

IMPLEMENTING THE UNTHINKABLE THE FIRST COMMUNITY CHARGES

Michael Enston

“During the last election we made it plain, in the clearest print possible that we did not propose to abolish the rating system.....extremely strong objections were raised to all the alternatives to rating. It would be rather foolish to embark on a system that would be highly unpopular”.⁽¹⁾

Introduction

The Government's proposals for reform of local government finance, published in the Green Paper *Paying for Local Government*⁽²⁾ in January 1986, were received initially by local government finance specialists and the opposition political parties with an element of disbelief. To an extent this view was based on the fact that a poll tax had been specifically rejected by the Government not three years earlier on the basis that it would be hard to enforce, would require a complicated and expensive register and, in the absence of a rebate scheme, would bear harshly on people with low incomes.⁽³⁾ It was also founded on a view that such a system could not be effectively administered and would imply politically unacceptable tax levels.

But the poll tax as a ‘final solution’ to what was defined as a fundamental problem with the character of local spending (the absence of perceptibility for the voting citizen and the non-voting vulnerability of the commercial ratepayer) found much to commend it. Scotland's role in the proceedings was to force a policy decision following protests over rate increases which followed, but were not entirely the result of, revaluation in 1985. Taking the decision to implement the Community Charge in Scotland one year ahead of England and Wales served also to allay Conservative fears over its unpredictable impact, postponing full Cabinet debate on the wisdom of the reform until the time came to draft the English and Welsh legislation; by which time legislation for one part of the country was already in place.⁽⁴⁾ In terms both of its content and timing the reform represented a political solution whose implementation would take place without the benefit of consent or of any experience or prior research.

The remainder of this article sets out to assess the introduction of the Community Charge in Scotland. The focus is on two aspects of its

implementation. The practical issues of implementing a poll tax claimed by many to be inherently unworkable and the implications of the level of charge set by authorities.

Implementing the Unworkable?

The decision to proceed so swiftly with implementation in Scotland meant that little time was available for detailed consideration and elaboration of the mechanics of establishing the necessary administrative framework through which to levy a per capita tax. The *Abolition of Domestic Rates, Etc (Scotland) Act 1987*⁽⁵⁾ is not a detailed piece of legislation; a great deal had to be left to be worked out in regulations covering elements as basic as the definition of key terms used in the legislation, procedures governing registration, collection, exemptions and students, application of the Standard and Collective Community Charges and the rebate system in its entirety. Authorities were thus faced with having to fulfil an already daunting organisational task in a largely uncharted legal environment. To compound their difficulties, the regulations themselves failed to meet the necessary timescales and were often the subject of revision. Additionally, implementation of this unproven and intrinsically inefficient tax system would proceed in the face of widespread public antipathy and political opposition aimed at directly undermining its introduction.

The process of regulations began with a commencement order made in August 1987 which gave effect to the various parts of the Act. With the exception of regulations concerning rebates, the Scottish Office had originally intended to have all of the regulations prepared for consultation before the end of 1987. This timetable was not kept, with the majority of regulations being made through 1988. Some, including regulations on categories of exemptions and procedures governing the treatment of students were not made until January 1989, close to the date by which bills would be issued. Regulations covering a subject as fundamental as rebates came into force as late as November 1988. A number of sets of regulations had subsequently to be revoked and changes made to the primary legislation. The *Local Government Finance Act 1988*⁽⁶⁾ which introduced the Community Charge system in England and Wales, carried almost one hundred amendments to the Scottish legislation necessitating a further twenty-one sets of regulations/directions, certain of which were finalised as late as March 1989. The 1989 *Local Government and Housing Bill* had also to be used to tidy up earlier drafting errors and add new amendments such as the conversion of Women's refuges from collective community charge liability back to rating and the inclusion in categories of exemption of young adults under the age of 20 who remain at school or in full time non-advanced courses.⁽⁷⁾ Some changes arose from poor drafting in a situation of uncertainty or the identification of new problems; others, such as the position of women's refuges, were the result of political pressure which

itself engendered uncertainty even where the original rules were ultimately left unaltered.

One important drafting error concerned the regulations covering people living in premises subject to business rates but which are partly residential such as some public houses, guest houses, and hotels. An amendment in the 1988 Act omitted to specify that people who were 'solely or mainly resident in part residential subjects' would still be liable for Community Charge. COSLA estimated that this would have unintentionally exempted some 50,000 adults with a resultant revenue loss of £15 million. Regulations were swiftly drafted to deal with the unintended loophole although further primary legislation was required in the *1989 Local Government and Housing Bill*.

The 1989 Bill was in fact used quite extensively to add changes to the system. Some changes were fairly dramatic, such as the inclusion of enabling powers to set up a scheme of transitional relief for certain categories of community charge payer including some former ratepayers and their partners, pensioners and the disabled. Additionally the 1989 Bill carried amendments to the rules governing the application of the Standard Community Charge and extension to the definition for exemption purposes of 'severely mentally handicapped' to include those suffering from degenerative brain disorders. Regulations governing the treatment of second homes (the Standard Community Charge) and the treatment of the severely mentally handicapped had been the subject of persistent criticism and pressure for change. Rules governing the treatment of empty farm cottages were amended, as late as February 1989, with more fundamental changes eventually announced in July 1989 with application from 1990/91. The extension to the definition of 'severely mentally handicapped' was announced as late as October 1989 at the same time as the Government announced changes to safety net arrangements for councils and the introduction of transitional relief. Each reform had been previously rejected by the Scottish Office but were now to be incorporated following pressure on the Department of the Environment.

In such a climate it was therefore unsurprising that most local authorities were not fully prepared. Bills in many instances had to be sent out gross of rebate entitlement, payment books were often delayed, reminders for those in default on instalments were delayed in some cases, while elaborate computer programmes developed for the new system performed less than adequately for some authorities. Community Charges Registration Officers (CCROs) had difficulty in offering clear advice as regulations changed or in taking a consistent approach to the definition of exemption. Further, the sheer volume of enquiries from a largely confused public placed additional stress on authorities particularly in rebate sections while employee costs increased beyond estimates as authorities faced large overtime bills, or in some cases the need to recruit and train yet more staff.

Dealing with an ever present backlog of rebate applications was an enduring problem for authorities through the first half of 1989, forcing many to delay by some months follow-up procedures for those in default on payment. The failure to deal promptly with rebate applications provoked confusion and often individual distress. Citizens Advice Scotland reported having to deal with 16,000 enquiries in the first three months of Community Charge representing 14% of total workload. The entire process carried an air of experimentation as amendments were tabled, regulations revoked and new provisions introduced. Confusion and at times chaos may have reigned throughout the initial process but at no stage did it seem likely that a basic system would not be set in place, despite public opposition and political campaigns against registration and collection.

The political campaigns initially promised much but subsequently failed to be a potent force against implementation. Public hostility towards the new system was widespread. In one poll by MORI, commissioned by the *Scotsman* and published in September 1988, 70% expressed disapproval of the new tax. While only 37% supported a campaign of non-payment against it a sizeable 24% did indicate that they were fairly or very likely or certain to refuse to pay.⁽⁸⁾ As a campaign tactic non-payment was however to split the forces of opposition and nowhere was this more true than within the Labour Party in Scotland. Labour's initial response was to establish the 'Stop It' campaign which encouraged people to frustrate the registration process without incurring personal penalties for non-registration. They claimed it had been a success but it did not in fact prove to be much more than an annoying irritant to Registration Officers. The encouragement it gave for people to return uncompleted forms with standard questions invited CCRO's to prepare and send standard replies which could be dispatched easily. Indeed there may be some truth in the claim made by some Registration Officers that the campaign against registration perversely assisted the process of registration according it a high profile and drawing attention to the punitive fines resulting from a failure to cooperate.⁽⁹⁾ Nonetheless, Tayside's Registration Officer said that some 10% to 15% of the forms issued had been returned with questions designed to disrupt the registration process which had resulted in a great deal of additional pressure and frustration on staff as well as a 'significant increase in costs'.⁽¹⁰⁾

The local 'Stop It' groups also found themselves divided over the issue of non-payment as activists sought to place the question at the top of the Labour Party in Scotland's agenda. In March 1988 the Party's Scottish Conference failed to resolve the tactical issue and deferred a final decision to a recall conference in September. That conference finally decided by a majority of two to one against leading a campaign of civil disobedience. The Scottish and national leadership had never supported the idea claiming that such a tactic would be irresponsible for a party serious about gaining electoral power. The leadership also felt a concern that a non-payment

campaign might discredit the party if it could subsequently offer little to those facing summary action for default when it came to the crunch. The vote did not stop a number of Labour MPs launching a 'Committee of one hundred leading Scots' who would refuse to pay. On the same week as Labour rejected a campaign of civil disobedience the Scottish National Party conference gave near unanimous support to its policy of leading a mass campaign of non-payment with the initial aim of signing up 100,000 non-payers. By the time the first payments fell due that target had not been met, although the SNP policy did allow the Party to claim the mantle of being the only political force which could stop the poll tax.

Figures issued by Regional Councils for the first register suggested a percentage registration rate in the high nineties. However, such figures had to be treated cautiously since no authority could firmly establish the exact number of tax subjects residing in an area. Council estimates were often based on the electoral roll, perhaps supplemented by other existing sources of data. But Glasgow University's Applied Population Research Unit found that between October 1987 and October 1988 the total voting public in Scotland's four cities had fallen by 26,054 (2.1%). Taking demographic factors such as falling birth rate and migration into account, the Unit estimated that two thirds of the fall was due to the young, in particular, deliberately omitting to place their names on the roll. In the most deprived areas such as the Craigmillar estate in Edinburgh the fall was as high as 15%.⁽¹¹⁾ Research commissioned by COSLA and the Scottish Consumer Council and published in February 1987 demonstrated the potential difficulties with registration, since a main effect of the Community Charge is to bring young people into the tax base. Amongst a representative sample of 18-24 year olds, there was found to be a high degree of mobility - 34% had three or more addresses since the age of 18 - and a reluctance to register to vote - 32% said they were not registered.⁽¹²⁾ The Government nonetheless took that precaution in England and Wales of issuing authorities with a circular which pointed out that they stood to lose Revenue Support Grant if their registration lists were lower than figures suggested by the Office of Population and Census Surveys.

Maintaining the register presented authorities with further problems. In just 12 months since the first register was established an estimated one million changes had to be incorporated, far exceeding original estimates. In Strathclyde over 700,000 changes had been made to a register totalling 1.8 million people. Only 30% of the entries were expected to change each year; in the first year in Strathclyde the actual figure was 40%. In Tayside 6,000 were reported to be required each week representing a 100% change in 12 months, partly accounted for by a shifting student population. Even in Dumfries and Galloway a figure as high as 35% was reported, much greater than expected for a sparsely populated area. Such high figures might have been a product of weaknesses with the source data for draft registers but they do illustrate the size of the task facing Registration Officers in

maintaining the basis of the entire system.

It is as difficult to draw firm conclusions from collection levels. By early summer 1989 most authorities were reporting satisfaction with payment levels in the order of 70-80% of expected income. Computer problems, the backlog in rebate applications and industrial action over the annual pay increase by the National and Local Government Officers Association (NALGO) forced authorities in many cases to delay reminder notices and recovery procedures until September. By that time an estimated one in six of the population had not paid anything toward their bill. The actual non-payment figures ranged from 5% in Borders Region through 13%-17% in Dumfries and Galloway, Fife, Grampian, Tayside, Highland and Lothian Regions to 20% in Strathclyde and Central Regions. In Glasgow the figure was as high as 32%. These figures would fall in response to reminder notices and as outstanding rebate claims became settled. They could not be said to represent non-payment on a large and organised scale and certainly no authority reported facing cash-flow problems. However, by late October an estimated 500,000 people were over 2 months in arrears, a more alarming statistic for collection authorities than those covering non-payment.

Regional authorities had no clear estimate of the likely ultimate level of collection but tended to assume figures of between 4% and 8% in setting budgets. The problematic issue for authorities is the amount of resources that would have to be committed to recovery procedures to achieve collection levels in line with budgeted estimates and the previous yield from domestic rating.

Costs in general were greatly in excess of the administrative cost associated with domestic rating. There is no surprise in this - the issue is whether the increase should be greater pro-rata than the increase in tax subjects. COSLA estimated that capital costs, arising chiefly from the need for additional accommodation and computer equipment, were in the order of £30 million and revenue costs over £45 million to cover approximately 2,000 extra staff plus day-to-day running charges - £25 million in excess of the annual cost of administering the former system. A more instructive measure of tax efficiency is the proportion of income which requires to be devoted to administration. Although that figure cannot be accurately estimated at this stage, Dumfries and Galloway Regional Council estimated that their collection expenses would rise from 1.5% of rate income to between 4% and 5% of community charge.

There is a difficulty in making sense of the implementation process at such an early stage. It is true that many problems were a product of the timescale for implementation in Scotland and the lack of experience in dealing with a per capita tax. In many ways however the real test of the administrative machine has only just begun. Establishing a register of those

liable on the basis of a draft drawn from existing records and supplemented by a snap shot canvass is one thing; maintaining records of the movements of the 3.9 million adult population and ensuring that billing is changed and debts followed up is quite another. Moreover it is already clear from the available figures that registration in particular will come under increasing stress. There is little within the system to inspire confidence that high registration levels can be maintained, particularly amongst the young and transient groups. Scottish experience here must question the ability to compile and maintain accurate registers in large English cities. Registering individuals and households who move from one area to another will also prove testing particularly as most people show little sign of demonstrating an awareness of their responsibilities under the new system. Dealing with arrears as opposed to deliberate non-payment will also prove more problematic as time goes on, particularly with low income groups, adding pressure on budgets in future years. Administrative costs will be likely to rise as a proportion of income thereby demonstrating a strong inverse relationship between effectiveness and economy of collection. In time this will place pressure upon charge levels and lead to added public resentment if willing payers perceive that their bills are in part a product of a failure to achieve maximum registration and collection levels. Similarly, the extent of exemptions now created and the hastily devised and limited scheme for transitional relief will create unfairness and anomalies which will do little to counter such resentment; and that is an ominous beginning for any new tax system.

The First Charges

The attempt to establish the legal and administrative framework for an untested tax system under such a short timescale was a political risk. Had the timescale proved impossible or problems with the nature of the tax insurmountable, the entire reform process would have been seriously undermined and the credibility of the reform's proponents, including the Prime Minister, significantly damaged. But a far greater political and electoral risk existed over the question of the likely tax levels that would be required, the more so because little prior research had been undertaken into the impact of a poll tax upon individuals. It is at this level that Scottish experience would prove most valuable.

The unpredictable level of Community Charge that would be required to replace domestic rate bills at first caused the Cabinet some indecision over abolishing domestic rating, and hesitation about giving any detail of the work of the internal inquiry which had been set up to examine rating reform after criticism at the 1984 Conservative party conference. The 1986 Green Paper, like its 1981 predecessor, failed to produce estimates of likely poll tax levels alleging only that, in Scotland, with a full Community Charge and safety netting 48% of households would gain and 52% lose. Though the Green paper did not provide the estimated charge levels upon which such

illustrations were based, the press briefing material which accompanied its publication on 28 January 1986 gave an average for Scotland of £207. Estimated levels were also published for each area with Glasgow the highest at £245. The full list is reproduced in Table 1.

In any event the logic of the new system suggested that authorities would not be disposed to levy punitive charge levels. Supposedly, with every adult now receiving their own flat rate bill and with the full cost of expenditure above inflation falling solely on the domestic sector local decision makers become more sensitive to spending decisions. Accordingly the system of government spending penalties is no longer required and less emphasis is placed on selective action ('ratetapping') as a deterrent.

Moreover, the grant system does not now reflect differences in the resources of local authorities, giving instead a standard grant distributed on the basis of population levels and a needs grant based partly upon a client group measurement of an authority's spending need. Resource equity between authorities is further assisted by the pooling of non-domestic rate income and its redistribution back to authorities on a per capita basis, through the deduction of needs grant from authorities with above average non-domestic rate income. Hence, a basis is also created for inter authority comparisons of tax levels and spending policies. The assumption is that with such a system in place the Government need not become as closely involved in local authority spending decisions thereby diminishing central-local conflict.

By the time the first charges had been set it became clear that theory had not been turned into practice. Not only were charges well in excess of Scottish Office estimates – they were also associated with real expenditure growth. Table 1 compares actual Community Charges in each area with the estimates produced by the Scottish Office. These show an average increase above estimates of 16.1% (excluding Island authorities) with actual levels in 27 areas over 20% higher than estimated. In only seven areas were the charges at or below Scottish Office estimates. At individual authority level the differences were often more striking. Fourteen District Councils had figures over 30% in excess of estimates with East Kilbride District 90.4% above and Aberdeen and Motherwell 70% and 65.4% respectively. Spending had also grown in real terms, being 6.5% above planned expenditure compared with 3.8% for the previous year – an increase on actual budgets for 1988/89, according to the Scottish Office, of £465 million or 12%.

Several factors are relevant in explaining why the new financial accountability did not emerge and why the actual figures were often well in excess of estimates published less than three months prior to the declaration of actual charges. Firstly, in the absence of a base year there was little comparability by which to measure charge levels. Despite various

TABLE 1: Community Charge Levels (£)

Area	A	B	C	D	Safety Net Effect	
	Estimate 1985/86	Target 1989/90	Actual 1989/90	% Diff. C-D	District	Region
Borders region						
1 Berwickshire	156	177	236	33.3%	-11	-35
2 Ettrick & Lauderdale	157	180	247	37.2%	-10	-35
3 Roxburgh	161	190	247	30.0%	0	-35
4 Tweeddale	153	174	248	42.5%	-15	-35
Central region						
5 Clackmannan	174	225	300	33.3%	-2	-32
6 Falkirk	182	211	259	22.7%	-6	-32
7 Stirling	204	249	310	24.5%	-3	-32
Dumfries & Galloway region						
8 Annandale and Eskdale	155	197	253.5	28.7%	2	-26
9 Nithsdale	157	192	245.5	27.9%	-5	-26
10 Stewartry	156	196	243.5	24.2%	1	-26
11 Wigtown	149	178	246.5	38.5%	-15	-26
Fife region						
12 Dunfermline	203	249	293	17.7%	1	-1
13 Kirkcaldy	216	256	298	16.4%	-4	-1
14 North-East Fife	211	251	320	27.5%	-16	-1
Grampian region						
15 Aberdeen	174	201	304	51.2%	2	-35
16 Banff and Buchan	144	185	275.5	48.9%	-4	-35
17 Gordon	144	183	263	43.7%	-4	-35
18 Kincardine and Deeside	142	168	251	49.4%	-21	-35
19 Moray	141	176	261	48.3%	-8	-35
Highland region						
20 Badenoch and Strathspey	162	186	235	26.3%	-13	-12
21 Caithness	145	196	225	14.8%	1	-12
22 Inverness	157	189	226	19.6%	-13	-12
23 Lochaber	161	202	237	17.3%	-9	-12
24 Nairn	167	181	228	26.0%	-20	-12
25 Ross and Cromarty	146	190	239	25.8%	-20	-12
26 Skye and Lochalsh	150	187	225	20.3%	-9	-12
27 Sutherland	148	168	206	22.6%	-33	-12
Lothian region						
28 East Lothian	223	307	374	21.8%	-12	-2
29 Edinburgh	229	313	392	25.2%	-6	-2
30 Midlothian	228	306	364	19.0%	5	-2
31 West Lothian	213	296	359	21.3%	-4	-2

TABLE 1: Community Charge Levels (cont'd)

Area	A	B	C	D	Safety Net Effect	
	Estimate 1985/86	Target 1989/90	Actual 1989/90	% Diff. C-D	District	Region
Strathclyde region						
32 Argyll and Bute	208	293	277	-5.5%	6	18
33 Bearsden and Milngavie	223	280	298	6.4%	-25	18
34 Clydebank	226	293	297	1.4%	0	18
35 Clydesdale	198	293	301	2.7%	-9	18
36 Cumbernauld and Kilsyth	204	293	275	-6.1%	-1	18
37 Cumnock & Doon Valley	204	293	276	-5.8%	1	18
38 Cunninghame	221	293	278	-5.1%	12	18
39 Dumbarton	235	293	298	1.7%	5	18
40 East Kilbride	201	293	318	8.5%	-12	18
41 Eastwood	221	264	282	6.8%	-20	18
42 Glasgow	245	293	306	4.4%	36	18
43 Hamilton	234	293	291	-0.7%	-14	18
44 Inverclyde	218	283	291	2.8%	-18	18
45 Kilmarnock & Loudoun	221	293	269	-8.2%	2	18
46 Kyle & Carrick	223	290	308	6.2%	-18	18
47 Monklands	215	293	293	0.0%	-12	18
48 Motherwell	217	288	305	5.9%	-18	18
49 Renfrew	237	293	295	0.7%	-6	18
50 Strathkelvin	219	293	299	2.0%	-16	18
Tayside region						
51 Angus	175	238	293	23.1%	-1	-12
52 Dundee	212	274	324	18.2%	9	-12
53 Perth and Kinross	182	237	299	26.2%	-10	-12
Islands						
Orkney	93	84	148	76.2%	-39	
Shetland	97	202	114.16	-43.5%	0	
Western Isles	103	126	171	35.7%	0	

1. Figures include water charges.
2. Safety net figures have been rounded.

attempts by the Scottish Office to introduce surrogate measures authorities took the view that in the first year the public would tend to associate high tax levels with the system itself as opposed to local spending policies. Secondly, the removal of grant penalties for spending above guideline was important in a year in which authorities received a more generous than usual grant settlement. Finally, general uncertainty made authorities wish to place their budgets on a firm footing and a relatively high base so as not to be forced into high increases the following year.

Absence of Comparability

In its first year of implementation the Community Charge was unlikely to be able to fully deliver the kind of gains claimed for it in terms of expenditure restraint and increased electoral realism in local spending policies. The public after all, in the absence of a yardstick by which to judge how far their bill related to spending policies, would likely, given the reform's unpopularity, accord any blame for high bills on the system itself and its creators. The only measure would be by comparison with charges in other areas or with Scottish Office estimates but these are far less powerful comparators than year on year increases. The Government's dilemma was over how to encourage low charges in this first year without the previously available weapon of grant penalties or indeed of selective action, which they had made clear would only be used in very exceptional circumstances, if at all.

The Government attempted to resolve this dilemma by introducing measures aimed at encouraging comparability where none existed. The chief measure was the publication and promotion of target community charge figures. These were published for each area in November 1988 and are shown in Table 1. The Scottish Secretary was to tell the House of Commons that the estimated charges, which resulted in a Scottish average of £267 were based on the estimated level of local authority spending, taking into account the level of inflation and a Revenue Support Grant increase of almost double the rate of inflation. The Government hoped that authorities would, in drawing up budgets, aim their spending plans around a target community charge level. This clearly did not happen – for local authorities there were many more factors to consider and most rejected the assumptions underlying the estimated figures as well as the Government's right to publish them.

The Scottish Office had in fact been publishing annual estimates of charges since the Green Paper was introduced. These showed the Scottish average rising from £207 in 1985/86 to £221 the following year, £253 in 1987/88 and £267 in 1988/89. Those figures came to be challenged by authorities whose own estimates were invariably higher. When in 1987/88 Edinburgh District Council and Lothian Regional Council published, quite independently of each other, estimates of £420 and £402 respectively,

compared to a Scottish Office figure of £255 the riposte from the then Minister for Local Government, Michael Ancram, was that under the new Community Charge regime no Council would dare propose to raise local taxation by the amount suggested. In the event the actual figure for Edinburgh was £392. Although the Scottish Office failed to respond to numerous calls from local authority leaders to reveal the basis upon which the annual estimates were based, the methodology became clear. This was to divide domestic rate income (the produce of domestic rateable value and rate poundage) by the respective adult population. This methodology was seen as critically flawed in that it took no account of exemptions to the Community Charge, or the fact that students would pay only 20%, and assumed that collection levels and reliefs would be the same as for domestic rating. The assumptions used also ignored the effect of grant penalties and the limitation to increases in the non domestic rate. The target figures published for 1989/90 were based on the figures used for 1988/89. Scottish Office officials suggested that given the above inflation increase in Revenue Support Grant, additional expenditure to take account of inflation should not lead to charges higher than those suggested for 1988/89. Where the grant increase was higher than the regional average increase of 9.6% (in each case except Strathclyde) a compensatory downward adjustment was made.⁽¹³⁾

In a further attempt to influence local authority budgetary decisions a consultation paper on a Code of Practice for the publication of information accompanying demand notices was published. It proposed that in future each community charge payer should receive a sheet giving the Government's assessment of a Council's spending needs, the Council's proposed level of expenditure and the difference between the two expressed in community charge terms. Also proposed was the inclusion of statistics giving the Scottish Office estimates of the average Community Charge and Water Charge. With the absence of a base year for electors to compare increases, the paper proposed that in year one the information sheet include Scottish Office illustrative figures for 1988/89.⁽¹⁴⁾ The consultation paper received an angry response from local authority leaders. COSLA described the proposals as "yet another example of central control being imposed unnecessarily and with a bias against local government".⁽¹⁵⁾ In the event the most contentious elements in the paper were dropped and agreement reached on the form that information should take without the need for the Secretary of State to impose it.

The announcement in January 1989 that the Scottish Office intended to publish a 'league table' of spending increases by Councils can also be viewed as an attempt to condition local budget decisions through the publication of comparative information. In making this announcement so close to the date by which charges would be announced, the Scottish Office could not have expected to influence significantly local authority budgets, as most of the key expenditure decision had already been taken. It was

hoped however that it might have a salutary effect on the latter stages of the process leading authorities to seek lower charges, perhaps by employing balances, or reducing contingency provision. Significantly, the announcement was made on the same day as authorities were issued with a circular reminding them of the reserve power under the 1987 Act to take selective action to force an authority to reduce its charge. It rather ominously pointed out that,

“The Secretary of State has already made it clear to local authorities that under the new community charge regime he is less likely to exercise the selective action powers available to him, since the new system will put its own pressure on authorities to exercise restraint in their spending policies and plan their budgets prudently. Authorities should be aware however that the Secretary of State is empowered.....to reduce the personal community charge determined by a local authority if he is satisfied that their total estimated expenses for any year are excessive and unreasonable. Careful consideration will therefore continue to be given to authorities budget proposals”.⁽¹⁶⁾

Selective action was not in fact taken against any authority during 1989/90. To have done so would have discredited the new system and made a mockery of the new accountability. Nonetheless the circular does indicate that the Government may in future be willing to resort to intervention if authorities do not behave in accordance with the tenets of the reform.

If the Government's intention throughout was to provide surrogate measures of comparability to encourage low charges it largely failed. However, the Government by its own actions discouraged that which it was seeking to achieve because inter authority comparisons were clouded by the decision to introduce a partial safety net. This was employed in the grant distribution formula to limit grant gains in some authorities whilst lessening the loss in others.

The scheme, which was originally to remain in grant distribution for three to five years, was used to protect the share of grant going to those authorities where the combined regional and district charges would otherwise be over £275. Any reduction in grant share would be limited so that it did not take the combined charge, excluding water, above £275. The safety net was to be funded by restricting gains in grant share by other authorities to 38% of what they would have been with no safety net.

As Table 1 shows, this allowed Strathclyde Region to retain over £31 million (equivalent to £18 per Community Charge payer) which it would otherwise have lost. At district level £23.3 million is withheld in grant from most districts primarily to protect Glasgow which retained an amount equivalent to £36 per charge payer. Safety netting proved to be controversial since it seemed to be aimed solely at engineering artificially

low charges in areas within Scotland's most populous region. Although other authorities were technically not losing grant – since the overall effect is to distribute money away from Strathclyde – they were quick to argue just that.

It proved difficult to avoid the view that safety netting was employed by the Government to depress charge levels in Scotland's most populous region. In addition the Government might have hoped that Strathclyde charges would set the trend elsewhere with low charges in these key areas acting as a brake on expenditure elsewhere. Safety netting also had another use for the Scottish Office. In its absence many authorities would have faced sizeable grant increases. Limiting their potential gains under the new arrangements can be viewed as a safeguard against those authorities transferring all new found gain into spending increase. The effect, nonetheless, was to cloud the issue of inter authority comparisons which Ministers hoped the Community Charge would engender. The result made authorities less concerned than they might otherwise have been with Community Charge levels being discussed elsewhere. Following the change announced for England and Wales, the self-financing safety net will be abolished from 1991/92, with losers then protected for 3 years through additional specific grant.

Removal of Grant Penalty

Deciding upon the level of aggregate Revenue Support Grant itself posed a further dilemma for the Government. Encouraging low charges might require a policy of increased grants yet this also ran the risk that, in the absence of grant penalties, authorities might simply transfer any grant gain into spending increases as opposed to lower charges. Conversely, a low increase in grant might place pressure on charges and allow authorities to blame a parsimonious grant settlement for resultant high charges.

On 27 July 1988 the Secretary of State for Scotland announced that provision for local authority current expenditure would be £3,930 million – 4.6% above authorities' adjusted budgets for 1988/89 and including £25 million provision for the costs of administering the Community Charge, in line with the figure sought by COSLA. Aggregate exchequer grant was set at £2,500 million – a 5.5% increase on the 1988/89 settlement. After deduction of specific grants, £2,243.8 million was left for Revenue Support Grant – a 9.8% increase over 1988/89 Rate Support Grant. The actual increase available to authorities was slightly less than 9.8% if one takes into account the cost of implementing the Community Charge and the establishment of school boards. In addition, the Revenue Support Grant calculation included elements previously paid separately or treated differently such as subsidy for housing improvement grant. Nonetheless, compared with previous years the grant settlement was considered generous.

Authorities did not however respond in the manner hoped for. Penalties on Government Grant for local authority expenditure above guideline had played an important role in the policy of restraining local authority spending. Since it had become an important factor in drawing up budgets, its abolition allowed authorities to budget over assessed expenditure levels without fear of financial penalty. Local authorities would now face only the electoral consequences, or the possibility of selective action, for 'overspending'. Following years of grant cuts authorities chose not to use grant increases to depress Community Charges.

Budget Uncertainty

There were a number of elements of uncertainty leading authorities either to retain large balances or build into their budgets elements for contingency. Inflation (particularly wage inflation) and interest rates were on an upward trend. Authorities understandably did not wish to leave themselves vulnerable to higher than predicted wage settlements or further unanticipated increases in capital charges. The fact that under the new system, the budgetary decision making process had to be undertaken six weeks earlier (to accommodate payment in twelve as opposed to ten instalments) also left authorities with less information than might have previously been available. The unpredictable collection rate added to pressure to maintain balances and contingency sums. Authorities had no wish to see sudden increases in year two as a result of any of these factors at a time when the public would have a basis of comparison and in the run up to the 1990 Regional Elections. With gearing increased under the new system (the process whereby above inflationary costs must be met solely by charge payers instead of both domestic and non domestic payers) concern on this point was acute since any higher than anticipated cost increases in year one would have a ratchet effect on budgets in year two.

The chief political calculation made by authorities related to the perception that the public would associate charge levels with the new system itself. With Scottish Office estimates generally considered discredited, authorities tended not to be overly concerned with their tax levels in comparison. Nor did the likely levels being reported in other areas have a great effect, partly because of safety netting, but also because authorities recognised that their counterparts often started under more or less favourable budgetary circumstances. Full information about other councils was in any event limited making comparisons difficult. Levels elsewhere probably did have some effect leading some authorities to take a more or less positive view of Community Charge rates at the margin. Authorities were not oblivious to levels elsewhere or to Scottish Office estimates. They would not wish to place themselves in a position where they were greatly out of line. The circular to authorities in January reminding them of the reserve powers of selective action may have also introduced an element of caution. Having a charge which compared favourably with

elsewhere probably did have some effect leading some authorities to take a more or less positive view of Community Charge rates at the margin. Authorities were not oblivious to levels elsewhere or to Scottish Office estimates. They would not wish to place themselves in a position where they were greatly out of line. The circular to authorities in January reminding them of the reserve powers of selective action may have also introduced an element of caution. Having a charge which compared favourably with elsewhere, either in absolute terms or in terms of excess over estimates, may have been important when it came to defining budgets publicly.

Some authorities were able to lower charges at the last moment in response to changes in the way pension fund surpluses were dealt with. As surpluses on superannuation funds had reached a level which made them possibly liable to income tax, the Scottish Secretary announced that increases in pension fund costs should be charged to the superannuation fund rather than to community charge payers. For some the announcement came too late. Others managed to lower community charges (eg. in Highland by £5, and in Borders by £6).

As 1989 progressed central-local relations did improve with the perception that local government was approaching the end of what had been a long and often frantic legislative period. Presenting the Government's legislative response to the Widdicombe Committee of Enquiry⁽¹⁷⁾, the Secretary of State for the Environment on 2 February 1989 heralded the *Local Government and Housing Bill* as the last piece in the local government reform jigsaw. Similarly the Conservative party manifesto for the English county council elections declared that the ten year campaign to transform local government was virtually complete.⁽¹⁸⁾ The Secretary of State for Scotland went further in declaring, at the annual conference of the Convention of Scottish Local Authorities in March, that while the last decade had been a difficult one for central local relations, "There is good reason to believe that the next ten, while not free of friction, will see a more practical relationship, a mutual respect and a proper recognition of the respective roles of each".⁽¹⁹⁾ The ending of grant penalties was cited as one reason why a 'more co-operative relationship' should emerge. It was also suggested by some that Ministers had taken the conscious decision that the success of new initiatives would rest on the co-operation of local councils as well as in some cases their active partnership. At the end of a period of contentious legislative enactments such statements carried a ring of self-interested magnanimity. On Community Charge and local spending levels any such improvement to central-local relations will ultimately depend upon the extent to which authorities behave in the manner suggested by the reforms. Here, the evidence is that, as with rate levels, annual arguments over central government support and 'blame' for charge levels will continue and probably intensify.

Conclusion

It would be premature to speculate on the future of the Community Charge on the basis of first year evidence. A number of special factors tend to cloud the picture. It is difficult to separate intrinsic problems with administering a poll tax from those resulting from implementation problems in Scotland caused by lack of experience and technical expertise. Similarly, that the new financial accountability did not emerge may have much to do with absence of a base year to compare the charge levels with. Moreover, the shape of the new financial regime is not entirely clear. Amendments continue to be made, and the impact of the move toward a national uniform business rate is unclear as is the continuing effect of safety netting arrangements.

The criticisms made of the 1987 Act have certainly not been refuted by experience to date; the practical problems of administering a per head tax have not been overcome and in some areas may yet prove insuperable, while the "gearing" mechanism will begin to affect council finances in a serious way. Immediate reductions in service and employment levels seem unlikely if authorities continue to judge that blame for charge levels will fall upon the system and its proponents. Moreover many have accumulated balances available for use. The most immediate test of whether the experiment can pay off comes in the 1990 Regional Elections. The Conservative campaign began last summer and has to date concentrated solely on promising substantially lower bills if Conservative candidates are returned. The succession of criticisms made by the new Party Chairman, Michael Forsyth MP, on so called 'junketting' and 'overspending' by Labour central authorities together with the establishment within the Party of a 'monitoring unit' to expose 'overspending' seems to have set the campaign tone. The simplistic theme with its customarily limited view of local democracy and the local elector is in keeping with the tenets of the reform but seems unlikely to generate the desired result in the short term. Should authorities fail to reduce expenditure, selective action cannot be ruled out. The Government has already demonstrated a willingness to undermine its faith in the new system where its electoral viability is perceived to be threatened. Since that threat is in a purely English context it is on the basis of experience there that has come the impetus for recent changes such as transitional relief, additional exemptions and reforms of the safety net provisions. Scotland may have proved a useful test-bed for an unpredictable reform and assisted in ensuring that reform happened at all, but it will be on the basis of experience elsewhere that will prove to have a more enduring effect on its future local government finance system.

Michael Enston is Head of the Councillors' Research Unit with Edinburgh District Council.

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