

CONFIDENTIAL

PRIME MINISTER

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COMMUNITY CHARGE CAPPING IN SCOTLAND

At issue here is whether the economic and practical benefits of selective action outweigh the cost of political controversy. I don't believe they do.

First, selective action would inflame an issue which is being defused currently.

The introduction of the community charge has not had an easy passage in Scotland. But the signs are that we are now through the worst. The paramount objective should be to see that the community charge is allowed to settle down.

Selective action - which would (a) require a separate order and debate in the House for each authority capped (b) provide Labour councils with an opportunity to mount a legal challenge - would simply focus public attention back on the issue at a time when the Government wants to move on to other things.

Second, the high moral ground would be abandoned

The strongest argument for the community charge is the accountability argument. For the Government to intervene from the outset - before the accountability argument has even had a chance to be tested - would not be understood readily in Scotland.

Third, failure to take selective action from the outset need not send the wrong signals

It is a perfectly defensible line to say that any new system needs time to bed down. The Government has always said that accountability would take time to work through - in particular because of the way the safety net works. If - as Malcolm Rifkind proposes - an early opportunity is taken to stress publicly that the Scottish Office reserves the right to take action in the future, then an effective Sword of Damocles will still be held over the heads of recalcitrant authorities.

Fourth, the criteria on which authorities are selected for capping would be a nightmare to defend publicly

The Treasury suggest that six authorities should, be capped. Of the six district councils they have in mind (those with the highest total expenditure above needs), three have expenditure per head which is below the average for all Scottish district councils.

Moreover, the public will not readily understand a situation in which councils with a relatively low community charge are capped, while some councils with a higher charge are not. On expenditure grounds the prime offender is Glasgow whose community charge is only £306 - right on the district average. Edinburgh, whose expenditure increase is much less, nevertheless has a community charge of £392. It would be hard to win a public argument for cutting Glasgow's figure but not Edinburgh's.

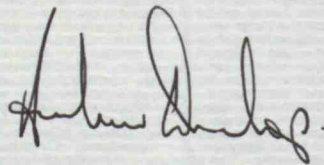
Fifth, capping would have only a marginal impact on overall public spending

The Treasury's case for selective action rests on their concern to adhere to the Government's aim to reduce expenditure as a percentage of GDP. Yet selective action is unlikely to have any significant impact on this. It would reduce local authority expenditure in Scotland by less than one per cent. This seems a poor return for the political cost involved.

CONCLUSION

The arguments for not capping at this point seem strong. I recommend that you support Malcolm Rifkind proposals

- (a) not to introduce any community charge capping this year;
- (b) to make clear publicly that such a decision should not be taken as a precedent for the future.



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