

# **COSLA SUBMISSION TO THE COMMISSION ON LOCAL TAX REFORM**



June 2015

## TABLE OF CONTENTS

## PAGE

Chapter 1	Executive Summary	1
Chapter 2	Taxation and Local Fiscal Empowerment	4
Chapter 3	A Principled approach to reforming local taxation	7
Chapter 4	Council Tax now and future reform	10
Chapter 5	Revaluation	19
Chapter 6	Banding	23
Chapter 7	Reductions to personal liability to pay local tax	28
Chapter 8	Interdependencies and transitional considerations	33
Chapter 9	Discretionary Local Taxes	35
Chapter 10	Scotland's wider system of Local Government Finance	38

**Other reports which the Commission may find useful can be found via the following links;**

- COSLA's Local Government Funding Review  
<http://www.cosla.gov.uk/sites/default/files/private/localgovernmentfundingreview-finalreport.pdf>
- Commission on Strengthening Local Democracy  
<http://www.localdemocracy.info/2014/08/14/time-to-rebuild-scottish-democracy-what-the-referendum-decides/>

## CHAPTER 1: EXECUTIVE SUMMARY AND RECOMMENDATIONS

- 1.1 **COSLA is delighted to respond to the Commission on Local Tax Reform’s call for written evidence. Our response is part of our overall commitment to fundamentally transform Scottish local democracy and put local communities in charge of their priorities, their choices, and their spending. Not only that, but it is Local Government that is responsible for administering any local tax, and has unparalleled experience and expertise in this regard.**

### Executive Summary

- 1.2 Our aspirations are part of a growing debate across Scotland and the whole of the UK, and we very much welcome the opportunity that the Commission provides for real progress to be achieved. The ability to set and collect local taxation is a key component of an effective local democracy, and is central to the accountability relationship between councils and the communities that they serve. This relationship has been slowly eroded over the decades, and whilst new local approaches are beginning to emerge, not least of all through the successes of the Our Islands Our Future campaign, Cities Deals, and the Community Empowerment (Scotland) Bill, more needs to be done. Our overall objective is to strengthen at a greater pace this new local approach to improving outcomes right across the country, and with it, rebuild trust and participation in democracy much more widely.
- 1.3 It is for these reasons that our aspirations for local tax reform are firmly rooted in our wider fiscal empowerment objectives for local government in Scotland. These objectives are focused on progressing the conclusions of our Local Government Funding Review and the Commission on Strengthening Local Democracy, and centre on three interdependent areas; addressing the balance of funding for local government, the power to introduce discretionary local taxation schemes; and modernising the current Council Tax system to improve its overall fairness and ease of understanding.
- 1.4 In line with our fiscal empowerment agenda, the basis of our submission is framed around the establishment of a set of principles to be used as a baseline against which any funding framework can be tested. Our submission is built firmly around these principles which were developed by COSLA’s Funding Review and endorsed by COSLA Convention. We believe that these principles also provide the Commission on Local Tax Reform with a coherent basis for ordering and assessing the wide ranging evidence that it will receive during its work, and we recommend the Commission to adopt our framework for this purpose. COSLA’s principles of local taxation are set out below:

- **Principle 1:** Local taxation should be fair and easy to understand.
- **Principle 2:** Local taxation should be administratively efficient and difficult to avoid.
- **Principle 3:** Local taxation should have regard to the stability and buoyancy of the underlying tax base.
- **Principle 4:** Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates (levels).
- **Principle 5:** Local government should have the discretion to determine whether rates and reliefs are set nationally or locally.
- **Principle 6:** Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.

- 1.5 We have used these principles to set out the case for an effective, sustainable and locally democratic reform of the current system of local taxation. We are clear that real changes are needed, and our submission is designed to set out the key parameters of the approach that should be taken forward. Our proposals are built around a series of recommendations which are summarised below.
- 1.6 Crucially, we recognise that the Commission has been formed to explore models of local taxation in Scotland, and that its deliberations will provide a key milestone for the future. We believe that any reform of local taxation must be taken forward in close dialogue with communities across Scotland, and the concluding component of our submission therefore sets out key practical considerations around which further debate and analysis will be required. As a key stakeholder in that process, we look forward to discussing these opportunities with the Commission.

### Summary of recommendations

<p><b>Chapter 3</b></p>	<p>Effective local tax reform is key to addressing Scotland’s local fiscal deficit, and to empowering communities to improve outcomes locally.</p> <p>Any reform of Scotland’s system of local taxation must enable communities and their representatives to decide on levels of local taxation in relation to the services they want; it is completely inconsistent with a strong local democracy for this to be determined or enforced nationally.</p> <p>Developing a coherent and effective approach to local reform requires a principled approach, based on COSLA’s six principles of local taxation.</p> <p>The Commission on Local Tax Reform should adopt a similar approach to its own deliberations, and COSLA offers its principles to the Commission for this purpose.</p>
<p><b>Chapter 4</b></p>	<p>COSLA supports the development of a modernised Council Tax as the basis for local tax reform in Scotland.</p> <p>In principled terms, a reformed system of Council Tax has the potential to perform strongly against the principles that we have adopted. The system is relatively easy to understand, buoyant, administratively efficient and difficult to avoid, and councils have a strong track record for collection.</p> <p>However, the current Council Tax of 2015 requires to be reformed in a number of key areas. In particular:</p> <ul style="list-style-type: none"> <li>• The overall fairness and ease of understanding of the Council Tax requires to be improved by undertaking a wholesale revaluation, regular revaluation cycles thereafter, and by addressing the number and widths of the Council Tax bands.</li> <li>• Operated effectively, the Council Tax is designed to be determined locally and has a potentially strong link with democratic accountability. However, this link has been significantly eroded by the council tax freeze and must be reinstated as a matter of urgency. In particular, we are clear that local people should decide on levels of local taxation in relation to the services they want and that it is completely inconsistent with a strong local democracy for this to be determined or enforced nationally.</li> <li>• We would therefore ask the Commission to call for an immediate end to the Council Tax freeze and not to wait for an alternative local taxation system to</li> </ul>

	<p>be developed and implemented.</p> <ul style="list-style-type: none"> <li>• Fundamental to the fairness of the reform of the Council Tax system is the development of a Council Tax Reduction and Discount Scheme that meets the needs of householders across Scotland.</li> <li>• This modernised approach to Council Tax should be complemented by the ability of individual local authorities to introduce local taxes, with the assent of their local communities.</li> <li>• COSLA is also calling for a more transparent approach to the billing and collection arrangements for water charges and specifically for a move to a 'line by line' basis.</li> </ul>
<b>Chapter 5</b>	<p>A wholesale revaluation, followed by frequent revaluations (approximately every 5 years), is a key component of COSLA's case for a modern and fair system of local taxation.</p> <p>It is important that a modernised Council Tax system has a fit for purpose appeals process in place.</p>
<b>Chapter 6</b>	<p>A fair system of banding is a pivotal component of COSLA's case for a modern and progressive system of local taxation.</p> <p>Re-banding and revaluation are interdependent and any changes to bandings and band widths must be sensitive to, and build around, revised property values. The ability for bandings to be reviewed at each valuation cycle should also be built into appropriate legislation.</p> <p>While any decisions about the number of bands and their widths will ultimately require political judgement and decision making, reform should include:</p> <ul style="list-style-type: none"> <li>• Extending the current Council Tax bands at both the top and bottom ends</li> <li>• Reviewing the ratios between bands</li> <li>• Developing a nationally effective approach to equalisation to reflect any impact of re-banding locally.</li> </ul>
<b>Chapter 7</b>	<p>A review of all the Council Tax reductions and discounts should be undertaken which looks at these in the round, against our local taxation principles, and seeks to mitigate the wider financial risks and challenges to a modernised local taxation system.</p>
<b>Chapter 8</b>	<p>A process of transitional relief may be needed to facilitate the move to the new arrangements. Resourcing of this transitional relief would need to be considered to ensure the stability of funding for local government.</p>
<b>Chapter 9</b>	<p>Individual local authorities should have the discretion to raise additional income by levying a tax, in addition to Council Tax and Non-Domestic Rates, on either residents, occupants, property owners or visitors in the local authority or within a discrete area of the local authority.</p>
<b>Chapter 10</b>	<p>Local tax reform is vital, but must not be seen in isolation of the need for reform across the system of local government finance.</p> <p>Devolution of fiscal powers to Scotland must flow through to local communities.</p>

In the first instance, the localisation of Non Domestic Rates, and local control of the Scottish Land and Buildings Transaction Tax provide strong opportunities to begin this change.
--

## CHAPTER 2: TAXATION AND LOCAL FISCAL EMPOWERMENT

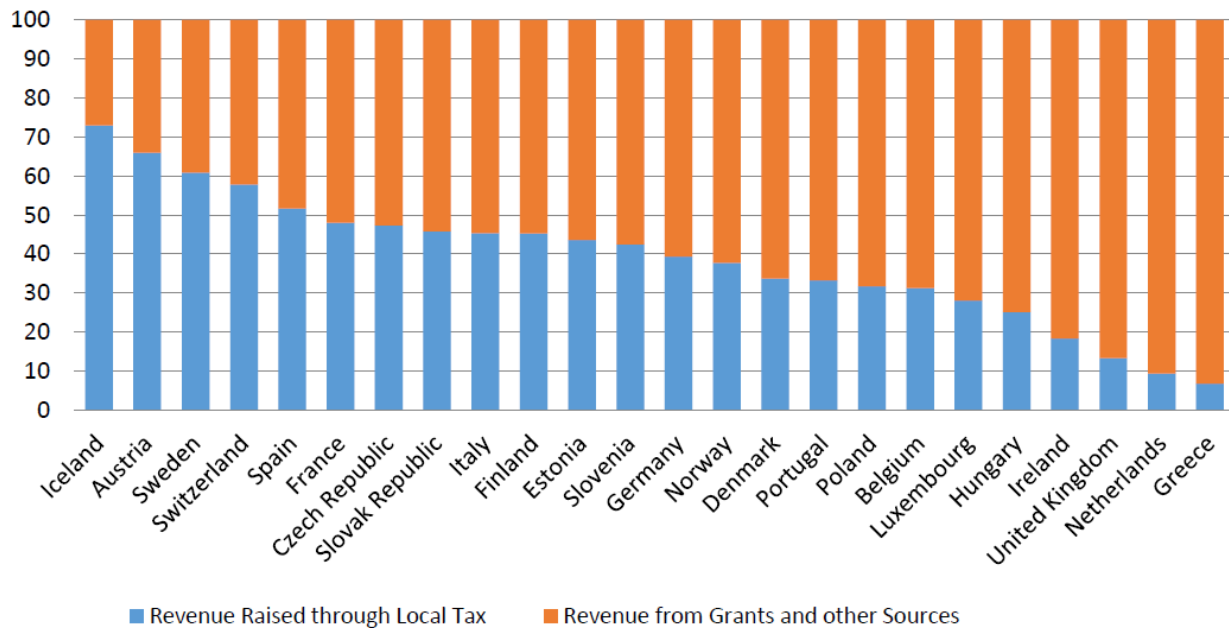
- 2.1. **COSLA believes that effective local taxation is a fundamental component of a strong local democracy, and one of the keys to unlocking better outcomes in communities across the country.**

### Scotland's Local Fiscal Deficit

- 2.2. Although our submission focuses on the Commission's remit to look at the system of local taxation in Scotland rather than a wider review of local government finance, we believe that the starting point for effective reform is to understand the context in which Scotland's current system of local taxation operates.
- 2.3. We begin this chapter with an overview of these factors and their impact. We then turn to the key principles around which we are clear that local taxation must be built in the next chapter. These principles drive every aspect of our submission, and we believe they are critical to delivering a coherent, sustainable, and effective solution of reform. For those reasons, we also call on the Commission itself to adopt our principles as the basis for its own work.
- 2.4. Over the last two years we have worked hard to explore the views of people and organisations across Scotland and Europe, and to start a new debate about empowering local communities. It is for those reasons that this submission builds heavily on the work of the Commission on Strengthening Local Democracy, which was adopted by COSLA Convention in August 2014, and on the Local Government Funding Review, adopted in January 2013.
- 2.5. From that work, we know that on many measures, Scotland has been on a journey over the last 50 years in which it has become one of the most centralised countries in Europe. While there are a number of dimensions to that trend, perhaps the most singular limitation on local democratic choice at the moment is the lack of fiscal powers at local level.
- 2.6. In international terms, Scottish local government is at the lowest end of the spectrum of fiscal empowerment. The Council Tax has been frozen for eight years, and there has not have been a wholesale revaluation of properties or any revision of tax bands for over 20 years. Non-Domestic Rates form a core element of the funding for local government, but despite developments through the Business Rates Incentivisation Scheme and Business Improvement Districts, since 1990 they have been centrally controlled and local government's powers have been limited to collection and administration. These are highly unusual constraints given that a major element of an effective local democracy is the ability of local representatives to engage with their communities, identify challenges and issues, and agree with their community the level of resource raising necessary to solve these.
- 2.7. COSLA believes that effective local taxation is therefore a fundamental component of democratic renewal that councils across Scotland are committed to. In the international context, we know that accountability tends to be strongest, and reflect local preferences most clearly, when local decisions are funded locally. In the Scottish context, this link appears to be less strong. As Illustration 2.1 below sets out, across Europe the most empowered local governments can raise more than 50% of their own income, and in many systems local government raises 40% - 50% of total public

income. Whilst the data in this table shows figures at a UK level the picture is not any different for Scotland. In Scotland 50 years ago the figure was over 50%, but has now fallen to notionally 18%, and local government instead has a high dependency on grants from national government. Indeed, with the current Council Tax freeze, it can be argued that 100% of resource is controlled centrally and that, other than through fees and charges, local government has no income raising levers at its discretion. From a citizen's perspective, we believe that this makes democracy a complex and opaque business which sits awkwardly with the burgeoning community empowerment agenda in Scotland.

**Illustration 2.1: Local Tax Revenue as % of Total Revenue for Local Governments<sup>1</sup>**



- 2.8. Nowhere in the world does local government raise all of the money it spends, and this would not be desirable in any case. We understand that national arrangements are required to compensate for different local levels of tax capacity, and variable costs in different parts of the country. Our submission therefore builds on the long established principle of equalisation in Scotland, which is also enshrined in Article 9.5 of the European Charter of Local Self-Government<sup>2</sup>.
- 2.9. However, we believe that the size of the ‘fiscal gap’ is unacceptably large and our approach to fiscal empowerment is therefore set within an aspiration that 50% of local expenditure should be raised through local taxation. As one route towards that objective, COSLA has endorsed the Commission on Strengthening Local Democracy’s view that local government should control the whole suite of property taxes including Council Tax, Non Domestic Rates and Land and Property Transaction Tax.
- 2.10. We also know that over the same period, these ways of working have not reduced the huge financial and social costs of inequality. Despite overall improvements, Scotland is not closing the gap between the best off and the worst off, whether in relation to health, education and jobs, or life expectancy. The international evidence highlights that a much more decentralised system is achievable, and we believe that it is no coincidence

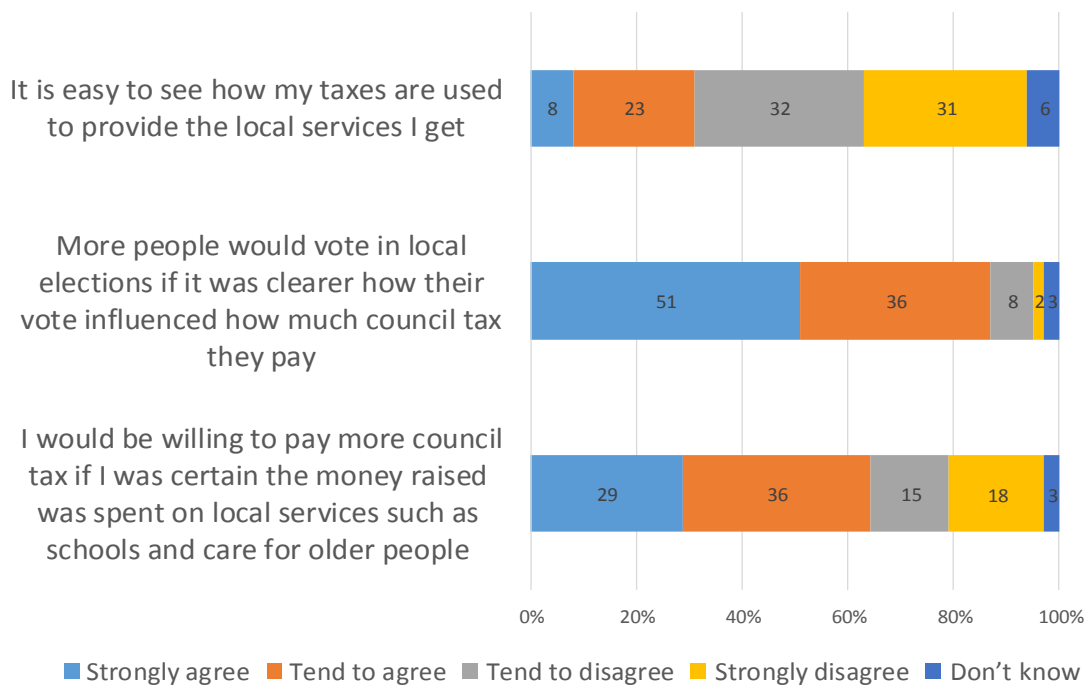
<sup>1</sup> Source: OECD Fiscal Decentralisation Database <http://www.oecd.org/ctp/federalism/oecd/fiscaldecentralisationdatabase.htm>

<sup>2</sup> <http://conventions.coe.int/Treaty/EN/Treaties/Html/122.htm>

that the outcomes being experienced by local communities in those countries are often more positive.

2.11. We are ambitious for what can be achieved in Scotland. It is well understood that resources are diminishing while demand for public services is rising fast, and that increasingly difficult choices are required about what to do more of, less of, or differently – and about the resources to pay for these choices. To be effective, communities must be able to participate effectively in those choices, and how they are paid for. Yet democratic participation in Scotland’s current system of local taxation is not easy; illustration 2.2 draws on independent research by IPSOS Mori undertaken by the Commission on Strengthening Local Democracy in December 2013 which found that less than 1 in 3 people feel that it was easy to see how their taxes are used to provide the local services they get at the moment. Almost 90% agreed that more people would vote in local elections if it was clearer how their vote influenced how much Council Tax they pay. Almost 90% agreed that more people would vote in local elections if it was clearer how their vote influenced how much Council Tax they pay.

**Illustration 2.2: Ipsos MORI Public Opinion Survey for Commission on Strengthening Local Democracy<sup>3</sup>**



<sup>3</sup> IPSOS Mori Public Opinion Survey, December 2013 <http://www.localdemocracy.info/start-the-debate/scottish-public-opinion-survey/>



## CHAPTER 3: A PRINCIPLED APPROACH TO REFORMING LOCAL TAXATION

- 3.1. **Our interest in local tax reform is not an end in itself. If we want democracy to be enhanced and inequalities to be addressed, it is essential for the system of local taxation to work effectively. Put another way, the challenges and opportunities communities in Scotland face *need* local solutions, and it is therefore time to consider an approach to local taxation that can empower local communities to make choices about the public services they want and how these will be funded.**

### COSLA Principles of local taxation

- 3.2. Around the world, that concept is already well established at United Nations, Commonwealth and European levels. The European Charter of Local Self Government<sup>4</sup>, for example, guarantees:

*“the existence of local authorities endowed with democratically constituted decision-making bodies and possessing a wide degree of autonomy with regard to their responsibilities, the ways and means by which those responsibilities are exercised and the resources required for their fulfilment”.*

- 3.3. Article 9 of the Charter also states that local authorities are

*“entitled to adequate financial resources of their own, of which they may dispose freely”* and to resources of a *“sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of carrying out their tasks”.*

- 3.4. Yet, in Scotland and the UK the European Charter is yet to be delivered; ratified in 1998 it has never been enacted in domestic law.
- 3.5. Our starting point is therefore simple. Strengthening local democracy means having the same freedom to reflect local choices about tax and spend in Scotland that already exist in many modern democracies. In Scotland that kind of thinking is now beginning to take hold, and effective reform of local taxation therefore presents an exciting opportunity to transform trust and participation in democracy, and improve outcomes for the whole of Scotland.
- 3.6. It is for that reason that we begin our submission by establishing a set of principles as the baseline against which any future taxation framework must be tested. Our submission is built firmly around these, which were developed by COSLA’s Funding Review, and endorsed by COSLA Convention.

---

<sup>4</sup> The European Charter of Local Self Government: <http://conventions.coe.int/Treaty/en/Treaties/Html/122.htm>

## **PRINCIPLES OF LOCAL TAXATION**

### **Principle 1: Local taxation should be fair and easy to understand.**

Scotland's local taxation system must be fair and related to a person's ability to pay. It must be impartial and meet taxpayers' expectations that the system is fair, equitable and not subject to discretion.

The system as a whole and the resulting tax bills must be easily understood by those required to pay the tax. Importantly, those paying the tax must also be able to understand the reason and need for the tax and the benefit that the tax confers. Both these aspects of understanding are critical to ensuring the credibility of the tax system.

### **Principle 2: Local taxation should be administratively efficient and difficult to avoid.**

Local taxation should be administratively efficient. The system should enable straightforward collection at a relatively low cost in order to ensure that the income generated from the tax is available to fund core services.

Local taxation systems should be developed and set up to ensure that it is difficult for tax payers to evade and avoid. Any scope to avoid and evade paying the tax can reduce the credibility and fairness of the tax system overall.

### **Principle 3: Local taxation should have regard to the stability and buoyancy of the underlying tax base.**

Any local taxation system must provide local government with a degree of certainty around current and future funding levels. The system must therefore be stable and buoyant in order to provide this certainty.

An effective balance must be delivered between central and local government funding, and local taxation, as a significant source of funding, must not expose local government to an unmanageable degree of financial risk.

### **Principle 4: Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates (levels).**

A more empowered and accountable local democracy in Scotland requires a strong link for citizens between tax, services and infrastructure, and accountability for the balance decided. A strong system of local taxation must therefore provide a clear link between local accountability and financial accountability within the funding framework for local government.

Such autonomy is greatest when there is discretion to determine the tax base and to set tax rates locally, and it is weakest when the tax base and tax rate are set or controlled by other levels of government. Fundamentally, local authorities need to be accountable for local taxes if they are to be democratically accountable to the local electorate.

### **Principle 5: Local government should have the discretion to determine whether rates and reliefs are set nationally or locally.**

To be truly local, local authorities need to have ownership of not just local taxation rates,

but any corresponding reliefs system too. The ability to choose to work locally, or collectively at national level, is key to the democratic accountability of any system, and the ability of the system to take account of differences between local authorities.

**Principle 6: Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.**

Scotland's system of local taxation needs to reflect the different priorities and circumstances that communities across Scotland encounter. Dealing effectively with these conditions requires a flexible system of local taxation which allows local authorities to raise additional funding for local projects, where they have a democratic mandate to do so.

Specifically, individual local authorities should be empowered to introduce discretionary local taxes, subject to the assent of their local population. Such taxes would be truly local and developed by individual authorities, including local discretion over the rate and discount and relief arrangements.

- 3.7. These principles, we believe, are the key to unlocking effective reform and should be at the heart of the Commission's work. Our analysis suggests that any solution that it considers can only succeed if it is able to perform effectively against each principle. Indeed, our principles come as a package; on their own no single one is enough to deliver effective change, but together they provide a powerful basis for reform. Our submission to the Commission is similarly integrated and interdependent.
- 3.8. We also know that the Commission on Local Tax Reform will receive wide ranging and potentially competing evidence. We believe that the best way to steer a path through this evidence is to test it against our principles too. We therefore offer these principles not simply as a compelling basis for the proposals that we set out in this submission, but as the best tool available to the Commission on Local Tax Reform itself to use when ordering and testing all of the evidence that it will receive.

## **RECOMMENDATIONS**

**Effective local tax reform is key to addressing Scotland's local fiscal deficit, and to empowering communities to improve outcomes locally.**

**Any reform of Scotland's system of local taxation must enable communities and their representatives to decide on levels of local taxation in relation to the services they want; it is completely inconsistent with a strong local democracy for this to be determined or enforced nationally.**

**Developing a coherent and effective approach to local reform requires a principled approach, based on COSLA's six principles of local taxation.**

**The Commission on Local Tax Reform should adopt a similar approach to its own deliberations, and COSLA offers its principles to the Commission for this purpose.**

## CHAPTER 4: COUNCIL TAX NOW AND FUTURE REFORM

- 4.1. **COSLA believes that a modernised local tax, based on the framework of Council Tax is the best option for a truly locally democratic model of local taxation.**

### Approach to Review

- 4.2. Our case for reform is forged out of long standing work COSLA has undertaken on local taxation over the years and local governments considerable experience in effectively administering Scotland's local system of taxation. It is on this basis that **we believe we have an empirical and authoritative voice on local taxation matters**. In forming our submission to the Commission on Local Tax Reform our task at every point has been to identify the system of local taxation that best delivers against COSLA's principles for a local taxation and we use the remainder of this submission of evidence to set out in detail what it would take to build a system of local taxation in Scotland around the principles that we have adopted.
- 4.3. In setting out our case for reform, we understand that there are potentially many models of local taxation. Each has its own unique characteristics, and associated opportunities and challenges. While a wide variety of permutations are available, options for reform have commonly coalesced around taxes on income such as a Local Income Tax; taxes on wealth through land and property taxes such as Domestic Rates or a Land Value Tax; flat rate taxes such as a Poll Tax; or sales taxes. Hybrid options are also possible, and indeed the Council Tax contains both property and income elements in this regard.
- 4.4. Over many years, COSLA has developed a strong knowledge of many of these possibilities, and tested their attributes against the principles that we wish to pursue. This activity has been kept under constant review, and significantly refreshed in 2001, 2006 and for the Local Government Funding Review in 2013. So too have we reflected on parallel reviews such as the work of the Local Government Finance Review Committee led by Sir Peter Burt published in 2006<sup>5</sup>, and the Lyons Inquiry into Local Government published in 2007<sup>6</sup>, both of which recommended a form of property based local taxation. **Given the significant work that has been undertaken already, our submission does not seek to revisit each alternative option in detail. In this submission COSLA is providing evidence to the Commission on our position but we understand the commission will be exploring a number of potential options. With this in mind we again ask that the Commission uses our principles to critique the various options.**
- 4.5. On this basis we are confident that a tax, based on a modernised Council Tax framework, provides the most effective, coherent and sustainable route map to reforming local taxation in Scotland. In advocating a modernised Council Tax, we are clear that we are not promoting the status quo and rather we are proposing a local taxation system that draws on the strengths and merits of a well-established framework but crucially addresses the weaknesses that have developed due to the lack of modernisation over the last 20 years.
- 4.6. Our case for change is therefore set out in two key parts:

---

<sup>5</sup> <http://www.gov.scot/Publications/2006/11/06105402/0>

<sup>6</sup> <http://www.lyonsinquiry.org.uk/>

- **Council Tax Now and Future Reform:** By applying our principles of local taxation, we set out a critique of Scotland's current Council Tax system and detail how that approach can be reformed and modernised to ensure it meets our principles of local taxation. This is set out in the remainder of this chapter.
  - **Delivering Change for Modernisation:** The following chapters then set out the practical steps required to deliver effective change, focusing on the case for a wholesale revaluation of property values and for regular revaluations, our proposals in relation to the modernisation of banding, and makes recommendations regarding the role and shape of the reduction and discount scheme that would be required to perform well against our principles.
- 4.7. All of our proposals are designed to be delivered as a package. Each element is interdependent and mutually reinforcing. At the same time, our intention is not to specify every dimension of the changes that will be required; effective change will require strong partnerships across local and national government, Scotland's political parties, and the communities that they serve in order to build on this framework, and, crucially, allow local people to participate in the decisions that are made.

### **Balance of funding**

- 4.8. Before moving onto the detail of our review, it is worth setting out the basis on which this has been undertaken. In chapter 2 we talked about our wider local fiscal empowerment agenda and put forward our arguments that there is a fundamental imbalance in central and local government funding and that we are seeking to move to a 50:50 balance of funding. The review of local taxation presents real opportunities to consider the income raising potential of any local taxation alternative. This is just as much the case for Council Tax, that in reforming the system of local taxation, this could be an opportunity to raise additional income.
- 4.9. We would ask that the Commission considers this opportunity and wider context as part of its review. However we are also aware of the specific remit of the Commission and therefore our submission focuses on reforming the system of local taxation from the premise of improving the integrity of the system itself rather than addressing our concerns over the balance of funding. On this basis our review looks at local taxation from a fiscally neutral basis (i.e. the same overall revenue is raised from the council tax). This allows us to demonstrate the advantages of opting for a reform of the current local taxation on an even basis.

### **Overview of Council Tax**

- 4.10. In critiquing the Council Tax it is helpful to summarise the basis of the tax and the context in which it was introduced. Council Tax is the local taxation system, administered by local government, and has been in existence since 1993. It raises around £1.9bn every year across Scotland and represents about 18% of councils' revenue.
- 4.11. Despite the turmoil in the preceding years, resulting from the move from Domestic Rates to the Community Charge and its subsequent abolition, and the fact that Council Tax was created in a very short space of time as a temporary replacement, it is safe to say that Council Tax has provided a stable form of local taxation for well over 20 years. It is a tax that is generally well understood by local communities and has high collection levels, with a reduction and discount system in place to assist those with low incomes, disabled people, students and other groups.

- 4.12. It is important to stress that Council Tax is a hybrid tax which takes account of both property value and personal circumstances. We believe therefore that there is an important distinction to make between solely a property-related, or income related local tax, and Council Tax. Council Tax is a tax on wealth, with property value providing as good an indicator of wealth as possible, and a tax which recognises individuals' ability to pay. Having a reduction scheme, in our view, gives fundamental fairness to Council Tax by protecting those with low incomes. Likewise for householders who live alone and consume less services they can receive the Single Person Discount which reduces the personal element of their liability by 25%.

### **Critique of Council Tax against local taxation principles**

- 4.13. As we have stated in our introductory chapter, the local taxation principles are at the core of our thinking about any system of local taxation. Through the Local Government Funding Review we undertook an extensive evaluation of Council Tax and came to the view that it does have integrity as a system of local taxation. The reasons why are set out in the critique of the current Council Tax system compared with our local taxation principles below.
- 4.14. We also should stress that, in our critique, we show how the Council Tax freeze has held us back and removed vital local discretion. We therefore need to move away from a nationally imposed freeze if we are to have a truly locally controlled tax for the future.

#### **Principle 1: Local taxation should be fair and easy to understand**

- 4.15. In our Local Government Funding Review we argued that any system of local taxation must be fair and easy to understand. In terms of fairness we took this as being primarily 'ability to pay' but, as Lyons had highlighted, we recognised that there are other dimensions to fairness which include the link between tax and property value and the perceived benefits of local services to taxpayers.
- 4.16. We understand well that there is a perception that Council Tax is regressive in nature, as indeed is any property related tax, as there is not necessarily a correlation between property value and ability to pay. Nonetheless we came to the view that, for a majority of households, property values can be deemed to be a reasonable reflection of ability to pay. For those households with the lowest incomes, who may face a higher bill as a proportion of their income, there is recognition of this in the Council Tax system.
- 4.17. Critically the Council Tax Reduction scheme, which is a core part of the personal element built into Council Tax, ensures that those with the lowest incomes and who are least able to pay the tax are offered protection. Around half a million households are recipients of Council Tax Reduction in Scotland, accounting for around 25% of all households liable for Council Tax. Three quarters of those entitled to the reduction receive 100% entitlement and therefore have no Council Tax to pay. Illustration 4.1 below shows the share of Council Tax Reduction households in each Council Tax band from the most recent statistics available from the Scottish Government.

**Illustration 4.1: Council Tax Reduction recipients by Local Authority and Council Tax band: March 2015<sup>7</sup>**

Council Tax Band	Band A	Band B	Band C	Band D	Band E and above
Number of COUNCIL TAX REDUCTION recipients	215,150	168,090	80,630	33,570	22,700
Share of COUNCIL TAX REDUCTION households in band	42.3%	29.5%	20.6%	10.4%	3.6%

- 4.18. As can be seen from the table, the majority of those entitled to Council Tax Reduction are in Band A or B properties (73% of households). This clearly demonstrates that Council Tax does recognise the need to address the regressive nature of property taxes and, moreover, that those in need of support can receive it regardless of which band they are in.
- 4.19. We also concluded that there is fairness in the fact that Council Tax liability applies to occupiers of property rather than owners, meaning that all residents contribute to the funding of local services in their area. Council Tax recognises however that there are concerns over those who are in receipt of less services and whether they should therefore be less liable for the tax. The Single Person Discount was introduced to recognise this issue, whereby single occupant households are entitled to a 25% discount. This strengthens the argument that Council Tax does take account of the personal element as well as property value.
- 4.20. We concluded that the straightforwardness of billing arrangements with one annual bill per household, giving both the banded value and any reductions applied proves that the tax stands up well to the ease of understanding principle. Council Tax has high collection rates which serves as an indicator that householders do understand what they are being required to pay.
- 4.21. The above critique on fairness and ease of understanding relates to the overarching framework of the Council Tax system. This differs to some extent from critiquing how it operates now in 2015 as we believe that the benefit at the core of Council Tax system have been eroded due to the lack of modernisation over the last 25 years. Specifically there is a degree of difficulty for tax payers to see how their Council Tax liability relates to the current value of a property. The current banding structure of 8 bands is based on the value of a property as it would have been in 1991. Assessors do not have a straight forward methodology for linking the value of a property today with its value in 1991, and valuation can be particularly complex where regeneration has taken place or where new housing estates have been developed since 1991. New types of housing also exist now which did not in 1991. Furthermore, when a property is improved (e.g. an extension is built), legislation prevents the revaluation of that property until a relevant transaction, which is essentially a sale, has taken place. Once a sale has taken place then Assessors have a statutory power to revalue the property. This means that two houses of quite different values (due to the added value from the

<sup>7</sup> Scottish Government statistical publication – Council Tax Reduction: Caseload and Expenditure, Scotland, 2014-15, 16<sup>th</sup> June 2015

extension) can be paying the same in Council Tax before any sale transaction.

- 4.22. The Council Tax regulations do not have a requirement of a regular revaluation and therefore positive action is required to introduce this, whereas Non-Domestic Rates have in place a 5 year revaluation cycle and positive action is required to prevent this.
- 4.23. Further, given that the reduction and discount scheme is a critical and integral part of the overall Council Tax system in ensuring fairness, it is essential that the scheme is fit for purpose. The welfare reform changes mean that there will inevitably be changes to how reductions and benefits work in the UK and this will have an impact on not only pass-ported information for the reduction and discounts schemes but also on individuals circumstances. There is therefore a need to undertake a review to ensure that this is the case and whilst this is a key recommendation of our proposal this is explored further and set out in more detail in chapter 5.
- 4.24. In summary, whilst we believe the overall framework on which the Council Tax is based meets the principles of fairness and ease of understanding there are significant opportunities to improve this with a modernised Council Tax.

**Principle 2: Local taxation should be administratively efficient and difficult to avoid**

- 4.25. As stated above, Council Tax has been in operation for more than 20 years. The tax is relatively straightforward to collect and this is backed up by high collection rates for the tax, with-in year collection rates running at the 95% mark (96% including collection after the year) as highlighted in Illustration 4.2 below:

**Illustration 4.2: Summary of in-year Council Tax percentage received and total Council Tax percentage received as at 31 March 2015, by year to which bill refers: Scotland<sup>8</sup>**

	Year to which bill refers										
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Percentage collected in billing year</b>	92.7	93.3	93.8	94.2	94.3	94.4	94.7	95.1	95.2	95.2	95.4
<b>Percentage received as at 31 March 2014</b>	97.1	97.0	96.9	96.9	96.7	96.7	96.8	96.7	96.5	96.2	95.4*

\* note the post year collection figure is still to be added in to 2014-15

- 4.26. It is worth noting from the table above that, as the in-year collection rate has gone up year on year, the post year collection rate has gone down, meaning that there is less still outstanding to collect. This indicates that the system has worked well and become more administratively efficient over time.

<sup>8</sup> Scottish Government statistical publication – Council Tax Collection Statistics 2014-15, 16<sup>th</sup> June 2015



- 4.27. A further point to consider in regards to administrative efficiency is that maintenance of the Council Tax valuation list (in the absence of revaluations) is also relatively inexpensive to administer.
- 4.28. Whilst no tax is free of evasion, councils have developed strong credit control measures to tackle non-payment. Councils regularly undertake anti-fraud campaigns and use data sharing effectively to identify areas of fraud. Saying that, the introduction of the UK Single Fraud Investigation Service, which has largely replaced local council run fraud teams, presents a degree of risk to councils' ability to pursue Council Tax fraud into the future. Work is ongoing with Department of Work and Pensions to resolve any unintended consequences and ensure data continues to be shared effectively.
- 4.29. It is worth stating that councils also collect water charges on behalf of Scottish Water using Council Tax systems. This generates administrative benefits to Scottish Water but it is worth noting that, whilst again demonstrating the efficiency of Council Tax systems, this is not part of Council Tax as is often publicly perceived. There may be scope to improve transparency in this area as any misperception about who is responsible for water charges can wrongly be interpreted as a criticism of Council Tax.

**Principle 3: Local taxation should have regard to the stability and buoyancy of the underlying tax base**

- 4.30. We consider that the underlying tax base is stable with the number of chargeable dwellings varying modestly year on year and therefore this principle is met by the current Council Tax system. Between 1996 and 2012 the tax base has steadily grown by 12%, from 1.79m dwellings to 2.06m dwellings.

**Principle 4: Local taxation should be determined locally in order to establish/ maintain democratic local accountability. This includes the local setting of taxes.**

- 4.31. It was always the intention that Council Tax should be set and collected locally, in order to ensure that there is a strong link with democratic accountability, and therefore this principle is met. Importantly a system of local taxation which has property related and personal elements ensures that there is investment in local communities in a way which other taxes, such as local income tax, would not achieve.
- 4.32. However, as we indicate above, what has been allowed to happen through national policy is that the Council Tax freeze, which has been in place since 2007, has removed local discretion over setting the Council Tax. Even though councils have never lost the power to vary the Council Tax, the financial penalties involved have meant that increasing Council Tax untenable. This undoubtedly has mitigated against this principle, however, importantly, this is a political decision by the Scottish Government, rather than a structural weakness of Council Tax.
- 4.33. We need to move away from the Council Tax freeze, in order to meet this principle and to return Council Tax to proper local control and discretion.

**Principle 5: Local government should have the discretion to determine whether rates and reliefs are set nationally or locally.**

- 4.34. Notwithstanding the points made about the current Council Tax freeze above, the principle of the Council Tax system is that it operates under a national framework in terms of bands etc but, crucially, local government has the power to set and collect the tax locally. This framework could be refined to allow for greater local determination in terms of varying the bands at a local level. However COSLA is of the view that the system, if allowed to operate as intended, in that local government sets the rates, then this provides local discretion and accountability whilst retaining a good basis of transparency in the system.
- 4.35. There is some minor discretion in determining local reliefs, such as the power to vary reliefs to encourage empty property owners to bring their properties back into use. Local government also has been a key player in developing and agreeing the Council Tax Reduction framework. What is key is that any changes to the system of local taxation must be fundamentally agreed by local government through COSLA.

**Principle 6: Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.**

- 4.36. Whilst Council Tax is a nationally agreed tax and does not directly link to this principle, our view is that a reformed local tax at a national level, together with local discretionary powers, gives councils a full suite of local tax powers. At present local government does not have such powers but there is nothing in the Council Tax system that would prevent the introduction of the power to introduce discretionary taxes. This indeed is explored further later on in the submission.

**Key areas of reform**

- 4.37. In our critique above we have demonstrated that local government already has a structurally sound system of local taxation system in place, based on our local taxation principles. Nonetheless as we have argued, in its current form, we know that there are opportunities for reform. We believe strongly that with these reforms we can have a truly modernised local tax which re-energises the link with local democracy and addresses the democratic deficit arising from the Council Tax freeze.
- 4.38. There are therefore three key areas of reform which we believe are needed to address both the property and personal elements of the tax. Each of these is discussed in the following chapters of our submission. The three areas of reform are:
- **Revaluation (discussed in chapter 5).**
  - **Expansion of the banding structure (discussed in chapter 6).**
  - **A review of the reduction and discounts scheme (discussed in chapter 7).**
- 4.39. Importantly it is not the case that any of these reforms can be looked at in isolation and these need to be viewed as a package of reforms which will bring about a modernised local tax that is more reflective of our principles.

## **Practical considerations**

- 4.40. Whilst we will detail the reforms we are seeking in the following chapters, it is important to make some general comment around the practical aspects of reforming a local tax. A key strength of the current system is that we already have the infrastructure in place. This is not to say that we want to keep Council Tax because it is easy but rather to point out this is a strength upon which we can build. This compares with the more than likely significant cost and upheaval of introducing other local taxation alternatives, such as local income tax and land value tax, which do not have the same infrastructure in place on which to build. Given the exceptional financial challenges facing all public services the consideration of value for money must be key.
- 4.41. One example of a recent proposal for reform on a similar scale is the completion of the Land Register in Scotland. Registration of local authority land alone is estimated to cost in excess of £150m, based on work undertaken by the Improvement Service and SOLACE. We would not envisage anything like such costs in our proposals for reform. We therefore believe it is important that the Commission does recognise the big advantages of already having a framework of local taxation in place. Building on this framework should be far preferable to abolishing it and replacing it with something else altogether. Key to this is that any change will take time to implement, including transitional arrangements, and this is even more the case for any other local taxation system. We highlight some of the costs and timescales of modernising the Council Tax in the following chapters. Equally the cost and timescales of any replacement would need to be understood.
- 4.42. We know that the Commission is working to a strict timescale and, in that regard, what we are providing in our evidence to the Commission is the work we have done so far. There are a lot of practicalities which would need to be worked through even for our proposed system, but that only becomes magnified when considering a completely alternative replacement system of local tax.
- 4.43. It is also worth considering the fact that not only do we already have the infrastructure in place, we also have highly trained experienced staff to administer the Council Tax system. Were a replacement local taxation system to be introduced the skills of these staff would likely be lost, along with the efficient systems which they administer. Local Government employs around 1,800 staff to administer the integrated Council Tax and housing benefit system. These staff also administer the collection of water charges on behalf of Scottish Water. A small number of these staff have already moved to the Department of Work and Pension's Single Fraud Investigation Service, taking expertise with them, and even such a small change has proved complex to implement.
- 4.44. An additional but important point is that if, as a result of a replacement local tax system the staff employed to administer Council Tax are no longer required, this could have an indirect, but significant, knock on effect for local economies. The economic contribution of these staff could be curtailed, especially in rural areas where alternative employment may not be readily available. This is in itself is not a reason to maintain a Council Tax system but it is an important consideration to be factored in when looking and the potential impact of changes overall.

## **Collection of water charges**

- 4.1. A final point to make in terms of the modernisation of council tax relates to the joint billing and collection arrangements for water charges. Local Government collects water charges on behalf of Scottish Water and this is done through a joint billing and collection process with council tax. This shared service arrangement is one that is

supported in principle but COSLA does have a number of concerns regarding the way in which the income collected for water charges is paid over to Scottish Water.

- 4.2. A formula is used to determine the amount of water income that is passed to Scottish Water, and this is sometimes referred to as the ABCD formula. This ABCD formula has been in place since local government reorganisation in 1996 and COSLA's view is that it disadvantages many councils. COSLA has for a number of years argued to change this ABCD formula and has sought a change to a more transparent payment arrangement where the payments made to Scottish Water are based on the actual income that is collected in respect of water. This is often referred to as a 'line by line' approach.
- 4.3. As part of the modernisation of council tax, COSLA is therefore also calling for a more transparent approach to the billing and collection arrangements for water charges and specifically for a move to a 'line by line' basis. COSLA is more than happy to supply the Commission with more information on this area.

## **RECOMMENDATIONS**

**COSLA supports the development of a modernised Council Tax as the basis for local tax reform in Scotland.**

**In principled terms, a reformed system of Council Tax has the potential to perform strongly against the principles that we have adopted. The system is relatively easy to understand, buoyant, administratively efficient and difficult to avoid, and councils have a strong track record for collection.**

**However, the current Council Tax of 2015 requires to be reformed in a number of key areas. In particular:**

- The overall fairness and ease of understanding of the Council Tax requires to be improved by undertaking a wholesale revaluation, regular revaluation cycles thereafter, and by addressing the number and widths of the Council Tax bands.**
- Operated effectively, the Council Tax is designed to be determined locally and has a potentially strong link with democratic accountability. However, this link has been significantly eroded by the council tax freeze and must be reinstated as a matter of urgency. In particular, we are clear that local people should decide on levels of local taxation in relation to the services they want and that it is completely inconsistent with a strong local democracy for this to be determined or enforced nationally.**
- We would therefore ask the Commission to call for an immediate end to the Council Tax freeze and not to wait for an alternative local taxation system to be developed and implemented.**
- Fundamental to the fairness of the reform of the Council Tax system is the development of a Council Tax Reduction and Discount Scheme that meets the needs of householders across Scotland.**

**This modernised approach to Council Tax should be complemented by the ability of individual local authorities to introduce local taxes, with the assent of their local communities.**

**As part of the modernisation of council tax, COSLA is also calling for a more transparent approach to the billing and collection arrangements for water charges and specifically for a move to a 'line by line' basis.**

## CHAPTER 5: REVALUATION

- 5.1. **A wholesale revaluation, followed by frequent revaluations (approximately every 5 years), is a key component of COSLA's case for a modern and fair system of local taxation. Whilst we believe the case for a revaluation is clear to ensure the fairness and integrity of the tax system, this section of our submission identifies the practical implications of introducing a cycle of regular revaluations.**

### Need for revaluation

- 5.2. Under the critique of Council Tax under principle 1, we highlighted the need for a wholesale revaluation of properties followed by regular revaluations thereafter. Since 1991 there has been no revaluation of properties undertaken in Scotland, therefore the tax liability is currently calculated on property values which were last assessed in 1991. We believe that this has eroded the link between liability of tax and property values to the tax payer and therefore undermined the credibility of the system. To an extent this has long been recognised in many reviews on local taxation and whilst there may be anxiety around the impact of revaluation it is an important and necessary step that should be taken to regain the integrity of the Council Tax system and its objectives. The Council Tax system was not designed to be frozen at 1991 prices and we have seen regular revaluations on the non-domestic taxation side. Unfortunately the continued lack of a revaluation means that the impact of a revaluation after approximately 25 years is perceived to have potential risks. This stems from the fact that not only have house prices varied considerably across different locations in the last 25 years this has also meant that property improvements have not been captured, leading to inequality of fairness. The remainder of this chapter therefore aims to identify and address some of the practicalities of undertaking a revaluation along with the associated real and perceived risks.

### Revaluation options

- 5.3. The 2013 Local Government Funding Review considered in detail the various options for undertaking a revaluation and these are summarised below:

#### Automated revaluation

- 5.4. Northern Ireland has implemented a computer assisted appraisal system to help implement revaluations. The tax system uses discrete property values rather than bandings and the charging mechanism is considered to create a more progressive taxation. This is broadly accepted by taxpayers who are able to understand the level of charge as it relates to the value of their property. Property values are however capped at £400k which is quite low and negates the progressive nature intended. Whilst such a system could be introduced in Scotland this could be an expensive option if significant changes to current systems were required. This would also mean a move away from a banded system, which is the basis of the Council Tax, to a discrete value system more closely aligned to a domestic tax.

#### Partial revaluation

- 5.5. A partial revaluation would require defining as it would introduce certain parameters on which the revaluation would focus. This in itself could reduce the integrity of the system. A partial revaluation could look at properties where there have been significant improvements undertaken which have increased the value. Currently, unless they have been sold, such properties remain in the band they were originally valued in which could go against the fairness principle. New properties could also be looked at

under a partial revaluation. New properties have to be referred back to 1991 valuations regardless of their current value and this affects the ease of understanding and opens up the risk of appeals, given that the Assessor has had to make a judgement on which banding the property should reside in.

- 5.6. The disadvantage of partial revaluation is that it creates a twin track system which would have the effect of generating more 'losers', as the properties affected would most likely be valued upwards. There is also the question of maintaining a revenue neutral system and how this could be made to work. Partial revaluation – difficult to define as parameters would need to be introduced that would reduce integrity of the system. This would also result in significant cost.
- 5.7. Further, partial revaluation would require virtually all of the overheads of updating survey data without achieving the same degree of benefit of a full revaluation.

### Wholesale revaluation

- 5.8. The ethos of fairness in property taxation exists by the establishment of a single point in time at which all valuations are set. Any other arrangement such as partial or automated would not achieve this. A wholesale revaluation is considered to be the best option for ensuring credibility and integrity in the system whilst improving fairness and ease of understanding.
- 5.9. In summary, COSLA is calling for a wholesale revaluation followed by frequent revaluations thereafter. A system of frequent revaluations would build on the initial investment, would encourage a better understanding of the value of a property and would lead to more stability in the longer term. In support of this we consider that approximately a 5 year revaluation cycle is the most sensible option, as to build in a revaluation any sooner could impact on the stability of the underlying tax base and any longer could risk the integrity of the system.

### **Timescales and cost of revaluation**

- 5.10. There is however the question of resources and timescale for a revaluation. Legislatively a revaluation could be undertaken through secondary legislation which would not be onerous. It is clear however that the undertaking of an initial revaluation itself would take considerable time to complete and have significant resource implications, particularly in surveying properties and reference work. It is estimated that for any revaluation, at least 2 years is needed for preparation with potentially up to 3 years to clear off appeals. Whilst this may seem like a long time, this needs to be contextualised against the time taken and the uncertainty caused by the introduction of more fundamental change.
- 5.11. In terms of resources, it is estimated that it would cost in the region of £7-10m for an initial revaluation. This includes the costs of survey work (survey analysis and valuation work), but does not include the cost of appeals which would likely cost an additional £1-2m per cycle. We recommend that a cost benefit analysis is undertaken but in relative terms the amounts seem relatively modest, split over 5 years, compared to an annual income generation of £1.9bn. If revaluations were undertaken on a regular basis then this would also reduce the resource implications of subsequent cycles. Again as highlighted in the previous chapter this cost is potentially marginal compared to the costs associated with bringing in a completely new local taxation system. We have not directly costed all options available to the Commission but we would expect that a cost benefit analysis would form part of the Commission's deliberations.

## **Appeals**

- 5.12. We recognise that, given the period of time which has elapsed since the last revaluation, there could be a high level of appeals resulting from a revaluation of properties for Council Tax purposes. Appeals are in themselves a key element of achieving fairness in the local tax system and, with regular revaluations following on, it is likely the level of appeals would then fall. Given the potential scale of appeals in the initial revaluation, the Local Government Funding Review highlighted that the mechanism for appeals may need to be looked at. Currently, consideration of appeals is undertaken through Valuation Appeal Committees whose members are lay volunteers. It was also suggested that the timing of appeals could be looked at with a view to making the time for submission of appeals tighter (currently it is 6 months and at the last revaluation all appeals had to be submitted by 30th November from a 1st April introduction).

## **Redistribution and equalisation**

- 5.13. We know that house prices have increased considerably over the last 25 years thus requiring the need for revaluation. However we also know that it is highly likely that this growth will have varied considerably across different locations in Scotland. It is therefore important to consider how this will impact on both the stability of funding for local government, as that is one of our key principles of local taxation, and communities across Scotland.
- 5.14. We have highlighted that there is scope to alter the balance of funding to local government through a modernisation of the Council Tax, but the focus of these remaining chapters is modernisation on a fiscally neutral basis (i.e. the same overall revenue is raised from the Council Tax) as we are focussing on improving the integrity of the Council Tax itself. We need to consider what this means in practice. This is considered firstly from the perspective of the local authority in terms of stability of funding. The assertion is that a revaluation can take place on a cost neutral basis at a Scotland wide level. However in practice the revenue raising powers will vary between local authorities. The funding system in place is able to compensate for that by recognising that variety across Scotland and ensuring that the total funding requirement of a local authority is met through both Council Tax and Revenue Support Grant. This is referred to as equalisation in the local government funding framework.
- 5.15. Equalisation is already a core component of the current system, this would therefore need to be fully updated and made fit for purpose in the context of any changes to the wider system. This activity will be critical to managing any differential impact on authorities' tax-raising capacity and ensuring that while revaluations may result in an asymmetric impact on local tax bases, any such changes would be effectively compensated for. For example, if the tax base for an individual local authority goes either up or down as a result of revaluation there will be a compensating adjustment to the Revenue Support Grant and therefore a revaluation in itself does not present a funding risk to local authorities at an individual level.
- 5.16. There would of course need to be a walk-through of a revaluation, on a test basis, to check that there are no unintended consequences that might arise through the complexities of the overall grant system so as to ensure equalisation. While developing such a process is not without a level of complexity, we believe that this does not override the fundamental need for reform, and is in any case likely to be much less difficult to develop than the challenges presented by the potential introduction of alternative models of local taxation.

- 5.17. The impact of a revaluation also needs to be considered from the perspective of communities across Scotland. What a revaluation could highlight is that some local authority areas are required to contribute more to the total tax take than they were before the revaluation and equally some areas less. Such a shift would be indicative of the movements in house values in these areas and it would be wrong to shy away from reflecting that in a taxation system as this would undermine the principle of equalisation and that is a fundamental corner stone of the local government funding system in place.
- 5.18. If income neutralisation at the individual local authority were to be considered, you could see individual households, rather than local authority areas, bearing the direct result of increased tax burdens that would not necessarily have a direct correlation to the growth in house price of that property. Whilst recognising the reputational risk to individual councils, it is sensible for ensuring the stability of local government funding that income neutralisation be considered at the national level.
- 5.19. Critics of the system of Council Tax and any revaluation may focus on the impact of changes to households where the property value has increase but household income has not. Council Tax, like other property based taxes, is fundamentally a tax on wealth rather than income but with the Council Tax adopting a personal element, through the reduction and discount scheme, any risk that an individual cannot afford the tax is mitigated.

## **RECOMMENDATIONS**

**A wholesale revaluation, followed by frequent revaluations (approximately every 5 years), is a key component of COSLA's case for a modern and fair system of local taxation.**

**It is important that a modernised Council Tax system has a fit for purpose appeals process in place.**



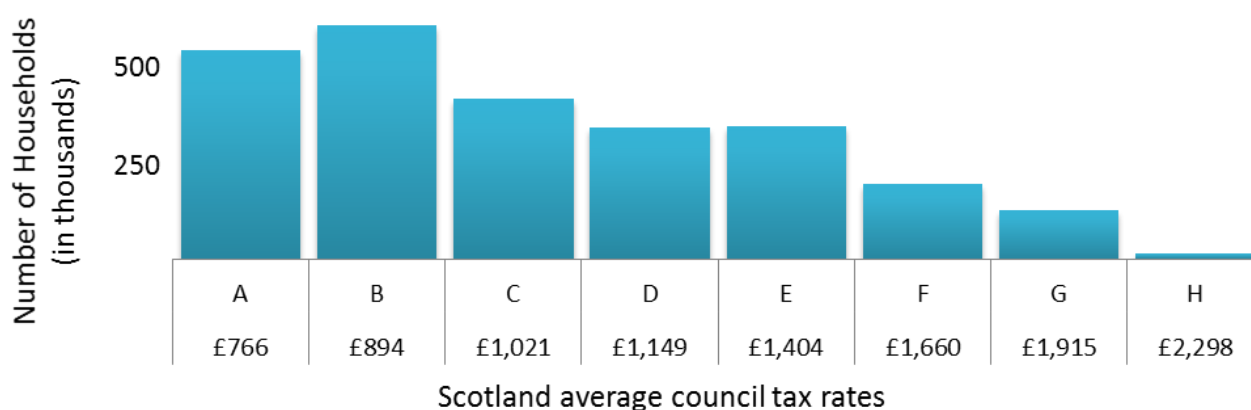
## CHAPTER 6: BANDING

- 6.1. **A fair system of banding is a pivotal component of COSLA’s case for a modernised and progressive system of local taxation. This section of our submission identifies the main components of our proposals and sets the scene for the wider discussions and modelling work that would be required to develop and implement those changes.**

### Scotland’s Current System of Banding

- 6.2. Our starting point is to understand Scotland’s current system of banding, summarised in illustration 6.1 below. Currently, the amount that households pay in Council Tax depends on their band (A to H) which is based on the value of the property in 1991, and is worked out as a proportion of the Band D rate. The band values are nationally set and three quarters of dwellings are valued at Band D or less. The distribution of the Council Tax burden amongst the eight bands is determined by a “multiplier” formula. Overall, the multiplier means that the tax payable by the highest band (H) in any local authority area is three times that for the lowest band (A).

Illustration 6.1: Proportion of dwellings by Council Tax band and average Council Tax rate<sup>9</sup>



- 6.3. In operation since 1993, COSLA believes the core principle of banding has strong merit, but requires to be modernised in line with the wider package of reforms we have set out in this submission.
- 6.4. While currently imperfect, there are a number of positive attributes to a properly designed system of banding. The concept of banding is generally well understood by Council Tax payers in Scotland. Banding is also commonly held to be straightforward and fair compared to a system based on discrete property values because it greatly restricts the potential for differential taxes to be set based on minor variances in properties. Even now banding appears to command a high level of acceptance, borne out in low level of appeals; at the inception of the banding system 5% of allocations were appealed, with just 0.015% successful, and today around 0.006% are appealed annually. We believe that dispensing with a system of banding is therefore likely to lead to considerable confusion, massively increase the likelihood of appeals, and undermine the credibility and acceptance of the tax overall. This would impede the smooth transition to much needed reform, and should be avoided.

<sup>9</sup> Source: Scottish Government Council Tax Data <http://www.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax>

- 6.5. A banding system is also cost effective and administratively efficient. We have already set out the need for a wholesale revaluation process, and for regular revaluations thereafter. Given the need for urgent reform of the current system, the speed at which such a revaluation could be undertaken would be greatly enhanced by adopting a reformed and fit for purpose system of banding. The process of regular revaluations thereafter would also be significantly more efficient. The consequent cost savings compared with developing a system based on, for example, discrete values is therefore likely to be substantial, but more importantly, a system of banding also fits well with the need for valuations to be regularly updated.
- 6.6. An effective system of banding also provides a versatile platform around which appropriate discounts and reductions can be developed, and we explore this relationship further in chapter 7 of our submission.
- 6.7. However, despite these positive attributes in principle, our analysis suggests that the current approach to banding compromises COSLA's principles of local taxation in a number of ways:
- Firstly, as illustration 6.2 shows, bands rise more slowly than property values and as a result, the tax liability of a Band A property is around 1/3 of that of a Band H property, even though it had around 1/10 of the value in 1991. We believe that the non-linear nature of the multiplier makes the current Council Tax more onerous on households with modest incomes than on higher-income households.

**Illustration 6.2: Council Tax Bands and Values<sup>10</sup>**

Band	Value (£) (as at 1991)	Rate of Band D	Percentage
A	Up to 27,000	6/9	67%
B	27,001 to 35,000	7/9	78%
C	35,001 to 45,000	8/9	89%
D	45,001 to 58,000	9/9	100%
E	58,001 to 80,000	11/9	122%
F	80,001 to 106,000	13/9	144%
G	106,001 to 212,000	15/9	167%
H	212,001 and over	18/9	200%

- Secondly, the nature of the bands means that Council Tax does not only favour the highest value properties in Scotland overall, but also higher value properties within each band. The current banding structure of 8 bands, which has been nationally set since 1993, sets a ceiling and floor to the amount of Council Tax a household will pay. For example, Band H liability is the same for a property worth many times (at 1991 values) more than the £212,000 threshold.
- Finally, the current approach to banding takes no account of housing market trends over the last twenty years. Not only are house values considerably higher than they were in 1991, the range of prices has also significantly broadened. The current system of banding is not able to take adequate consideration of the dispersal of property values, including the place of very high value properties, or of low value properties that may fall below the Band A threshold.

<sup>10</sup> COSLA Local Government Funding Review <http://www.cosla.gov.uk/sites/default/files/private/localgovernmentfundingreview-finalreport.pdf>

## **Modernising the System of Banding**

- 6.8. The combined effect of these issues is that the current banding works against the fairness and ease of understanding of the local taxation system, and requires reform in order to capture the in principle benefits of banding that we have illustrated. Indeed it is widely recognised that the current number of bands and the ratios between these are the product of choices that are now approaching 25 years old and need to be revisited.
- 6.9. Our approach in this submission is to set out the key steps required to deliver a progressive system and improve the link between properties and their tax band. We do not attempt to specify in exact terms the final model of banding that will be required, not least of all because it is impossible to do so without the process of revaluation we have called for. Moreover, any decisions about the number of bands and their widths will ultimately require political judgement and decision making.
- 6.10. COSLA's Local Government Funding Review considered these issues as part of its work. The conclusion of the critique set out in that review was that a new system of banding should be developed in order to underpin understanding and fairness of a reformed Council Tax system in Scotland. We believe that doing so effectively is likely to include the following steps:

## **Extending the current Council Tax bands at both the top and bottom ends**

- 6.11. While modelling is required, it is clear that in principled terms, the extension of the bands at both the lower and upper ends has significant potential to improve the fairness and progressivity of the Council Tax system and would be consistent with our overall aspiration to ensure that the reformed Council Tax is fair and based on ability to pay.
- 6.12. Introducing extra bands would also introduce a system of banding that is sensitive to Scotland's modern property base by focusing reform on both the upper band structure, where the link between property value and income is widely held to be strongest, and on households in the lowest bands. In principled terms doing so would therefore make the system more progressive and acknowledge the inability of the current banding structure to deal effectively with the very broad spread of properties at the top of the framework. At the lower end of the system, some 50% of properties currently lie in Bands A and B, and even within Band A property values can vary greatly, for example in relation to some other models of housing such as static caravans. Revisiting the banding structure here is an opportunity to ensure that houses with lower valuations are treated fairly too.
- 6.13. An increase in the number of bands would also have the potential to diminish the current 'cliff edges' created by the current banding system, where a small increase in the value of a property can potentially result in a substantial increase in the amount payable each year in Council Tax.

## **Reviewing the ratios between bands**

- 6.14. The development of a new system of banding also offers an important opportunity to look again at the ratios between the bands. The present Council Tax multiplier of three is very narrow given that even at 1991 values, the difference between the values of properties across the bands is significantly greater than this.
- 6.15. We therefore believe that improving the overall fairness of the system requires a review of not simply the number of bands, but also the band multipliers. The nature of any such change would require political consideration, but in principle would be a mechanism through which the tax burden could be redistributed, building on evidence

that the correlation between the property value and ability to pay tends to be strongest at the higher bands.

- 6.16. As with every element of banding, detailed design and modelling would be required, and it will be important for our package of reforms to be taken ‘in the round’. While technically feasible on its own, adjusting the multiplier between bands could widen the difference in the amount payable by adjoining bands and contribute to the “cliff-edge” effect. However, by undertaking such a process together with the careful extension of the bands outlined above then this impact could be effectively mitigated.

### **Managing the impact of re-banding effectively**

- 6.17. COSLA has long argued that local people should decide on levels of local taxation in relation to the services they want and that it is inconsistent with a strong local democracy for this to be determined or enforced nationally. However, we see no incompatibility between the ability to set tax rates locally, and the major benefits associated with authorities working together to develop a nationally effective system of banding.
- 6.18. It is for this reason that we believe that the new system of banding should be developed by local government working together to develop a national system of bands, but within a radically more local context in which councils have a clear mandate to set rates of local taxation in accordance with the wishes of their communities. This ‘intelligent aggregation’ approach to designing and setting bands sits well with our principles, and would deliver a range of benefits.
- 6.19. In particular, we consider it vital that any re-banding is undertaken ‘in the round’ in relation to the principle of the stability and buoyancy of the tax base. There is no value in proposing a new system of banding that does not meet fundamental revenue raising requirements, or in modelling in detail a system that will not be workable in practical or political terms.
- 6.20. Like revaluation it will be crucial to understand and plan for the range of different impacts across the country that any re-banding exercise could have. The impact on individual authorities will be contingent on a range of factors including the number and width of bands chosen, and on the number of properties that councils have in each of the bands. It is likely that this impact could also vary over time in line with changes to property prices between areas.
- 6.21. As highlighted under the revaluation chapter, fundamental to the success of any reform is therefore an effective approach to equalisation within the local government settlement. This position is the same for the rebanding exercise.

### **RECOMMENDATIONS**

**A fair system of banding is a pivotal component of COSLA’s case for a modern and progressive system of local taxation.**

**Re-banding and revaluation are interdependent and any changes to bandings and band widths must be sensitive to, and build around, revised property values. The ability for bandings to be reviewed at each valuation cycle should also be built into appropriate legislation.**

**While any decisions about the number of bands and their widths will ultimately require political judgement and decision making, reform should include:**

- **Extending the current Council Tax bands at both the top and bottom ends**
- **Reviewing the ratios between bands**
- **Developing a nationally effective approach to equalisation to reflect any impact of re-banding locally.**

## CHAPTER 7: REDUCTIONS TO PERSONAL LIABILITY TO PAY LOCAL TAX

- 7.1. **A review of all the reductions which looks at these in the round should be undertaken against our local taxation principles. The review should seek to mitigate the wider financial risks and challenges to a modernised local taxation system.**
- 7.2. The personal element is a key component of the Council Tax system. In this chapter we will develop our arguments that, whilst the various reductions to personal liability are integral to the local tax, there is an opportunity to look again at how these meet our principles for a modernised local taxation system. In a similar way to critiquing the local tax system as a whole in chapter 2 we undertake a critique of the system of reductions which are currently available to householders.
- 7.3. Before undertaking the critique, set out below are some of the current reductions available under the current system.

### **The current system of reductions**

- 7.4. There are a range of Council Tax reductions available to householders depending on their personal circumstances. We use the term “reductions” as short hand for the whole range of discounts, reductions, reliefs and exemptions which are available currently. Some of the key reductions are outlined below:

#### Council Tax Reduction Scheme

- 7.5. As we highlight in our critique in our future local tax reform chapter, the need for a Council Tax Reduction Scheme is paramount in meeting our principle of fairness in the Council Tax system for those householders with the lowest incomes. A national system of Council Tax Reduction, with annual expenditure of around £340m, was agreed by Scottish Government and local government and was implemented in 2013/14. The scheme replaced the UK Council Tax Benefit and is part funded by Scottish Government and local government, along with funding which came from the UK Government.
- 7.6. At the time of agreeing a scheme, both Scottish Government and local government recognised that a strong reduction scheme would aid those who are most in need. There was therefore a desire to ensure that much of the protections offered by the previous Council Tax Benefit scheme should be replicated as offering the best support possible to those in need.

#### Single Person Discount

- 7.7. Council Tax assumes that there are two adults in a household. If there is only one adult then they are entitled to a 25% reduction on their Council Tax bill, which reflects the personal element of the tax that single households consume less local services.

#### Reductions for disabilities

- 7.8. There are reductions available for people with disabilities which either mean that any adaptation is ignored for valuation purposes or where a bigger home is needed for special needs, the property is valued at a band lower than the valuation.

#### Long term empty homes

- 7.9. Empty homes are exempt from Council Tax for the first year but, if unoccupied for more than one year, the local authority can charge Council Tax of up to 100% in order to

incentivise bringing these properties back into use. Local authorities have the flexibility locally to determine the level of charge to be applied.

### Second homes

7.10. Second homes are entitled to discounts of between 10% and 50%, with each council determining its policy locally on the amount of discount to offer.

## **Critique of the current reduction system**

### **Principle 1: Local Taxation should be fair and easy to understand**

- 7.11. We highlighted above that there are a range of reductions available to householders which support the notion that Council Tax is both a property and personal tax. Critically we can say that, with these reductions in place, this does address the perceived regressive nature of a property tax and goes some way to meeting this principle.
- 7.12. There are however some important caveats to this. Firstly with, in total, 23 reduction types, some of which are national policy driven, such as empty homes, and each with their own conditionality, it would be wrong to state that we know that these fully meet the principle of fairness and ease of understanding. The complexities of having so many entitlements may indeed mitigate against this principle in that they may not, for instance, entirely focus on those households that require the most support.
- 7.13. Secondly by far the most important of the reductions is the Council Tax Reduction Scheme. As Council Tax Reduction has similar entitlements to Council Tax benefit, this ensures that individuals are no worse off than under the previous scheme. This, in itself, ensures a degree of fairness and ease of understanding for claimants, in that there is continuity of entitlement. It could equally be argued however that by matching a former UK benefit this brings forward inherent aspects of entitlement which may mitigate against fairness.
- 7.14. Of critical importance to the future of the reduction scheme is the UK Government's continuing welfare reform programme and resulting changes to the UK benefits system. There have already been substantial cuts to the UK welfare bill which included a reduction in the funding provided for Council Tax Reduction of 10%. The Government has signalled that it intends to make a further £12bn of cuts to welfare, excluding pensions. If such a scale of cuts is fully realised then it is likely that demand for Council Tax Reductions, which has so far been broadly in line with funding, will increase dramatically. This impact could be further compounded by any future downturn in the economy as a whole. This would call into question the whole sustainability of the reduction system and its ability to meet the fairness principle.
- 7.15. In terms of changes to the UK benefits system, the eventual introduction in full of the long delayed Universal Credit may call into question the fairness of the Council Tax Reduction Scheme compared with the wider benefits system. For instance Universal Credit, which seeks to streamline UK benefits and to improve the prospects for people who go into work, may offer greater financial incentives for those who find work than existing UK benefits. Key to this is the single taper under Universal Credit which seeks to ensure that individuals who find work get to keep more benefit than currently is the case. With the Council Tax Reduction Scheme reflecting the former Council Tax Benefit, this could result in less generous support being available for in work claimants than is being offered by Universal Credit.

- 7.16. Similarly we could question whether the Single Person Discount genuinely meets this principle, even if the intention of Single Person Discount is to enhance the personal element of the tax. A straightforward question to ask is why 25% and is this affordable going forward, given the financial risks outlined above? The key point being that this needs to be tested as to its relevance and financial sustainability under a modernised local taxation system.
- 7.17. Given the financial risks that are coming, the likely need for change in any case to the Council Tax Reduction scheme, and what appears to be a cluttered landscape of discounts, exemptions and reductions, we believe that there is an opportunity, as part of this review of local taxation, to look again at the reductions which a local taxation system should be providing.

**Principle 2: Local taxation should be administratively efficient and difficult to avoid**

- 7.18. As we have shown, Council Tax as a whole system is relatively administratively efficient and this includes the system of discounts and exemptions in place. However when focussing in on the reductions, as with Principle 1, there are some aspects around this principle which need to be considered.
- 7.19. Firstly, as we have outlined above, we believe there is room to question the overall efficiency of having such a wide range of reductions, meeting differing policy objectives. Whilst we can say that local authorities seek to administer the reductions as efficiently as possible through integrated systems, each of these reductions has its own conditionality criteria, data sharing and IT requirements. All of this increases the complexity of administration of the reduction system.
- 7.20. Secondly there are implications for administration of the Council Tax Reduction Scheme which will result from the full implementation of the UK Government's Universal Credit. Local authorities currently administer the Council Tax Reduction Scheme using the same systems as for administering Housing Benefit. The UK Government's intention is for all Housing Benefit claimants to migrate to Universal Credit which will not be administered by local authorities but by the DWP. This risks a loss of data sharing capability which is a key advantage of the current integrated system and risks local authorities being left with less efficient and more costly systems to administer.
- 7.21. A review of the Council Tax Reduction Scheme therefore presents an opportunity to streamline the reductions in a way which increases efficiency and, importantly, the benefits which can be provided to households in need of support. A review also allows for consideration of the financial, operational and data implications of wider changes to the UK benefits system and changes in the economy as a whole.

**Principle 3: Local taxation should have regard to the stability and buoyancy of the underlying tax base**

- 7.22. This principle relates more broadly to the overall scheme of local taxation, rather than the reduction element in isolation. However the concerns highlighted under principle 1, particularly around future financial risks, cannot be under-estimated as these could have implications for the overall stability of the local taxation system. The Council Tax Reduction Scheme in particular presents a significant degree of risk to stability of the tax, due to its demand driven nature. If demand does increase as a result of the wider



UK benefit cuts, or there is a downturn in the economy, then a more responsive reduction system may need to be developed to cope with this impact.

- 7.23. Future financial implications are therefore a key driver in reviewing the scheme of reductions, in order that the reformed system of local taxation can have stability.

**Principle 4: Local taxation should be determined locally in order to establish/ maintain democratic local accountability. This includes the local setting of taxes**

- 7.24. As explained in chapter 2, a system of local taxation which has property related and personal elements ensures that there is investment in local communities in a way which other taxes, such as local income tax, would not achieve. The scheme of reductions does ensure that those in local communities are not adversely impacted by the property element. There is therefore close connection with the communities who are liable for the tax which ensures there is democratic local accountability in the overall tax system.
- 7.25. As with the other principles, there is scope to look as part of a review of the scheme of reductions, at how, in a modernised local taxation system, the democratic deficit should best be addressed. We believe strongly that any future scheme of reductions needs to be closely aligned to this principle.

**Principle 5: Local government should have the discretion to determine whether rates and reliefs are set nationally or locally**

- 7.26. As we state in chapter 2, the Council Tax Reduction Scheme currently in place is agreed nationally, in order that households in different areas across Scotland are awarded even protection. We would propose however that, in reviewing the system of reductions, there is scope to look at the potential for greater local discretion over these.

**Principle 6: Local taxation should allow for local flexibility, empowering local authorities to raise local funding for local priorities. Specifically, individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource**

- 7.27. As we say in our critique of the current local taxation system, this principle does not apply directly to the system of local taxation and this includes the reductions built into the tax. However a point to consider is that, if councils are to have local discretionary tax powers, then there may be a need to consider what type of reliefs may need to be built in, depending on the nature of the local taxation.

**Summary**

- 7.28. We have outlined above a critique of the current system of Council Tax reductions, compared with our local taxation principles. We believe that, in undertaking this critique, there is an opportunity to consider, more fundamentally, the scheme of reductions a modernised Council Tax should offer to individuals and communities and what this support should look like in the future. As an example of this, there could be a move to more targeted support in the longer term which more closely meets our local taxation principles and more fully realises the personal element of the future tax.

## **RECOMMENDATIONS**

**We recommend that a review of all the reductions is undertaken which looks at these in the round, against our local taxation principles, and seeks to mitigate the wider financial risks and challenges to a modernised local taxation system.**

## **CHAPTER 8: INTERDEPENDENCIES AND TRANSITIONAL CONSIDERATIONS**

- 8.1. The proposals put forward for modernisation are interdependent and should not be considered in isolation of each other. Given that substantive reforms are being recommended, legislative change would be required and a process of transitional relief may be needed to facilitate the move to the modernised Council Tax.**

### **Interdependencies**

- 8.2. The recommendations put forward for modernisation are interdependent. Put simply, there are many permutations of bandings and band widths and rather than design a new set of bands in the abstract, we believe that the final system of banding must be sensitive to, and be built around, revised property values. Changes to property values and bands will also need to be reflected in the reduction and discount scheme.

### **Legislation**

- 8.3. While a revaluation could be undertaken through secondary legislation, any changes to the band widths or number of bands would require primary legislation under s74(3) of the Local Government Finance Act 1992<sup>11</sup>. Changes to the reduction and discount scheme would also require primary legislation. We believe that this legislative process would provide the opportunity to design, consult and legislate on a range of design issues and ensure that appropriate synergies are found.
- 8.4. Furthermore, given that our case for reform is predicated on building a much more progressive and fair relationship between property values and the amount that households pay, we believe that sustaining this relationship would be greatly enhanced by incorporating the ability for bandings to be reviewed at each valuation cycle into appropriate secondary legislation.

### **Communication**

- 8.5. We are also clear that effective communication and information will be critical to the process of introducing a modernised Council Tax. Ensuring that householders understand the process of revaluation and changes to banding, and their own relationship with them throughout the process will be essential to the smooth transition to a new system. The impact of such changes also needs to be addressed on an ongoing basis by a fair and fit for purpose Council Tax Reduction Scheme. Therefore, clear and accessible guidance on all elements, supported by a transparent and simplified appeals process will be vital components of a successful introduction of a modernised tax system.

### **Transitional relief**

- 8.6. Finally, it is also likely that a process of transitional relief may need to be considered in order to facilitate the move to the new arrangements. Transitional relief could be used to smooth any significant increase or reductions on the current charges levies on individuals. Consideration of the appropriate length of transition and how such transitional relief is funded would need to be considered to ensure the stability of funding for local government, would need to be fully resourced by the Scottish Government to ensure the stable funding for local government. Again this would need to be considered for any changes being introduced.

---

<sup>11</sup> <http://www.legislation.gov.uk/ukpga/1992/14/contents>

## **RECOMMENDATIONS**

**A process of transitional relief may be needed to facilitate the move to the new arrangements. Resourcing of this transitional relief would need to be considered to ensure the stability of funding for local government.**

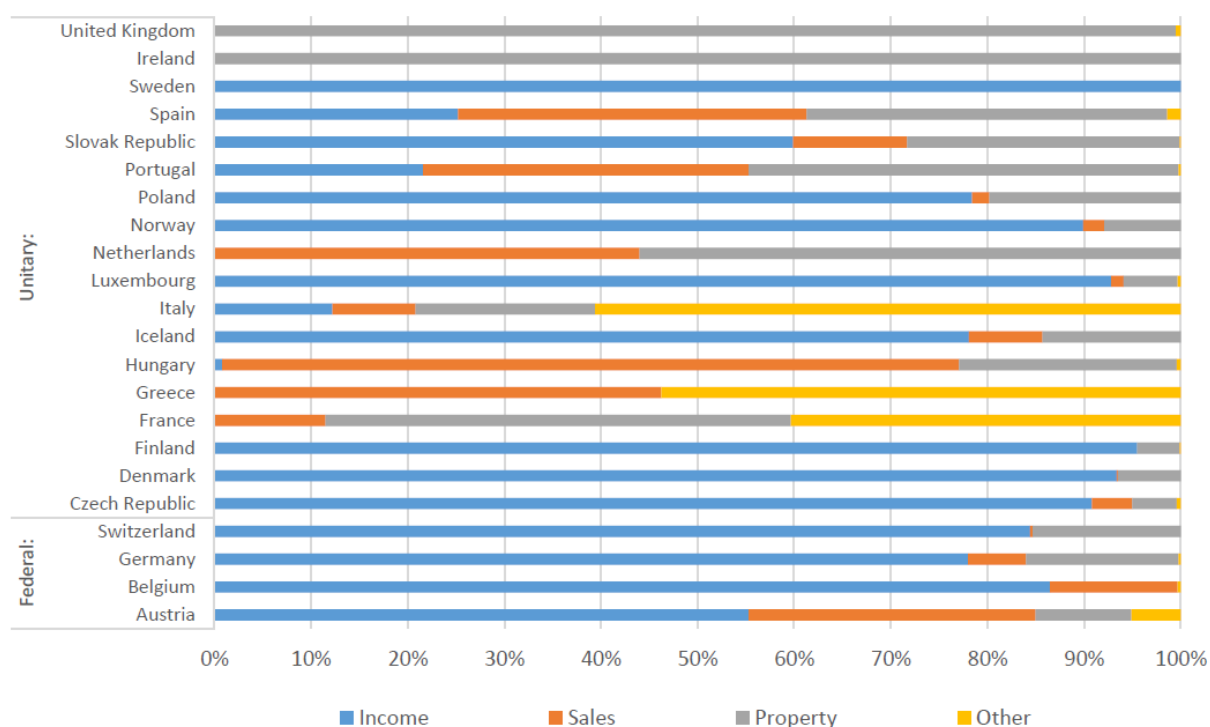
## CHAPTER 9: DISCRETIONARY LOCAL TAXES

### 9.1. Discretionary local taxes should be part of the make-up of the local taxation system.

#### Case for additional discretionary local taxes

- 9.2. The final component of our case for reform is to empower individual local authorities to have the discretion to raise additional income by levying a tax, in addition to Council Tax and Non-Domestic Rates, on either residents, occupants, property owners or visitors in the Local Authority or within a discrete area of the Local Authority.
- 9.3. While Scottish local government relies on a single property tax, as illustration 9.1 shows, in many other jurisdictions, local government revenues are already built on a much wider range of taxes. The international evidence suggests that a key component of this mix in many countries is the operation of one or more local tax, including levies on tourism, betting and alcohol as part of the wider local basket of taxes.

Illustration 9.1: Tax sources as a percentage of total local tax revenues<sup>12</sup>



9.4. We believe that it is now time for communities in Scotland to benefit from this approach too. Doing so is firmly within the Commission on Local Tax Reform's remit, and we look forward to engaging with the Commission on this matter as part of its deliberations.

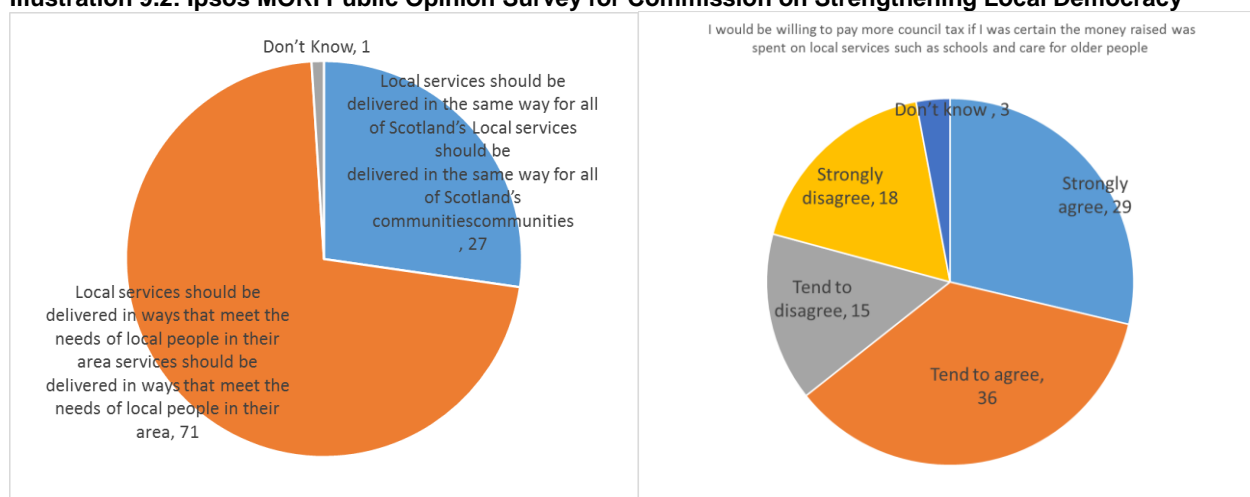
9.5. Our case for change is not only concerned with the volume of revenue that would be raised. Small new taxes of this kind would be unlikely to generate large sums nor would they be intended to tip the balance of funding. However, local discretionary taxation presents a significant opportunity to empower communities to address local

<sup>12</sup> Source: OECD Revenue Statistics 1965-2009, <http://www.oecd.org/ctp/tax-policy/>

issues at a local level, invest in local priorities, or tackle specific local issues or problems.

- 9.6. Indeed, independent research by Ipsos MORI demonstrated in illustration 9.2 found that two thirds of respondents said that they would be willing to pay more if they could be guaranteed that the money raised was to be spent on local services such as schools and care for older people. More than seven in ten also felt that one size does not fit all in terms of service delivery and that local services should be delivered in ways that meet the needs of local people in their area.

**Illustration 9.2: Ipsos MORI Public Opinion Survey for Commission on Strengthening Local Democracy** <sup>13</sup>



- 9.7. In specific terms, we believe that a new model of local discretionary taxation for local government should therefore be introduced based on the following powers:

- The power to introduce tax(es) subject only to the assent of the local electorate, and without the need to seek approval from Scottish Government:** In line with Local Taxation Principle 6, local authorities would hold the power to levy a local tax individually, and the introduction of any new taxes would be a political decision based on a clear local mandate. Given the local focus of the tax, it follows that any proposed taxes will vary from local authority to local authority. A tax levied in one area may not be suitable for another, leading to variation across Scotland. To address EU restrictions on varying taxes like VAT or Excise duty within member states, any local taxes would need to be subject to the restriction that councils could not simply duplicate taxes already set and collected by other levels of government.
- The power to set the rates and reliefs for any such taxes locally:** In line with Principles 4 and 6, local authorities would have control over the operation of the tax, including any related discounts and reliefs that would afford the flexibility to target or protect certain groups within their local boundary.
- The power to ensure that those on which the tax is levied have a legal obligation to pay:** As per Local Taxation Principle 2, the administration of any local tax would need to be administratively efficient and difficult to avoid. A key

<sup>13</sup> Source: IPSOS Mori Public Opinion Survey, December 2013 <http://www.localdemocracy.info/start-the-debate/scottish-public-opinion-survey/>

part of the definition of a tax is that failure to pay is punishable by law and local government needs to be similarly mindful about the sanctions in place for those who chose not to pay. There must therefore be a legal framework which ensures that people pay, written into the corresponding legislation. The cost of any such system would be factored into the decision making process regarding the potential for any new local tax. However Councils already deal with the collection of a number of revenue streams and have a good track record for high level collection rates and the knowledge and ability to collect levies.

- **The power to determine how the additional revenue is expended:** Unlike revenue raised via a charge, tax revenue does not require to be spent in a prescribed way. Therefore a tax being levied to address a specific local issue could be used as a deterrent to a type of behaviour, or to raise funds for a specific project, or other local need. This is in stark contrast to any powers that local government currently hold.
- 9.8. It is important to be clear that our intention is not to increase taxes, it is simply to empower local government to set and raise taxes that are suitable to the needs of the local community where there is clear local mandate to do so. We also believe that many of the building blocks of change are already in place.
- 9.9. Scottish local government has a Power to Advance Well-Being contained in the Local Government in Scotland Act 2003<sup>14</sup>, including the ability to introduce a charge, so long as it is reasonable, in return for services provided. However, local government is specifically prevented from levying any tax other than Council Tax by Section 22 of the Act.
- 9.10. In order for local authorities to raise discretionary taxes under the Power to Advance Well-Being, Section 22 of Act would therefore need to be repealed or amended. Doing so would also be an opportunity to reflect the wider changes to Scotland's tax landscape being introduced by the Scotland Act 2012 and the recommendations of the Smith Commission. Indeed, there is already permissive legislation to allow new taxes to be created in Scotland and we see no reason for preventing the same commitment to subsidiarity from flowing down to local level to allow the local electorate to authorise their local government to create, set and collect local taxes local taxes.
- 9.11. In the non-domestic setting, too, the principle of investment in local priorities is already well established through the Business Improvement District Scheme that allows business groups, communities and local authorities to invest collectively in local improvements, in addition to those delivered by the statutory authorities, which are of benefit to the businesses involved and which contribute to the wider aspirations of the local community and local economy.

## RECOMMENDATIONS

**Individual local authorities should have the discretion to raise additional income by levying a tax, in addition to Council Tax and Non-Domestic Rates, on either residents, occupants, property owners or visitors in the local authority or within a discrete area of the local authority.**

<sup>14</sup> <http://www.legislation.gov.uk/asp/2003/1/part/3>

## CHAPTER 10: SCOTLAND'S WIDER SYSTEM OF LOCAL GOVERNMENT FINANCE

- 10.1. **Finally, while we see the Commission on Local Tax Reform's remit to explore a fairer system of local taxation in Scotland as a crucial task, we are equally clear that this cannot be seen as an end in itself. Reforming Scotland's system of local taxation can unlock major benefits, but change is needed across the whole system of local government finance, not simply the model of local taxation on its own.**
- 10.2. We have consistently argued that devolution should flow through to local communities and not only stop at the door of the Scottish Parliament. Indeed, with further devolution of fiscal powers to Scotland now becoming a reality, our view is that there has therefore never been a better time to focus on devolution of fiscal powers within Scotland too.
- 10.3. This aspiration is embodied in the Local Government Funding Review and the Commission on Strengthening Local Democracy, and in our submission to the Smith Commission. Further devolution of fiscal powers from the UK to Scotland, starting with those being implemented from the Scotland Act 2012 and those subsequently set out in the Smith Commission recommendations, open up an opportunity for a wider system of local government finance which could potentially look significantly different from the one we have now.
- 10.4. In addition to our aspirations on local taxation, we believe that two further key changes will begin this process:

### **Localisation of Non-Domestic Rates**

- 10.5. Firstly, despite forming a core element of local government finance, since 1990 rates have been centrally controlled and local government's powers have been limited to collection and administration. As a result, it has now been over two decades since local government last had substantial control over Non-Domestic Rates.
- 10.6. COSLA is clear that full localisation of Non-Domestic Rates has the potential to realise a number of significant benefits for local government and to substantively redress the current balance of funding. If our proposals for a reformed local taxation and non-domestic rates were brought under local control, over 40% of current spending could be funded locally, with all of the significant associated potential to promote and incentivise local business growth and regeneration, and to transform local democratic choices and priorities. Indeed, in the short term, the return of Non-Domestic Rates to local control is considered to be the best way to address the balance of funding that we aspire to.
- 10.7. The implications of localising Non-Domestic Rates do of course require careful consideration in order to understand and mitigate the risks that would arise. Nor should localisation happen in isolation of the need for local authorities to develop strong links with their local economies and to have a greater say over wider local economic development in their areas. In line with this COSLA's position is that further work is required to understand the full implications of localisation of Non-Domestic Rates with a view to identifying suitable actions to mitigate any potential risks associated. Given the significant of this work, COSLA's preference is that this is undertaken on a joint basis with the Scottish Government and we ask the Commission to support this position.



### **Local Control of the Scottish Land and Buildings Transactions Tax**

- 10.8. Secondly, to complement the changes to Council Tax set out in this submission, we believe that with appropriate decision making structures in place, the suite of property taxes that fund local democracy should be expanded to include the Scottish Land and Buildings Transactions Tax introduced by the Scottish Government as a result of devolution of stamp duty through the 2012 Scotland Act.
- 10.9. Delivering this change would allow the Scottish Government to demonstrate real progress in ensuring that new powers for Scotland flow down to the local level and empower local communities.

### **RECOMMENDATIONS**

**Local tax reform is vital, but must not be seen in isolation of the need for reform across the system of local government finance.**

**Devolution of fiscal powers to Scotland must flow through to local communities. In the first instance, the localisation of Non Domestic Rates, and local control of the Scottish Land and Buildings Transaction Tax provide strong opportunities to begin this change.**