

RESPONDENT INFORMATION

To help us make the most of your response, please tell us about yourself and how you want us to use the information you provide. There are some questions marked * and these must be answered by all respondents, unless you are directed past this question.

* I am responding as:	<input type="checkbox"/> An individual
	<input checked="" type="checkbox"/> An organisation/group
Name of Organisation (if appropriate)	<i>Fife Council</i>
Forename	<i>Sinead</i>
Surname	<i>Hain</i>
Address	<i>Fife House, North Street Glenrothes, Fife</i>
Postcode	<i>KY7 4LT</i>
Telephone	
Email	
Do you consider yourself or your organisation as from or representing?	
<input type="checkbox"/> a rural area	<input type="checkbox"/> an urban area
<input checked="" type="checkbox"/> an area with both urban and rural parts	<input type="checkbox"/> don't know / not applicable
Would you be happy to be approached by the Commission for further discussion about your submission?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If you are responding as an individual:	
* Do you agree to your response being made available to the public on the Commission's web site?	<input type="checkbox"/> Yes <input type="checkbox"/> No
* If you have agreed to your response being made available to the public, please tell us if we may also make your name and address available. (Please select one option only)	
<input type="checkbox"/> Yes, make my response, name and address all available	
<input type="checkbox"/> Yes, make my response available, but not my name and address	
<input type="checkbox"/> Yes, make my response and name available, but not my address	
<i>If you are responding as an individual we would be grateful if you could provide some additional information at the end of this form. This is absolutely optional but will help us get an overall picture of the information we receive.</i>	
If you are responding as a group or organisation:	
* The name and address of your organisation will be made public on the Commission's web site. Are you content for your response to also be made available?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Which of the following best describes your organisation? (Please select one option only)	
<input type="checkbox"/> Community Group	<input type="checkbox"/> A business
<input checked="" type="checkbox"/> Local Authority	<input type="checkbox"/> A government department or agency
<input type="checkbox"/> Other public sector organisation	<input type="checkbox"/> A social enterprise
<input type="checkbox"/> Third Sector organisation	<input type="checkbox"/> Other (please specify)
<input type="checkbox"/> Professional body	
Short description of the main purpose of your organisation:	

Tell us what you think

We have not provided a long list of questions, but we do want to hear what you have to say about some themes. Please respond to as few or as many as you wish. If you would prefer to send us other information, please feel free to do so. However, it would be helpful to keep your response to no more than eight pages.

If you are able to, please provide evidence or examples in support of what you say. This will help us explore your ideas further.

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?

You may wish to illustrate your answer with examples from your own experience.

The six local taxation principles developed as part of the COSLA Funding Review are used throughout this submission as a basis for testing alternative local taxation systems. Fife Council supports the COSLA position that these principles should be used by the Commission on Local Tax Reform to assess options.

Based on extract from COSLA Local Government Spending Review

History

The Council Tax system was introduced in 1993 and replaced the community charge, which in turn replaced domestic rates. The council tax raises around £1.9 billion every year across Scotland. 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 from the Band D rate. Billing authorities decide each year on the level at which band D bills will be set in their area, with bills for all other bands then charged at a fixed proportion of the Band D amount. The band values are nationally set. Council Tax is a hybrid tax made up of 50% property and 50% personal element whereby the personal element assumes two adults in the household.

Thus, special provisions, including those for single person households, disabled persons and students exist, which may allow people in those groups a discount on their council tax. In addition to these discounts, people with low incomes may be eligible for assistance through Council Tax Reduction, which is a means tested system, and is administered by local authorities. The Council Tax Reduction Scheme replaced the Council Tax Benefit Scheme in April 2013.

In addition to the administration of council tax, Local Authorities also bill and collect water service charges on behalf of Scottish Water. This amounts to over £600 million per annum. This is a good example of public services working together. Should council tax be replaced, consideration would have to be given as to how water service charges should be billed and collected.

Council Tax Critique

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

Fairness: The 2007 Lyons Inquiry into Local Government in England and also Sir Peter Burt's highlighted that fairness is generally accepted as meaning 'ability to pay' but also highlighted that other important dimensions of 'fairness' include the link between tax and property value and the perceived benefits of local services to taxpayers:

- Property values are deemed to be a reasonable reflection of ability to pay*
- Easy to understand*
- Strong collection rates*
- Jointly bill council tax and water and sewage charges*
- Some households with the lowest incomes are liable to pay a higher amount of tax in relation to their income (offset to a significant degree by Council Tax Reduction System)*

- *Some argue that council tax is not fair as they do not use all local services and particularly those in single households use less than a household of multiple occupants (single persons discount introduced to address this)*

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

- *Efficient and difficult to avoid – the Council tax system has been in place for over 20 years and is fully operational*

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

- *Underlying tax base of the council tax system is considered to be stable*
- *Local Authorities can reasonably predict their expected income from council tax*
- *System also considered buoyant as the tax base is growing each year*

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

- *The intent was that the council tax would be set and collected locally*
- *Can be argued that the council tax has not been operating at a local level with the introduction of the council tax freeze*
- *Scottish Government currently has power to cap council tax increase*
- *Current Council Tax Reduction Scheme is a nationally set scheme without local discretion (although intent was that council tax system is set locally)*

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

- *Little local discretion over rates and reliefs*
- *Local Government Finance Act 2012 does not allow local authorities to vary any other discount rates and there is no discretion over the large discounts and reliefs to single person's discount, disabled persons, etc.*
- *COSLA and Scottish Government agree that the Council Tax Reduction Scheme should be a nationally set scheme and that local schemes would not be an efficient course*

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- *Current council tax system would not act as any barrier to such local discretionary taxes being introduced*

Anomalies with current system:

- *Relating current property values to 1991 prices*
- *Restructuring of the bands (an extension at both the lower and upper ends would improve the fairness and integrity of the council tax)*
- *Potential to generate additional income system if revaluation/restructuring the banding occurred*
- *Impact on water and sewage charges if re-banding occurred*
- *No current reduction scheme for Water Service Charges so those on the lowest incomes still have to pay full water charges (less 25% discount);*
- *Garages and stores etc. currently exempt from paying council tax*

Summary:

- *Council tax system in place can be viewed as reasonably fair and easy to understand with the exception of the ability to set rates locally and this could be achieved by ceasing the Council Tax freeze and allowing Council's to set discounts and exemptions locally based on local circumstances whilst maintaining a national Council Tax Reduction Scheme.*
- *Fairness and ease of understanding could be improved by updating the base data of the system and restructuring the banding arrangements by:*
 - o *A wholesale revaluation is undertaken with regular revaluations introduced thereafter*
 - o *The current bands are extended at both the top and bottom ends including a restructuring of the band widths*

o *The current exemption for garages and lock ups is reviewed to assess the appropriateness of this policy today*

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?

Do you have any examples of why this is the case?

Please provide your response here

Based on extract from COSLA Local Government Spending Review

1. *Localisation of Non-Domestic Rates (property tax for shops, offices, etc.)*

Introduction

Non-domestic rates (NDR) forms a core element of the funding for local government. NDR income for 2013/14 is budgeted at £2.44bn which accounts for around one fifth of local government funding (including Council Tax). Since 1990 the non-domestic rates poundage has been set nationally by the Government (the Scottish Government since devolution), but prior to this each local authority set its own rate. Therefore it has now been over two decades since local government last had substantial control over NDR.

The return of non-domestic rates (NDR) to local control is considered to be the only realistic way to address the balance of funding and meeting the aims of the Vision of greater powers for local government. However, whilst full localisation of NDR is viewed as the only option, there is a need to consider further the implications of having local government control of non-domestic rates, specifically, considering what the risks would be and how these risks could be mitigated.

Current NDR system

- Property revaluations normally take place every 5 years however the revaluation due in 2015 has been delayed by the Scottish Government for 2 years to 2017, following a similar delay applied in England.*
- Reliefs and discounts – main relief is the Small Business Bonus Scheme but there are a range of exemptions and reliefs*
- Currently total income from NDR is pooled across Scotland*
- LAs collect income on behalf of Scottish Government*

NDR critique

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

- Liability to pay NDR is entirely linked to discrete property rental values and therefore broadly reflects ability to pay*
- NDR is easy to understand and accepted by business community*

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

- *NDR is administratively straightforward and easy to understand*
- *Collection rates for rates are extremely high with overall collection rate of around 99%*

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

- *Underlying tax base is broadly stable and buoyant and yield is stable and predictable even during the economic cycle.*

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

- *NDR does not facilitate democratic local accountability as it is a centrally set tax*
- *No scope for local authorities to determine the taxation locally*
- *Councils act solely as a collection agency*

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

- *Local authorities have no power to introduce local taxes under the current NDR system*

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- *Local government does not have power to raise funding for local priorities under NDR*

Summary:

- *NDR meets some of the administrative principles for local taxation*
- *Does not meet principles of ownership by local government and local democratic control*
- *NDR is a centrally controlled tax and local governments powers are limited to collecting and administering the tax*

Fife Council supports the COSLA position on the full localisation of NDR and has applied the same tests against the principles for a localised rates system for non-domestic properties where the charges including reliefs and exemptions are set locally. The critique is as follows: -

2. Localisation of Non-Domestic Rates

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

- *As the nature of the taxation would not change there is no reason to suggest that localisation of rates would impact on fairness, indeed by setting the rate and reliefs etc. locally this could increase the fairness as charges would reflect local priorities.*
- *Risk that localisation may not be as easily accepted by local businesses e.g. where neighbouring authorities set radically different rates*
- *Local businesses would have scope to influence the rate which could be seen as improving fairness*
- *Should be no less easy to understand*
- *Added benefit that the body collecting rates is also then responsible for the tax*
- *Variations in rates across the country would need to be explained*

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

- *Benefits should follow the current system in being straightforwardly administered and effectively collected*
- *Possibility that businesses' perception of Councils having power over setting rates may impact on collection*
- *Businesses seeking tax efficiency potentially by relocating to a neighbouring lower charging authority*

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

- *Benefit is that buoyancy is recognised where it is generated*
- *Stability principle carries the highest risk if full localisation is applied.*
- *If at local government level it could be argued that stability would follow the current scheme which is relatively stable*
- *At an individual Council level it is likely there would be significant instability in the tax base*
- *Current pooling of NDR at the national level ensures that stability is protected for individual Councils by re-distributing rates from those Councils who can grow their tax base to those who are unable to do so as readily*
- *Currently if Councils are not able to reach a targeted level of NDR then Scottish Government will adjust this by increasing general revenue finding under the pooling arrangements. If this is removed by full localisation then each Council would have to absorb the risk for their area.*
- *Different Councils would be exposed to varying levels of risk with the potential to lose significant income, however this would be offset by re-distribution on Grant income.*
- *Different industries across different Council areas with some areas being highly dependent on one industry. Changes to those industries, e.g. a major closure could have a significantly disproportionate financial impact on the affected Councils.*
- *Consideration would need to be given to those Council areas where NDR is collected for one company or industry sector which operates nationwide e.g. utility or telecom companies. Full localisation could imply that NDR income falls to one Council.*

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

- *Localisation of NDR would achieve this by placing the decisions for setting rates closer to local communities*
- *Local authorities would be able to respond to the needs of local business communities*
- *Would allow NDR decisions to be taken alongside economic development decision within a local authority which could aid the Council in growing the local economy.*

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

- *Localisation would meet this by enabling Councils to raise their rates locally and consequently raise additional revenue, as well as varying the reliefs provided in accordance with local priorities;*
- *This would in turn allow Local Government to introduce relief schemes developed to target local issues;*

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- *Local government would have power to raise funding for local priorities under full localisation*

Fife Council has carried out a critique of other forms of potential local taxation which have been highlighted in previous national reports as follows: -

- *Land Value Tax (LVT)*
- *Local Income Tax (LIT)*
- *Reformed Property Tax (RPT)*

For each of these taxes Fife Council has described our understanding on how the tax would operate and then commented on the suitability based on COSLA's 6 principles for Local Taxation.

3. Land Value Tax

Land Value Tax (also referred to as Site Value Tax) is a levy on the actual value of land without any addition for the use the land is put to, i.e. for the type of property that has been built on the land for instance. However, the value of land is adjusted to take into account the optimum use the land could be used for and different classes of land will attract a different value. Additions to the value can then be adjusted for the provision of services such as schools, roads, etc and values increased where public monies have been spent which increases the value of the land through these provisions. The tax is levied based on the type of land in question and the owner not the occupier pays the tax. Suggested categories of land would include the following:

Residential, industrial, business & retail, agriculture, sporting estates, forestry, urban vacant land, urban open space, infrastructure. This method is currently used in various other countries such as Denmark as a method of funding local services. Supporters of LVT would indicate that land is a natural resource and the owners who benefit from this resource should thus pay taxes on their ownership and this in turn would encourage owners to make the best use of land and eliminate the current concept of "land banking".

Land Value Tax as judged against the 6 principles as follows: -

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

- As this is a new concept there is a real risk that the public would not understand how land values are calculated especially if there is the presumption of optimum use is employed;*
- Taxing just owners of land and not the occupiers detracts from the concept of service users paying for local services.*
- The burden of this tax would fall on owners and would substantially reduce the tax base with the potential that owners would then pass on additional costs through increased rents, which in turn could increase costs for example by increasing Housing Benefit paid.*
- Inequities in the same size of land being valued the same despite one parcel of land having a single dwelling built on it whilst the other parcel of land may have high rise flats.*
- LVT will require relief schemes to ensure that the tax is not seen as regressive and is based on the ability to pay.*
- LVT would shift the burden on who pays for local services and certain categories of land i.e. agriculture which does not pay non-domestic rates would, unless exempted, have to pay considerable sums in LVT.*

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

- Land is a fixed asset and like a property based tax system is hard to avoid as land does not move.*
- Identification of ownership would be problematic as the Register of Keepers is currently in the process of transferring all land ownership from the register of sasines to the Land Registry. All public land is estimated to be transferred by 2019 but for non-public land, the target date is not to be completed by 2024.*

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

- As the mass of land is fixed, there is a built in stability factor.*
- LVT will provide a broad tax base that could be used to replace both domestic and non-domestic taxation with a single like charge*
- Buoyancy could be achieved through the encouragement of owners to bring back into use derelict land.*

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

- LVT can be set either nationally or locally or a combination of both. Fife Council would suggest that LVT should be set locally.*

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

- LVT must have a relief scheme for those who are asset rich but income poor. Fife Council would suggest a national scheme administered locally akin to a means tested benefit would be required.*
- Fife Council would then suggest that all other rates, reductions and exemptions should be set locally dependant on local circumstances.*

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- Local government would have power to raise funding for local priorities under a local LVT.

Fife Council believes that LVT is a potential viable option for local taxation however, further studies are needed to evaluate the effectiveness of this method as the chosen method of funding local services. The concept of valuing land then raising a tax on the value is similar to that of a property base tax system and does have the same advantages especially of the rates and reliefs can be set locally. Land Value as with Property value is an indicator of wealth and thus viable to raise taxes against this criteria. However, there are issues surrounding how land is valued and actual identification of the use of land. If this can be overcome, the collection of this form of taxation should not cause any more difficulty than any other form of property based taxation. Perhaps LVT should be included within a basket of available taxes that Local Government can consider to raise to meet the balance of funding and fiscal empowerment agenda.

4. Local Income Tax

Local Income Tax has been the suggested replacement for Council Tax and also as a supplement to Local Property Taxes to correct the balance of funding of local services. The concept is quite straightforward as most people understand the concept of taxing of income.

The first question that Fife Council would ask is how the tax would be assessed and collected? Should the tax, personal allowances etc be set at a national or local level? The second question that Fife Council would ask is on what type of income would a LIT be levied i.e. earned income (PAYE), Self Employed Income (Schedule D), savings and other income?

Fife has assessed the principles based on both a national and local setting of LIT with the presumption that all income and savings will be taxed.

Local Income Tax (Nationally Set)

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

- This would be met by setting a national rate as most people understand the concept of income tax;
- Would relate directly to the ability to pay;

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

- Assuming LIT will be collected by HMRC in line with other income tax; this should reduce collection costs of the tax.
- The rate of Income Tax required to raise £2 billion per annum may be in the range of 5% to 7.5% dependant on what is taxed. This may be unpalatable to the tax payers.
- There is a real danger of fiscal flight, where the highest earners could leave Scotland and the tax base would be reduced.
- Business and individuals could look at avoidance schemes such as changing their status from employed earner to self-employed and incorporating the business so no income tax is payable but the company becomes liable for corporation tax which is not subject to the increase.

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

- Fiscal flight would reduce the tax base;
- The income tax take is subject to the vagrancies of the economic cycle, whilst in times of boom, the tax base would be very buoyant, in times of recession the base would contract thus LIT is not a stable form of taxation;
- Account must also be taking of the changing demographics in Scotland and the predicted decrease in working age adults and increase in older people. Again this could reduce, over time, the overall tax base.
- There is the potential for a fiscal deficit due to the fact that PAYE only accounts for around 70% of income tax collected. The remaining 30% is raised from the self-employed, tax on savings and other income and this is not collected in-year and compared with an in-year collection rate of over 95% for Council Tax the potential for a considerable cash-flow issue would exist.

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

- A nationally set LIT fails this principle.

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

- A nationally set LIT does not give any discretion to Local Government;

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- A nationally set LIT does not meet this principle.

Local Income Tax set locally by Councils

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

- This would be met even where the rate is set locally as most people understand the concept of income tax;
- Would relate directly to the ability to pay;

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

- Assuming LIT will be collected by HMRC in line with other income tax; this should reduce collection costs of the tax.
- There would be questions whether HMRC could cope with 32 different tax rates and this may impact on the overall cost of collection.
- Employers who collect PAYE and pay over to HMRC would face considerable increases in costs to record and collect 32 different tax rates.
- The rate of Income Tax required to raise £2 billion per annum may be in the range of 5% to 7.5% dependant on what is taxed. This may be unpalatable to the tax payers.
- There is a real danger of fiscal flight, where the highest earners could leave Scotland and the tax base would be reduced.
- Business and individuals could look at avoidance schemes such as changing their status from employed earner to self-employed and incorporating the business so no income tax is payable but the company becomes liable for corporation tax which is not subject to the increase.

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

- Fiscal flight would reduce the tax base;
- The income tax take is subject to the vagrancies of the economic cycle, whilst in times of boom, the tax base would be very buoyant, in times of recession the base would contract thus LIT is not a stable form of taxation;
- Account must also be taking of the changing demographics in Scotland and the predicted decrease in working age adults and increase in older people. Again this could reduce, over time, the overall tax base.
- There is the potential for a fiscal deficit due to the fact that PAYE only accounts for around 70% of income tax collected. The remaining 30% is raised from the self-employed, tax on savings and other income and this is not collected in-year and compared with an in-year collection rate of over 95% for Council Tax the potential for a considerable cash-flow issue would exist.

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

- A locally set LIT would meet this principle.

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

- A locally set LIT would allow for discretion in the rates set and allow for targeted relief however, any targeted relief would be constraint on the ability of employers and HMRC to administer;

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- A locally set LIT does meet this principle.

Fife Council believes that LIT has been studied in depth in previous reports and all have found it was not a suitable method of financing local government. To meet the principles set out and agreed by COSLA the rates for LIT must be set locally to obtain accountability and fiscal empowerment but by doing this adds complexity and cost to both HMRC and Employers. In addition a local income tax would work against the current UK government principle of making work pay and could act as a major disincentive to those currently looking to enter the job market. Past history of using a personal tax to fund local services has proven very unsuccessful (Community Charge being the example) as there is the propensity to more easily avoid the tax when compared with either a property based or Land Based taxation system.

5. Reformed Property Tax (RPT)

Fife Council has also considered a RPT as an alternative to the current Council Tax system. A RPT system that charges every dwelling based on a distinct capital value as opposed to the current system of bandings. Once valued the occupier and/or owner would then pay a percentage of that value as their contribution for local taxation. Like the critique of Council Tax a RPT would need an initial valuation to be carried out and previous studies have suggested this should be done ideally on an annual basis based on the current assumption in valuation of "reasonable state of repair". Fife Council would suggested a form of self-valuation from owners/occupiers and compare this with the set value as determined by the Assessor. This would then form the basis for levying the charge and also keeping the number of appeals against the valuation to a minimum. RPT would be a new form of taxation so can be designed to include or exclude minimum and maximum contributions as well as reliefs for low incomes and other specified categories such as students. However, Fife Council would advocate that such reliefs and discounts are kept to a minimum to avoid complexity. Fife Council would like to explore further deferral schemes as suggested in previous studies whereby asset rich but income poor could defer the payment of local taxation and offset this against the future sale of any property.

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

- Clearer correlation between value of dwelling and rate paid would add to the fairness and ease of understanding.
- With annual or regular revaluations this fairness would be maintained.

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

- As with all property taxation methods, the administration of the tax would be as easy to administer as with the current Council Tax system;
- Complexity would be added dependant of the relief schemes chosen to be implemented;
- As this is a new tax there is the possibility of winners and losers and perhaps a transitional protection scheme may need to be considered.
- There would be added costs of regular revaluations but this is at the margins compared with the potential tax take from local taxation.

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

- As the tax is property based, it has the advantage of predicable yield and stability. Buoyancy would be the same as for Council Tax yet enhanced due to properly reflecting actual capital values thus increases in property prices can be implemented sooner thus this increases the buoyancy of the tax.

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

- A locally set LIT would meet this principle.

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

- Fife Council would advocate setting the tax rates and some discretions/reliefs locally however, if the scheme is to

be subject to a means test to decide rebates, this should be done nationally to ensure equity across Scotland.

LT 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. Individual local authorities should have discretion over the rate and discount and relief arrangements for this tax.

- *A locally set RPT meets this principle and allows for local discretion.*

Fife Council considers a Reformed Property Tax as a viable option as a replacement for Council Tax, it appears to have all the strengths inherent of a property based taxation and can be set and administered at a local level. In terms of ease of administration, it would follow closely behind a reformed Council Tax but is still very achievable as all property information is already held. A general revaluation would be required for all property based options except the status quo and as such would not require additional resources in excess of the revaluation requirement for all dwellings.

Other Local Taxation Sources

Local taxation should allow individual local authorities to be empowered to introduce local taxes, at their discretion, to raise additional resource.

In terms of revenue raised, local discretionary taxation will not have a major impact upon the balance of funding. However, regardless of the revenue raised, the power to levy local discretionary taxes would have a substantial impact, empowering local government by giving local authorities discretion at a local level to meet local needs. This would be a significant and positive change for local government in Scotland.

Fife Council would advocate further development of a suite of local taxes to include but not limited to: -

- *Localisation of the Scottish Lands and Transaction Tax*
- *Local Tourist Tax*
- *Local Sales Tax or ability to vary VAT locally*
- *Local environmental Tax*

However a review of current legislation was undertaken to assess whether local government had an existing power to levy local discretionary taxes

In the main, the most significant power for raising revenue independently available to local authorities is through the Power to Advance Wellbeing. The power to advance wellbeing is contained in The Local Government in Scotland Act 2003 and allows a local authority to impose a charge, so long as it is reasonable, in return for services provided.

Section 22 of the Local Government in Scotland Act 2003 stipulates the limitations on the power to advance wellbeing. The power to advance wellbeing does not enable a local authority to raise tax. Section 22(7) of the Local Government in Scotland Act 2003 specifically prohibits local authorities from levying any tax other than council tax. In order for local authorities to raise discretionary taxes under the power to advance wellbeing, section 22 would need to be repealed or amended.

In this context, it is important to note the difference between taxes and charges. A charge is a fee, toll or other type of assessment in exchange of particular goods, services or use of property. These are generally not considered taxes, as long as they are levied as payment for a direct benefit to the individual paying.

As such, local authorities have several avenues under which they can levy charges.

In practical terms, a tax offers local authorities more discretion than a charge with regard to how it is levied and that there need not be a direct link between the revenue raised and how it is spent. Taxation is therefore a more empowering financial lever for local government.

Currently, there is no existing legislation enabling local authorities to introduce local discretionary taxation. In fact, exactly the opposite is true as taxation by local authorities, other than Council Tax, is specifically prohibited.

To enable local government to raise local discretionary taxes, a change in legislation is required. Fife Council supports the

proposed COSLA definition of local discretionary taxation and associated powers:

"...Individual local authorities have the discretion to raise additional income by levying a tax, in addition to the Council Tax and Non-Domestic Rates, on either residents, occupiers, property owners or visitors in the local authority or within a discrete area of the local authority" (p33 COSLA Submission).

- The power will enable local authorities to introduce tax(es) without the need to seek approval from Scottish Government.*
- The rates and reliefs will be determined locally.*
- The local authority will be granted powers to ensure that those on which the tax is levied have a legal obligation to pay.*
- The local authority has the discretion to determine how the additional revenue is expended.*

3. LOCAL PRIORITIES

How well do 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?

Do you have any ideas or examples about how this could improve people's lives?

Fife would envisage that any form of local taxation must be set locally as this is the only true method of obtaining local accountability whereby the local electorate would hold Fife Council responsible for raising and spending decisions reached and not as at present only the spending decisions with the raising powers limited to less than 20% of existing budgets.

For the Commission's information Fife Council is currently progressing a model of local governance which promotes choice and flexibility. To support this we have adopted a Scheme of Decentralisation which identifies delivery mechanisms via Local Community Planning, Area Management and Area Committees.

We have divided Fife into seven Areas with seven Area Committees and one strategic Executive Committee. The purpose of this model is to promote decentralisation whilst recognising the key role of strategic planning and policy delivery at a Fife level. This aims to ensure equity, delivery of shared priorities while also valuing diversity, flexibility and local responsiveness.

Arguably further progress towards our decentralisation efforts would be the ability of the devolved areas to have discretion over spend and possibly rates of other additional taxes. This type of local governance arrangement would go some way towards truly reflecting local priorities. Any future forms of Local Taxation should fit into this decentralised model giving a true concept of local accountability, whereby further analysis and work can be done within Fife to see how much any future local tax could actually be set at a true local level.

For the last three years we have undertaken extensive consultation on our draft budget and engaged with many individuals and organisations across Fife. We have started the conversation about what level and standard of local public services people want and how these should be paid for. People told us that public services matter and that they would be prepared to pay a little more towards maintaining those services.

It is in this context, coupled with our decentralisation and area governance model, that we believe that greater fiscal empowerment to local government could assist Fife Council to be even more effective and, in turn, engage and empower local communities.

Our stated priorities in our Council and Community Plans can be summarised as:

- Tackling poverty and inequality*

- *Improving the quality of life in local communities and for individuals*
- *Building a strong local economy*
- *Building a sustainable society*
- *Transforming local services to work more effectively*

These are complex and challenging ambitions. The opportunity to more fully align decisions on spending with decisions on revenue raising would enable local government to be more effective. It would help to underpin our decentralisation model and enable Fife to continue conversations with our citizens regarding the shape, type and level of public services they want to see.

This in turn would build on our 'bottom-up' approach and our efforts to achieve greater engagement and participation in local democracy. Developing strong links at a local level between finance and accountability is vital to this process and would go some way towards bringing power closer to communities.

This greater connection would become tangible through the choices and flexibility we have to reflect what people want, but also through better targeting of investment and service delivery. This could potentially involve:

- *Minimum service standards Fife-wide but with variation between areas e.g. for environmental / neighbourhood services;*
- *Exemptions or locally agreed discounts e.g. to support businesses / town centres;*
- *Local tax levy to support further investment or to address a local problem e.g. tourism;*
- *Enhanced participatory budgeting and community empowerment e.g. where communities make informed choices about tax and spending options (and the link between the two).*

Making local government responsible for the majority of its own financing – taking account of the suggestions and risks identified at question 2 - would enable real choices about the levels of taxation and the levels of public services citizens want. Please provide your response here

4. 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.

Please provide your response here

Thank you for your submission. If you have any queries about the Call for Evidence please contact us at: