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The Commission on Local Tax Reform
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Dear Commission Members

RESPONSE TO CALL FOR EVIDENCE ON LOCAL TAX REFORM

East Lothian Council welcomes the opportunity to contribute to the thinking of the Commission on Local Tax Reform. This response was agreed unanimously by Council at its meeting on 23 June 2015. (Additionally, some members commented that the Commission should also look at the current system of local business rates.)

Any tax system involves a balance between different principles. The Council advocates fairness, progressiveness, transparency, democratic accountability and efficiency of collection in a system of local taxation.

East Lothian Council supports the six principles of local taxation promoted by COSLA:

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.*

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 resources.*

The Council also supports the European Charter of Local Self Government and specifically Article 9 of the Charter, which 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.”

The comments below follow the format of the questions set out by the Commission.

1. Scotland’s Current System of Council Tax: To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?

The advantages of the current council-tax system being property-based are that:

- i) it is administratively efficient;
- ii) effective systems of collection already exist;
- iii) collection rates are good and improving: in East Lothian last year the collection rate was 96.52%;
- iv) it is difficult to avoid;
- v) property value differentials are capable (for the most part) of constituting an appropriate proxy for people’s material circumstances and thence their ability to pay, without the requirement and associated expense of assessing their actual income on a regular basis.

However the current council tax system has scope for improvement. Changes that might be considered are:

- i) the introduction of further bandings so that the system better reflects the ability to pay of the most and least wealthy in our society;
- ii) establishing a much stronger link between local spending, income generated directly from local taxation, and the wishes of the local community as expressed through the democratic process. Currently, Council Tax accounts for only around 20% of a local authority's income in Scotland, and the ability to vary local authority taxation income in line with community priorities is at best extremely limited and in recent years has effectively been non-existent.

2. Reform of Local Taxation: Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

Any alternative system would need to be administratively efficient and deliver greater transparency and strengthened democratic accountability.

3. Local Priorities: How well to you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?

East Lothian Council's overarching priority, as expressed in our current Council Plan, is in **reducing inequalities across and within our communities**. This is an expression of the rationale behind the strategic planning and delivery of the Council's services, and is also behind its commitment to the prevention agenda.

The current system of council tax represents to an extent the ability of people in different communities to pay, in that property values are lower in less affluent communities (although more sensitive bandings would reflect some individuals' ability to pay larger or smaller amounts in line with what they can afford).

A democratic deficit is apparent in the current funding structure for local government. Local taxation currently accounts for a minority share of a council's income, and it is arguably difficult for individuals, businesses and communities to discern how the council's spending choices for "their" money relates to either the choices they make at

local government elections or the charges they are asked to pay. At present the local community has no way of directly affecting the Council's income (or the extent of its expenditure) through the ballot box. A similar deficit also exists in respect of businesses who often find difficulty reconciling increased charges with reduced levels of service.

Individual responses to the Council's budget consultations over the past few years have suggested that the position in respect of council tax is not well understood by the general public: neither the proportion of local government funding constituted by council tax income, nor the mechanics of the council tax freeze. Collectively we need to ensure that any system is transparent and capable of being easily understood in principle.

Audit Scotland have made a convincing case for medium and longer term planning within the public sector and Local Government in particular. It would therefore be desirable to have a greater degree of certainty and continuity of funding. The Council already recognises the importance of setting medium-term spending plans (currently producing three-year budgets) but, under the current circumstances, this has become increasingly difficult verging on impossible, given that its main source of income is neither within its direct control nor planned on anything other than a short term basis.

Further information: We would like to keep the conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.

The Council is not aware of any networks over and above those of which the Commission will already be aware: in particular, the Convention of Scottish Local Authorities and the various professional bodies active in local government. We have publicised the Commission's consultation on our website.

Yours sincerely

A handwritten signature in black ink that reads "Angela Leitch". The signature is written in a cursive, flowing style.

ANGELA LEITCH
Chief Executive