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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
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3d May 1989

Dear Malcolm,

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.

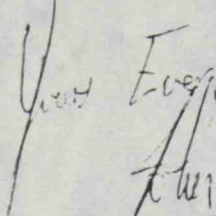
Given the large number of councils in Scotland which have budgeted to spend at much increased levels this year it will be difficult to devise selection criteria to catch the right authorities. Clearly the selection criteria are crucial. It will be important to select on a rational and defensible basis 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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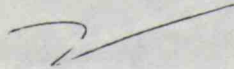
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I recognise, of course, that community charge capping will be controversial. But we must demonstrate that excessive local authority spending, and burdens on local taxpayers, are no more acceptable under the new regime than they were under the old. 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



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