

Commission on Local Tax Reform in Scotland – Call for Written Evidence

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Submission by:

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Thank you for the opportunity to provide a response to the Commission on behalf of East Ayrshire Council. This is a complex area and to facilitate understanding of this response it has been split into several sections:

1. Democratic accountability
2. Simplicity
3. Billing and Collection Systems

Democratic accountability

The current system allows for local decision-making in terms of expenditure and income affecting the authority. The recent series of Council Tax freezes however, has seen a dilution of an individual Council's ability to increase its income through varying the council tax. The "grant conditions" are such that a decision to raise council tax would have resulted in a loss of Scottish government grant to the Council. Arguably therefore, local democratic accountability has been reduced since the council tax freeze started.

Any new system of local taxation must ensure that at its heart remains a strong sense of local accountability aligned to local decision-making in terms of expenditure aligned to income generation as appropriate. It is incumbent on local, democratically elected members to have responsibility to their electorate for taxes raised and how this is spent. The ability to vary tax at a local level is therefore a necessary part of any local taxation system.

The current review focusses primarily on council tax, and while this does merit a close look, the wider picture of local taxation also includes non-domestic rates. The current position is the local administration and collection of NDR, with national direction on poundage, pooling and redistribution. Future developments arising from the Community Empowerment Bill around local relief schemes, and recent schemes such as BRIS and TIF have started to reintroduce some localisation to NDR, but there remains an opportunity to explore and develop this further. It would seem sensible to review the two fundamental aspects of local taxation (NDR and council tax) at the same time.

The increasing engagement of local communities through work such as the Community Empowerment Bill is very much welcomed and supported. Local taxation must also reflect the localisation agenda with democratic accountability best supported by taxes determined and set locally.

Simplicity

Any taxation system requires to be understood by local tax payers. The "banding scheme" used in the current system is easily understood, although clearly a property's

initial valuation at 1991 and the subsequent banding has now fallen significantly out of date. New houses require to be revalued at 1991 prices, and this is not a simple process. The tax payer typically finds it very difficult to understand the valuation of a newer property, often in a new estate with “unusual” comparator / reference properties, and this can be the subject of complex valuation appeals.

The various exemptions, reliefs and discounts are less easily understood, and the complexity of a system that is part property and part personal (as demonstrated by single person discounts) does create difficulties for “non-standard” households.

A further complication in terms of the ability of the tax payer to understand their bills and charges, is the inclusion of water and sewerage charges alongside council tax. This has been particularly challenging in recent years where, despite the council tax freeze, bills have steadily increased through rising Scottish Water charges.

It will be important for any new system to be easily understood and transparent. If it is still property based, then the valuation regime requires to be urgently revisited with regular revaluations (e.g. 5 yearly) an integral part of the system. There requires to be a wider range of bands with a review of the relationship between the highest and lowest bandings. This would introduce a more progressive nature to the system, but retain a relatively straight forward and easily understood basis for determining charges.

Consideration should also be given to the current regime of Scottish Water collections, to consider the most appropriate method for doing this, and also to ensure that the sums remitted to Scottish Water accurately reflect, at a local level, monies **actually received** for the water and sewerage element of the values billed in a year.

Billing and Collection Systems

The current system used at this Council is a unified revenues and benefits system, which is particularly helpful in terms of economies of scale where a change of circumstance often impacts both benefit (or council tax reduction) and billing. Billing in itself is relatively straight forward which is demonstrated annually by issuing almost 60,000 bills in a very short space of time. Cost of collection is typically very cost effective, and staff knowledge and understanding of the systems and processes has become very strong. The opportunity to engage with every household is also welcomed with a detailed budget / finances publication produced and sent to every household with their bill.

As noted previously the impact of the varying exemptions, reliefs and discounts, particularly where applied part way through the year, can be complex for an individual bill payer to understand.

Identification of properties and associated liability, while often contested, is relatively easy to ascertain and implement. As a consequence evasion and avoidance within

the current council tax system is low. Collection rates have steadily improved over the years with in-year collection figures averaging over 95%.

As previously noted, a key area for improvement should be around the separation of water and sewerage collection from council tax. While there may still be merit in Councils collecting this on behalf of Scottish Water, the ultimate disbursement to Scottish Water MUST reflect the amounts actually collected. Similarly, the “commission” payable to Councils needs to reflect the amount of work involved in billing and collecting for water and sewerage.

In terms of a future system of local taxation, a significant move away from a property based model would potentially require a range of new systems and processes to allow collection of the tax. While detailed cost benefit analyses would be required to model any proposed system, it is clear that initial investment would be required.

Irrespective of any proposals to change the current system of council tax (reform or renew), it will be vitally important to ensure a programme of engagement and education is undertaken in advance of any changes. Previous experience would indicate that any change which fails to meet with public acceptance is destined to fail. Critically, at this time of extreme fiscal constraint, Councils require to ensure that collection rates remain very high. Any increased threat of non-payment introduces a significant financial risk to the future sustainability of Councils, and their ability to continue to deliver high performing services. Clearly any move away from local taxation collected by Councils (eg LIT) presents a risk that cannot be managed or mitigated by Councils.