

How We Got Here? A Brief History of Local Government Finance in Scotland

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Local Government Finances and Taxes before 1900

- An ancient tax, Rates fell on owners of property
- 1601 Act established a parish poor rate to pay for the poor law (1579 in Scotland)
- In Scotland levied on owners and occupiers but without a uniform means of assessment
- In England, an Act in 1739 consolidated the different local rates into one; In Scotland this did not complete till 1929
- Great reforms in 1830s impacted strongly on local government and their financing; Scotland's key date was 1854 an the Lands Valuation Act
- Grants rose from nothing in the 1830s to 14% of all revenue by 1890 – specific rather than open-ended grants
- Goschen Report (1870) unified a fragmented system and by 1900 a recognizable grant system interacted with rates

20th Century Milestones

- Secular rise of grant and decline of local revenue share
- 1929 Act brought a block grant and principles of equalisation as well as de-rating certain sectors e.g. agriculture
- Modern grant system evolved through legislation in 1957 and 1967
- Rating & Valuation Act 1925 –led to 5 yearly revaluations. What actually happened:
 - 1929 and 1934
 - 1956 (1939 values)
 - 1963 (Schedule A ended)
 - 1973
 - Scotland 1978 & 1985

The Benchmark Model of Local Government Finance

- General and specific grants
 - Domestic rate relief
 - Resources and needs equalisation
 - Non-domestic rates (actual rental valuation)
 - Domestic rates (poundage * RV)
 - Rate rebates means-tested with a 'low' taper
 - The 'right' to set spending and rate levels – Loony Left in England and in Scotland Lothian
 - Sensitivity of rates to grant rates via gearing
- **Landmark Reports:**
 - Allen 1965 (rates regressive and led to rebates))
 - 1971 Green paper

 - Layfield Commission 1976:
 - rates and LIT
 - devolve power
 - increase local finance share

 - Alternatives to Domestic Rates 1981
 - Paying for Local Government 1986
 - A New Tax for Local Government (1991)
 - Burt (2006)
 - Lyons 2007

Revaluation

- Periodic statutory general revaluation essential: credible, autonomous
- The reality: 1956, 1963, 1973 (1978 and 1985 in Scotland only)
- Political resistance and ratepayers' associations
- Gross annual value basis undermined by tenure change
- Other Rates Criticisms:
 - asset-rich cash-poor (usually a widow)
 - weak accountability for grant in aid and also business rate payers?
 - anti home owner
 - high spending councils and centralist tendencies
 - NDR business lobby
 - Party rank & file

Towards Paying for Local Government

The Flagship of the Fleet



- Scottish revolt part 1 – rates revaluation
- Conservative desire to end property tax and promote home ownership
- PflG (1986) proposed:
 1. a simplified grant system (ending resources equalisation);
 2. nationalising NDR;
 3. and paying the balance (after fees and charges) by a poll tax known as the Community Charge
- End of 100% rebates – all adults pay at least 20% (response to the formal position with rates)
- Gearing and (Tiebout) fiscal mobility as deterrent to spend excessively

The Mother of All Blunders

- Initially to be phased in over 10 years
- Feasibility issues:
 - missing millions
 - non-payment
 - financial damage to LAs
- Fairness/credibility issues
- Scotland revolt part 2
- London riots and electoral defeat in local elections May 1990

The Council Tax Fix

- Heseltine's quick work in place by the summer of 1991 and introduced in 1993
- Low cost revaluation at 1991 property prices (banding into 7 later 8 bands)
- 100% rebate reinstated
- Personal discounts and exemptions
- Retained the poll tax grant and UBR system, gearing and all of that

Scottish Local Government Financial Statistics 2013-14

Table 1.7 – Scotland council tax levels

	2010-11	2011-12	2012-13	2013-14	2014-15
Scotland Average band D council tax rate(£) ¹	1,149	1,149	1,149	1,149	1,149
Band D % increase (cash terms)	0.0%	0.0%	0.0%	0.0%	0.0%
Band D % increase (real terms) ²	-2.7%	-1.8%	-1.6%	-2.1%	-2.1%
Average council tax bill per dwelling (£) ³	985	984	985	988	989
Average council tax bill per dwelling, after Council Tax Reduction/Benefit ⁴	827	826	830	838	n/a

1. Since 2008-09, council tax rates have been frozen at 2007-08 levels.

2. Real terms figures are calculated using GDP deflators (HM Treasury, Dec 2014)

3. This average is taken over all chargeable dwellings and is affected to a minor extent by a number of factors such as the distribution of dwellings across council tax bands, discounts and exemptions, new construction and removal of demolished housing from the roll.

4. Council Tax Benefit for all years up to 2012-13, Council Tax Reduction from 2013-14 onwards.

Source: Council Tax Assumptions (CTAS), Council Tax Base (CTAXBASE), Local Financial Returns – LFR 12

Council Tax 25 Years On

- No general revaluation (other than Wales)
- Gearing inexorably rises
- Feasible but increasingly viewed as unfair across people and places
- Burt and the later SNP governments opposition to council tax
- Council tax freeze now embedded in Scotland
- English 'localism' reform to council tax benefit ameliorated in Scotland at a cost

From the Burt Review: weighting tax criteria

Category	High Importance	Medium Importance	Lower Importance
Macro-economic criterion	Effects on the economy		
Fairness-related criteria	Fairness; Relationship to the benefits system	Comprehensibility; Transparency	
Assessment and collection criteria	Ease of assessment, collection and payment	Cost of assessment and collection	
Yield-related criteria	Stability and predictability		Buoyancy
Accountability and balance of funding criteria	Size of tax base	Identifiability as local tax	Balance of funding
Implementation criterion	Transitional issues		

Final Reflections and Observations

- Centralising versus localising tendencies and part and parcel of central-local government relations for many decades
- The long memory of the poll tax
- Nothing new in being unable to revalue
- Wider lessons – one can look at the tax specifically but the system of tax and grant, local v central revenue sources, what it is for and the underlying geography *all* matter for local taxation