



The CST must
be robust.

The argument about
CC copy was
~~robust~~ prolonged, but

no outcome was
clear or decisive.

And in the end the
PM came down
v. firmly in support.

me



.ch

I gather CST is a bit concerned about being isolated, and wants to concert with Mr Ridley if poss. See table @ X. I think it would be ludicrous, & convey all the wrong signals & precedents, if we did not have a go at Glasgow, Clydebank & Sterling at least - and preferable more. Arguments about poll tax 'fairing' don't cut any ice - why do we have poll tax capping in legislation @ all if not for this sort of ice

AA

Ch/ Community charge capping would need very careful presentation; it could easily be seen as an admission the CC had failed in its objectives. The tendency for authorities to manipulate spending & reserves with the electoral cycle will not go away and I would be surprised if, once introduced, capping did not become a permanent device.

FROM: G C WHITE (LG1)
DATE: 26 APRIL 1989
EXT: 5731

- 1. MR POTTER (LG1)
- 2. CHIEF SECRETARY

Chancellor
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Phillips
 Mr Edwards
 Miss Peirson
 Mrs Lomax
 Mr MacAuslan
 Mr A M White
 Mr Hudson
 Mr Call

Any proposal to introduce community charge capping will be controversial. (I am certain Mr Rifkin will oppose excessive rates in Scotland vigorously.) But, though the arguments are quite finely balanced, I believe there is a good case for capping at least in the short-term. And, in view of the Scottish figures, if the Government is to adopt capping, action will need to be taken this year.

COMMUNITY CHARGE CAPPING IN SCOTLAND

RHP 26/4

The Abolition of Domestic Rates Etc (Scotland) Act 1987 provides statutory authority for reducing community charges in Scotland. This process, known as "community charge capping", enables the Secretary of State to reduce community charges where he is satisfied that the expenditure of the local authority concerned is "excessive and unreasonable". Now that community charges have been introduced in Scotland the Government will need to decide whether or not any local authorities should be subject to community charge capping in 1989-90.

Background

2. In July 1987 E(LF) concluded that there should be a scheme for capping the community charge and that the approach for England and Wales should follow the proposals to be adopted in Scotland. The proposals in Scotland are based on the Scottish system of rate capping which has the considerable advantage of taking action in-year. This means that the Government selects authorities for capping at the beginning of the financial year and announces the amount of the reduction proposed so that authorities would have time to rearrange their expenditure plans for the remainder of the year.

3. In deciding the authorities to be selected for community charge capping the Secretary of State has to look at a number of factors to determine whether the authorities' spending can be judged as "excessive and unreasonable". He has to look at the financial position of the authority, take account of spending in the year and in any preceding year, and may take account of any creative accounting devices used to reduce the burden on the charge payer. The exact criteria for determining which authorities should be selected for community charge capping has not been decided.

The situation in Scotland

4. Local authorities in Scotland have now set community charges for 1989-90. The average personal community charge is £280, which when added to the average water community charge of £21 gives an overall average community charge bill of £301. This represents a substantial increase of 14 per cent over the average domestic rate bill per adult in 1988-89.

5. Scottish local authorities have plans to increase spending in 1989-90 by 12 per cent over budgets for 1988-89 and, in addition, to build up balances ie most of the 14 per cent increase in income will be reflected in higher spending but some will feed through into increased balances.

6. So the community charge has not yet had any general restraining effect. There is however considerable variation between districts. Some of the traditionally high spending authorities seem to have felt under pressure to reduce the impact of the community charge, at least to keep it below psychologically important levels. But on the other hand some of the large increases in spending have come from authorities which have been moderate spenders in the past. It appears that they have taken the opportunity offered with the introduction of the community charge to boost spending and reserves.

The case for community charge capping

7. Under the new local authority financial regime we see community charge capping as potentially a key weapon in the battle to reduce local authority current spending. The Survey discussions are likely to focus on the amount of grant the Government needs to provide in support of a certain aggregate need to spend ie the total amount of local authority spending the Government is prepared to endorse. This will imply a figure for the community charge for spending at need and this is likely to be the figure that the Government will wish to publicise in the run up to the introduction of the community charge in England and Wales. The actual community charges that local authorities set are likely, of course, to be very different (usually higher) and here the Government will run the accountability argument. However the Government is likely to continue to plan public expenditure in terms of general government expenditure as a percentage of GDP and, as a result will want to continue to exert downward pressure on local authority spending.

8. The community charge regime is designed to exert downward pressure on spending through local accountability but it is unlikely that this will bite for some time. In the initial years of the community charge it will be difficult for the local electorate to relate changes in the community charge to changes in spending (because of the effect of the "safety net") and, in any case, they can only express their view through elections and these will not take place immediately. It will therefore take several years for accountability to take effect. In the meantime local authorities could well increase spending and lay the blame on the Government's community charge policy. Thus the use of community charge capping should be seen as a crucial component of the new regime and as an essential weapon against overspending. The Government cannot directly stop local authorities from overspending; community charge capping is the only means of stopping authorities levying excessive community charges.

9. In addition, high local authority spending and excessive community charges will tend to make more difficult the delivery, beginning next year, of the local authority contribution to the harmonisation of business rates between Scotland and England.

10. We also need to consider the implications for England and Wales and whether the use of community charge capping in Scotland will act as a deterrent in England and Wales. Mr Ridley has already agreed that a similar system of capping will be introduced in England and Wales. Hence, whatever is agreed in Scotland will have implications for the introduction of the community charge in England and Wales on 1 April 1990. If the Scottish situation is repeated in England and Wales, then local authorities are likely to increase both spending and reserves in 1990-91. This will lead to higher community charges and it will be important for the Government to have available a mechanism for constraining community charges. There is a risk that if nothing is done in Scotland, the implication will be that capping is not a real threat and the Government will be sending the wrong signals. If action is taken, this will emphasise the Government's continued concern and will act as a deterrent against overspending and the setting of high community charges.

11. Finally, the legal position means that the Secretary of State can reduce community charges where he is satisfied that the expenditure of the local authority concerned is "excessive and unreasonable". If no action is taken in 1989-90, when we believe spending is "excessive and unreasonable", we will have created a precedent that will make it difficult to sustain a case for action in later years.

The case against community charge capping

12. We strongly suspect that Scottish Ministers will not wish to introduce community charge capping in 1989-90. They will probably point to the accountability argument, and say that if authorities have overspent then they should be left to sort out their own problems. If the Government intervenes (they will say) then this will signal failure in the community charge policy and increase adverse publicity for the community charge.

13. They can also argue that the community charge brings a clear new discipline and that this should take effect as quickly as possible. If capping is introduced it may discourage authorities from taking difficult decisions to cut spending. Instead they will carry on spending recklessly in the expectation that the Government will let them off the hook by taking unpopular spending decisions for them.

14. In addition the Scottish Office may argue that because so many authorities have budgeted to spend at a relatively high level it would be difficult to select only a few authorities for capping on a consistent basis. (They would also argue that selecting too many authorities would be a substantial administrative burden).

Possible selection criteria

15. If we do decide to pursue capping, there are a number of possible ways of selecting authorities for capping - expenditure above needs, excessive year on year increases in expenditure, excessive year on year increases in income, etc. The Scottish Office have received legal advice which says that when selecting authorities for capping the Secretary of State must have regard to excess expenditure above assessed need. This means that in Scotland this must be the main basis for selection. Other factors can be taken into account but this must be the primary test.

16. Assuming that authorities are selected on the basis of excessive community charges (based on expenditure above needs) the following authorities in Scotland would be selected:

Scottish local authorities with expenditure more than 15% needs in 1989-90

	Expenditure above needs	Year on year increase in expenditure	Expenditure per head (£)	Community charge (£)
Expenditure above needs by				
More than 25%				
Glasgow	45%	35%	243	306
Clydebank	42%	20%	167	297
Stirling	35%	18%	164	310
Clydesdale	30%	24%	149	301
East Kilbride	27%	20%	141	318
Clackmannan	27%	32%	170	300
Between 20% and 25%				
Dumbarton	22%	14%	143	298
Aberdeen	20%	19%	146	304
Edinburgh	20%	19%	160	392
Argyll and Bute	20%	11%	155	277
Between 15% and 20%				
Monklands	18%	27%	155	293

17. There is a strong case for arguing that all authorities that are spending at more than 25 per cent above needs should be selected. Otherwise the implication is that spending at this level is acceptable. On this basis the top six authorities shown in the above table would be selected for capping.

18. Scottish Officials have carried out a very detailed analysis of the individual authorities, looking at volume growth and expenditure per head as well as the level of expenditure above need. Their conclusion is that if selective action were to be taken, the possible candidates would be Glasgow, Clydebank and Stirling. They would exclude Clydesdale, Dumbarton and East Kilbride on the grounds that their expenditure per head is below the district average. It would then be difficult to make a case against Aberdeen, Argyll, Clackmannan and Edinburgh. We would agree that if action is to be strictly limited Glasgow, Clydebank and Stirling are the appropriate candidates.

(but presumably their needs are below district average)

19. It is for Mr Rifkind to put forward proposals on selection, so rather than put this specific proposal to Mr Rifkind it might be better to suggest that you would welcome his own proposals but hint fairly strongly that you very much favour decisive action.

Timing

20. One of the most important features of the Scottish system is that the Government will be taking action in-year to reduce community charges. This means that the Government will be seen to be taking immediate action rather than react, as happens currently in England and Wales, to an authorities excessive spending plans for one year by limiting its expenditure by a cap on the charge in the following year.

21. The 1987 Act does not specify any restrictions on when the Secretary of State has to act. He cannot however leave it too late. The later a decision is taken the more difficult it becomes for a local authority to rearrange its expenditure plans and collect a different level of community charge. It would therefore be desirable for a final decision to be announced before the end of June. Local authorities would, of course, have prior warning in the sense that the Secretary of State would need to make an initial announcement some 4-6 weeks earlier. This would allow the authorities time to make representations and for these representations to be considered fully before taking a final decision. On this time-table his initial proposals would need to be put forward in the first half of May.

Conclusion

22. Community charge capping in Scotland is likely to be a controversial issue and it is likely that Scottish Ministers will resist any proposals for capping in 1989-90. We believe however that it is an essential weapon against excessive spending by local authorities and that it should be seen as an important part of the new financial regime. Given that Scottish Ministers are unlikely to want to take action in 1989-90, and may perceive an advantage in delaying any discussion, you may wish to take the initiative. There are however a number of ways forward

(a) Accept that it will be difficult to take action in Scotland in 1989-90 and do not write to Mr Rifkind;

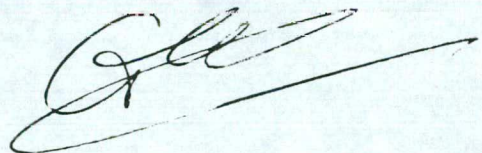
(b) Write to Mr Rifkind explaining why capping is important but do not express a view on whether any authorities should be selected for capping in 1989-90.

(c) Propose that capping should be introduced in 1989-90, but leave the selection of authorities to Mr Rifkind.

(d) Propose that capping should be introduced in 1989-90, and suggest to Mr Rifkind the particular authorities that should be selected.

23. We are, of course, happy to discuss the various options. Our preference is for Option 3, and if you agree a draft letter for you to send to Mr Rifkind is attached.

24. This submission has been agreed with ST and GEP.



G C WHITE

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO MR RIFKIND**COMMUNITY CHARGE CAPPING IN SCOTLAND**

Following the introduction of the community charge in Scotland on 1 April 1989, the information now available from local authorities on their budgets for 1989-90 and the community charges that they have levied, has lead me to consider how we should respond. You have no doubt been considering the same issues but I thought it might be helpful if I set out my own thoughts at this stage.

The facts are that Scottish local authorities have budgeted to increase their income by about 14 per cent in 1989-90 (compared to 1988-89); and they plan to increase their spending by 12% - a substantial increase of over 6% in real terms. Though the pattern has varied between authorities, the figures indicate that Scottish local authorities as a whole have used the introduction of the community charge as an excuse both to increase spending and build up reserves.

This is very disappointing and a most unfortunate signal in advance of the introduction of the community charge in England and Wales. We must not condone the actions of those authorities who have increased their spending in the belief that they can lay the blame on the Government's community charge policy.

The fundamental aim of our community charge policy is to improve accountability and so rein back the growth in local authority spending. If the local electorate is unhappy, then we would expect it to take action through the ballot box. In the fullness of time, we believe and expect that this will happen. But it is important to appreciate that accountability is bound to take time: some local authorities are inevitably going to seek to embarrass us by setting high community charges in the first year; the initial shift from the old domestic rating system rather blurs the accountability message (as of course does the limited safety net in Scotland); and there are no local elections in Scottish districts until 1992.

In the meantime I believe that it is important that central government should protect community charge payers and, at the same time, exert downward pressure on local authority current spending. We have both recognised, in our discussions on the harmonisation of business rates between Scotland and England, that there is both the scope and need for considerable reductions in the existing level of Scottish local authority spending. We need to be consistent in the signals that we give. At least in the short term, therefore, I see a case for the use of community charge capping against excessive spending.

Failure to act in Scotland this year runs the risk of signalling to Scottish local authorities that the Government will turn a blind eye to profligacy in later years. (Indeed if we implicitly accept that half a dozen councils can spend over 25% above needs now, the Scottish courts may well rule out capping for more modest

spending in later years). It will also give a similar impression to English and Welsh local authorities during their first year of the community charge in 1990-91.

Given the large number of councils in Scotland which have budgeted to spend at much increased levels this year it will be difficult to devise selection criteria to catch the right authorities. Clearly the selection criteria are crucial. It will be important to select on a rational and defensible basis that leads to action against those councils which we believe have acted most irresponsibly in 1989-90. Based on such figures as we have seen this would suggest capturing up to six of the worst offenders. But you are much better placed to advise on the right selection and I would welcome proposals on what you would consider the best option to be. Given the time constraints on capping, we will of course need to move quickly.

Community charge capping will be a controversial issue. But we must demonstrate that excessive local authority spending, and burdens on local taxpayers, are no more acceptable under the new regime than they were under the old. I would welcome your views on how you think we should proceed.

I am copying this letter to members of E(LF) and to Sir Robin Butler.

J.M



FROM: D I SPARKES
DATE: 28 APRIL 1989

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BF 11/5~~
pwp

PS/CHIEF SECRETARY

COMMUNITY CHARGE CAPPING IN SCOTLAND

The Chancellor has seen a copy of Mr White's submission to the Chief Secretary of 26 April considering whether or not local authorities in Scotland should be subject to community charge capping in 1989-90.

2. The Chancellor suggests the Chief Secretary should take a robust line. He commented that the argument about community charge capping was prolonged but the outcome was clear and decisive. And in the end the Prime Minister came down very firmly in support.

D.I.S.

DUNCAN SPARKES

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- cc:
- Chancellor
- Sir Peter Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Edwards
- Miss Peirson
- Mrs Lomax
- Mr Potter (LGI)
- Mr G C White (LGI)
- Mr MacAuslan
- Mr A M White
- Mr Hudson
- Mr Call

Treasury Chambers, Parliament Street, SW1P

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

Malcolm Rifkind

3rd

[Handwritten signature]

23 May 1989

COMMUNITY CHARGE CAPPING IN SCOTLAND

Following the introduction of the community charge in Scotland on 1 April 1989, the information now available from local authorities on their budgets for 1989-90 and the community charges that they have levied, has lead me to consider how we should respond. You have no doubt been considering the same issues but I thought it might be helpful if I set out my own thoughts at this stage.

I understand that Scottish local authorities have budgeted to increase their income by 14 per cent in 1989-90 (compared to 1988-89); and they plan to increase their spending by 12 per cent - a substantial increase of over 6% in real terms. Despite a small real increase in assessed need to spend between the two years, local authorities in Scotland are now overspending relative to needs by nearly twice as much in 1989-90 (-8.6 per cent), as they were in 1988-89 (+4.5 per cent). As the Press Notice issued by your office on 13 March indicated, a number of previously low-spending authorities have taken the opportunity to raise their spending to the assessed needs figure.

I appreciate that the pattern has varied between authorities. But on the whole the figures indicate that Scottish local authorities have used the introduction of the community charge as an excuse for a substantial real rise in spending; to increase the degree of overspending; and to build up reserves. Perhaps you can confirm that this is your understanding too.

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This is very disappointing and a most unfortunate signal in advance of the introduction of the community charge in England and Wales. We must not condone the actions of those authorities who have increased their spending in the belief that they can lay the blame on the Government's community charge policy.

The fundamental aim of our policy is to improve accountability and so rein back the growth in local authority spending. If the local electorate is unhappy, then I would expect it to take action through the ballot box. In time, I am sure this will happen. But it is important to appreciate that accountability is bound to take time: some local authorities are inevitably going to seek to embarrass us by setting high community charges in the first year; the initial shift from the old domestic rating system rather blurs the accountability message (as of course does the limited safety net in Scotland); and there are no local elections in Scottish districts until 1992.

In the meantime I believe that it is important that central government should protect community charge payers and, at the same time, exert downward pressure on local authority current spending. We have both recognised, in our discussions on the harmonisation of business rates between Scotland and England, that there is both the scope and need for considerable reductions in the existing level of Scottish local authority spending. We need to be consistent in the signals that we give. At least in the short term, therefore, I see a case for the use of community charge capping against excessive spending.

Failure to act in Scotland this year runs the risk of signalling to Scottish local authorities that the Government will turn a blind eye to profligacy in later years. Indeed if we implicitly accept that half a dozen councils can spend over 25 per cent above needs now, the Scottish courts may well rule out capping for more modest spending in later years. Even if they do not, it might be politically difficult for us to pursue such options even though they were justified. I fear too that if we neglect to act in Scotland now, that will be taken as an indication that the same leniency will apply in England and Wales next year. I assume that Nick Ridley will have views on this point also.

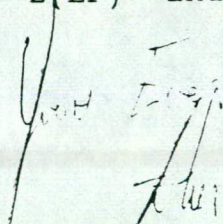
Given the large number of councils in Scotland which have budgeted to spend at much increased levels this year it will be difficult to devise selection criteria to catch the right authorities. Clearly the selection criteria are crucial. It will be important to select on a rational and defensible basis that leads to action against those councils which we believe have acted most irresponsibly in 1989-90. Based on such figures as we have seen this would suggest capturing up to six of the worst offenders. But you are much better placed to advise on the right selection and I would welcome proposals on what you would consider the best option to be. Given the time constraints on capping, we will of course need to move quickly.

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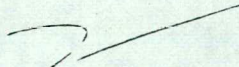
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I recognise, of course, that community charge capping will be controversial. But we must demonstrate that excessive local authority spending, and burdens on local taxpayers, are no more acceptable under the new regime than they were under the old. I would welcome your views on how you think we should proceed.

I am copying this letter to members of E(LF) and to Sir Robin Butler.



JOHN MAJOR



CONFIDENTIAL



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Security~~ Security

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

CH/EXCHEQUER	
REC.	16 MAY 1989
ACTION	CST
COPIES TO	

1615
15 May 1989

pp

COMMUNITY CHARGE CAPPING IN SCOTLAND

Thank you for copying to me your letter to Malcolm Rifkind of 3 May.

Any reduction in the community charge levels set by Scottish local authorities following the introduction of capping would, of course, lead to consequential reductions in Community Charge Rebate entitlement of everyone who had claimed from those authorities, and this in turn would reduce this Department's expenditure on Community Charge Rebate Subsidy to a level closer to our forecast. The Community Charge Rebate Regulations already provide for the recalculation of rebate entitlement in such circumstances, but the recalculation would increase both the workload and the administrative expenditure of Scottish authorities at a time when they are already hard pressed. I do not anticipate any difficulty in resisting the pressure we could expect for increased administrative subsidy, but it would undoubtedly add to the controversy you envisage.

Any measure that would help to contain Community Charge levels in England and Wales is to be welcomed, both because it would contain expenditure on rebates, and also because it would reduce the instances where the 20% minimum Community Charge payment was in excess of the help we have provided in Income Support.

I am copying this letter to Malcolm Rifkind, to other members of E(LF), and to Sir Robin Butler.

JOHN MOORE



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

CH/EXCHEQUER	
REC.	17 MAY 1989
ACTION	CST
COPIES TO	

My ref:
Your ref:

panp

16 May 1989

Dear Chief Secretary

COMMUNITY CHARGE CAPPING IN SCOTLAND

I have seen your letter of 3 May to Malcolm Rifkind about community charge capping in Scotland.

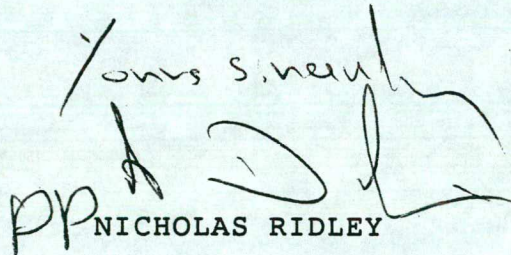
You mention possible implications for us in England next year of decisions taken now about charge capping in Scotland. As you know, we have always said that we hope we never need to use our capping powers, but equally we have made clear that if it proves necessary we shall not shrink from capping those authorities which, for whatever reason, decide to budget excessively. English authorities have in the past taken the threat of capping seriously, and I believe this will continue to be a significant restraining influence on authorities as they budget for 1990/91. This influence will be particularly important in the first year of the new system when authorities may be tempted to spend up, taking advantage of the blurring of accountability by the transitional safety net arrangements. I would therefore be concerned about any decisions which might lead authorities to doubt our resolve to cap excessive spenders.

Having said this, I believe there is only limited read across between what happens in Scotland this year and the English situation. The circumstances of Scottish authorities are very different, and hence I see no great risk that decisions taken now for Scottish authorities about selection criteria, or about the size of caps, will set precedents from which politically we would find it difficult to depart when next year we come to consider capping in England. Furthermore, in Scotland there is different legislation with materially different capping powers (Malcolm's powers enable him to cap authorities whose spending is excessive and unreasonable, whilst I will be empowered to cap those whose spending is simply excessive); there is no question of Scottish colleagues' decisions forming legal precedents for us in England. A decision against

capping any Scottish authorities this year might be taken as a signal of our intentions for England, but would not, I believe, undermine our position to any great extent. Clearly, a decision to cap in Scotland could be used by us to underline our resolve to use capping if necessary next year here.

Accordingly, the principal factor in any decision to cap this year must be the Scottish situation. The picture which emerges from your letter is one where authorities there generally have budgeted a disappointing high levels, with a few authorities budgeting at levels which can only be regarded as profligate. In such circumstances I believe the case for capping is strong, although I agree that Malcolm is much better placed to advise on the details of selection criteria. And as you say, if we are to cap authorities successfully this year, we need now to move very quickly.

I am copying this letter to members of E(LF) and to Sir Robin Butler.

Yours sincerely

PP
NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)