you his concerns about the politics of taking the necessary legislation.

The latter point is worrying. The discussions between Mr. Patten and the Chancellor today strayed close to negotiations on AEF. The Chancellor may be considering another tough grant settlement as an alternative means of putting downward pressure on local authority spending next year. Mr. Patten seemed willing to come down from some of his earlier, very high, bids.

Mr. Patten may well sense that, while the Chancellor has kept his public position in favour of the cash limit approach, he would

move off that - if there was a possibility of a modest settlement on AEF.

You will have your own views on the attractions of such an approach. I would point out the following dangers.

- A high grant settlement could lead to high spending as the Chancellor notes in paragraph 7. But too low a grant settlement could also push community charges well over an average of £400. LAs would again put the blame on central government.
- Moreover, Mr. Patten may think that he can concede a tough settlement on AEF at this stage; and then come back for more over the course of ^{two} ~~next~~ year as the prospects of high community charges and high local authority budgets emerge. (After the AEF negotiations were concluded last year, various extra measures costing a total of £2 billion over the next three years were conceded.)

In short, it is questionable whether a tough grant settlement and a cash limit approach are in any sense genuine alternatives. The risks of ending up with high spending and high community charges must be greater if reliance is again placed on a tough grant settlement.

The 'option C' approach still looks promising. Before you meet the Chief Whip, further thought must be given to how a legislative package might best be constructed. If it is presented as tough cash limits that constrain local authorities and abandon local accountability then it will of course be politically difficult to get it through the House.

But the package can be put forward as

- extra grant to keep down community charges;
- further measures to extend and improve transitional relief

for those worst affected by the shift from rates; and coupled with _____

- measures to ensure that this extra money is not frittered away by extravagant local authorities, by setting an upper limit on their spending. _____

Presented in that way, I am not convinced that the political difficulties would then be insuperable.

BHP

BARRY H. POTTER

15 May 1990

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