

## 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>North Ayrshire Council</i>
Forename	
Surname	
Address	<i>Cunninghame House Irvine</i>
Postcode	<i>KA12 8EE</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
<b>If you are responding as an individual:</b>	
* Do you agree to your response being made available to the public on the Commission's web site?	X <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	
X <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>	
<b>If you are responding as a group or organisation:</b>	
* 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?	X <input 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.*

#### **Introduction**

North Ayrshire Council welcomes the opportunity to respond to the Commission on Local Tax Reform. Our response sits around the six principles developed by COSLA as part of the Review of Local Government Funding:

1. Taxation should be fair and easy to understand
2. Local taxation should be administratively efficient and difficult to avoid
3. Local taxation should have regard to the stability and buoyancy of the underlying tax base
4. Local taxation should be determined locally in order to establish and maintain local democratic accountability
5. Local government should have the discretion to determine whether rates and reliefs are set nationally or locally
6. Local taxation should allow for local flexibility.

#### **Critique of the Council Tax**

##### ***Strengths***

- it has a large tax base across all households in a local authority area
- collection levels are consistently high at around 95% in year nationally
- the tax is difficult to avoid due to its connection with a fixed property base
- the cost of collection is low at less than 2% of receipts nationally.

##### ***Fair, easy to understand and reflecting ability to pay***

The amount of tax to pay is highly visible to customers with people on low income having access to the Council Tax Reduction Scheme (CTR). This ensures fairness to residents if their circumstances change and their income reduces. Convenience in terms of the collection of Council Tax could be improved by changing the statutory requirement to pay the tax over ten monthly instalments to twelve instalments. This would make it easier and more affordable to taxpayers on low incomes.

Council Tax has a hybrid structure of 50% property value and 50% personal tax. Allied to this the Council has flexibility to vary Council Tax liability and ensure fairness on the amount of tax to be paid where a property is empty, or used as a second home. Other reductions available include:

- People with a disability benefitting from a reduction in their Valuation Band
- Students and other groups, for example carers, having access to discounts.

In addition a 25% single person discount is available. This takes account of a single household using less Council Services. This demonstrates that Council Tax takes account of the personal element as well as property value. These schemes are integral to Council Tax and go some way to address the perceived regression in the current system.

The Scottish Government and Scottish Councils' currently fund 10% of the CTR. The UK Government has indicated that a further £12bn of welfare reform savings will be made. These cuts may increase demand for CTR and exert additional pressure on Scottish Government and Local Authority funding. Added to this is the differing treatment of earnings between Universal Credit and CTR. Universal Credit has a taper to incentivise work. People on Universal Credit retain a proportion of income above an earnings disregard. This may offer a more generous support for in work claimants than

CTR. This may require to be considered in any modernisation of the current Scheme.

The Council Tax appeal process provides residents with the opportunity to challenge the Valuation Band of their property. This is a key component and provides fairness and balance to the tax system.

#### ***Efficient to administer***

Council Tax is an efficient and effective form of local taxation. It has provided a stable method of raising Local Authority income since it was implemented in 1993. Annually it generates around £1.9bn nationally and contributes around 18% of Councils' annual income.

#### ***Stability***

Residents understand the purpose of the tax. There is a strong link to Council Services supporting local democracy and accountability. Its yield is predictable, supporting sound financial planning and investment.

#### ***Local Determination of Local Taxation***

Prior to 2007 local authorities had greater discretion to increase the level of Council Tax. Reestablishment of the principle that local taxation should allow local flexibility ensures local democratic accountability. The CTR protects those on the lowest income. As such they have not benefitted directly from freezing council tax. However, the freeze has removed the opportunity to increase local taxation from those with the ability to pay. This has impacted on the fairness of the Council Tax system.

### **Areas for Improvement of the Council Tax System**

#### ***Valuation Bands, ratios and property valuations***

The current design of Council Tax bands, ratio between bands, and the lack of property revaluations since the system was introduced in 1993, have contributed to making the tax regressive when comparing the level of tax payable to property value. Council Tax for Band H properties is capped at three times Band A. This means the amount paid on higher-value properties increases less proportionately to their value. For example a house in the middle of Band G (£158k at 1991 prices) pays less than twice the Council Tax of a Band C property (£40,000), despite being worth nearly four times the value. The CTR mitigates this to an extent with most recipients of CTR residing in Bands A to C. In addition to further bands at the lower and top ends of the framework, the width and ratios of bands in between require to be reviewed to improve fairness of Council Tax.

The Council believes that calculation of Council Tax based on 1991 property values is out of date and has weakened the relationship between current property prices and liability for Council Tax. A revaluation of all properties is required with a regular revaluation cycle. For example, non-domestic rates carry out five yearly reviews and a similar model may be required for Council Tax to avoid the current situation re-emerging. Re-banding and revaluation are interrelated, each revaluation should include a review of the banding structure. This will ensure a fair, stable and more progressive system of local taxation into the foreseeable future.

#### ***Council Tax Reduction Scheme***

The Council believes there is an opportunity for the current discount and CTR to be reviewed alongside the reform of Council Tax. This will help to support a more progressive local tax, ensure people moving into work are not discouraged from increasing their working hours, and ensure it can be securely funded in the long term and mitigate against future welfare reform.

#### ***Local Determination of Local Taxation***

Reform of Council Tax needs to ensure that local taxation is determined locally for it to operate as a modern, effective and fair system of local taxation. This would strengthen local democracy and could be achieved independently of a change to the Banding structure and property revaluations or before a new taxation system is introduced.

#### ***Scottish Water***

Council Tax provides Scottish Water with a vehicle to bill and collect its water and wastewater charges using the same Banding and ratio system to charge its customers. This provides administrative savings for Scottish Water and demonstrates the stability and flexibility of the Council Tax system to support the billing of other charges. If Council Tax is replaced by a new local taxation system then this will impact on Scottish Water and this needs to be considered by the Commission as part of any solution.

#### ***Equalisation of local government funding framework***

Ability to raise Council Tax varies across Scottish local authorities. The existing funding arrangements take this variation

into account and ensure that funding of a local authority is equalised through the Revenue Support Grant (RSG). Since 1991 growth in house prices has varied with some parts of Scotland experiencing higher rates of growth than others. It is likely that those local authority areas with the largest growth in house prices will see an increase in their tax base. This will contribute more Council Tax income than areas where growth has been slower or where the tax base has fallen.

Although the total amount of funding available to local authorities will, through equalisation, remain the same, the key issue will be the balance of funding between national and local level taxation. It is essential that revaluation of all properties in Scotland is completed on a cost neutral basis at the point of implementation. The amount of any additional income raised from the reformed taxation should be clearly identifiable to provide transparency. Modelling should be undertaken to establish if income equalisation should be carried out at a national or local level and ensure that all components fit together and there are no unintended consequences.

#### **Transitional relief**

Transitional relief has previously been used successfully in non-domestic rates to mitigate the impact of significant change in rateable values. A similar approach could be taken in respect of changes to domestic property values. The level and period of transitional relief would require modelling to ensure the stability of funding for local government and to achieve the correct level of funding.

#### **Summary**

Council Tax performs well against the principles of efficiency, stability, ease of understanding and being proportionate to ability to pay. Council Tax is easy to understand, yield is predictable, cost of collection is low compared to alternatives taxation schemes as outlined in other research; it is difficult to avoid; a CTR support people on low income; and a discount scheme reduces Council Tax for single households and other key groups ensuring the tax is not regressive; finally Councils have a strong track record for collection.

A number of reforms are required to modernise Council Tax to ensure it is the most efficient and effective system of local taxation. There is a need to ensure it remains fit for purpose, and provides local government with a long term and secure form of local taxation. North Ayrshire Council would recommend the following reforms to the Commission if Council Tax is retained:

- A review of the A to H Valuation Bands and extending the number of Bands at the lower and top levels and the parts in between
- A review of the ratios between Valuation Bands to make the tax more progressive and ensure a level of fairness when levying Council Tax
- A full property revaluation is carried out and a 5 year revaluation cycle introduced
- Reform of Council Tax to be cost neutral at the point of implementation with any additional income from the reformed taxation clearly identified
- A review and development of CTR and discount schemes to meet the needs of householders across Scotland, including more Council powers to offer reductions at a local level to reflect local circumstances
- Changing the statutory requirement to pay Council Tax over ten monthly instalments to twelve instalment, making it easier and more affordable to taxpayers
- Reinstatement of the ability for local government to set council tax at a level that meets local priorities
- Development of an effective equalisation scheme on a national or local basis
- Consideration of an interim transitional relief scheme to mitigate against significant changes in property values
- The power to introduce other local taxes to support local priorities.

## 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?*

It is the view of North Ayrshire Council that as a minimum, 50% of a local authority's tax should be controlled locally. We do recognise that any national system needs to be equalised across authorities in recognition of different tax bases and the needs of different areas. We also acknowledge that there are challenges doing this in a manner which allows local authorities to genuinely alter local taxation. The extent to which this issue can be resolved will be key to determining whether any national system of taxation, such as income tax or land value tax, can be truly local in nature.

In light of this, the potential for local authorities to use bespoke local taxes to raise monies or produce income through innovative local schemes should be considered. There are many options to do this including mechanisms such as a, local sales tax, tourism tax, etc. Each of these options has its pros and cons, however, as they are so varied we believe the best approach would be to introduce a power of General Competence, with the power to raise taxes to a defined threshold. This power would give local authorities greater scope to generate income through innovation and would also allow them to raise additional local taxation. Greater control over local funding, to focus on local priorities is likely to increase local involvement and empowerment.

## 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?*

It is very difficult to consider the current system of local government funding without also considering the whole system of local democracy and local empowerment. There are many different systems of local government internationally. However, Scotland does differ from all other systems in a number of key ways. Scotland:

1. Has a very low number of relatively large local authorities
2. Is at the high end of comparisons in terms of the range and significance of the service responsibilities
3. Is at the lowest level of empowerment of local government with no constitutional status, very limited fiscal powers and a constraining legal framework built around specific, rather than general empowerment
4. Has an unusually uniform system of local government with all councils having identical functionalities, empowerment and electoral mechanisms
5. Has very restricted democratic mechanisms and relatively low participation rates
6. Has relatively good average outcomes, but among the greatest inequalities of outcomes

In spite of this centralised system, there has been a strong movement towards local democracy and community empowerment in the UK over recent years. This was embraced in Scotland in the proposed Community Empowerment (Scotland) Bill. Furthermore the intent of the report of the Smith Commission was not only to devolve additional powers to the Scottish Parliament, but to see further devolution to local authorities to support community empowerment.

It is difficult to consider local government funding mechanisms in isolation from the whole system and mechanisms of local democracy. However, as a starting point, we believe that raising 50% of local authority funding locally is the minimum threshold required to ensure community engagement in the delivery of local services. Raising this money locally could be done in a number of ways, including for example the 18% from a reformed Council tax, Non Domestic Rates contributing 22%, 5% from power of general competence (with councils having the freedom to decide how they raise additional funding and what it is spent on) and fees presently levied (again a national setting of fees should be minimised).

International experience shows that greater local control over raising funding and in prioritising areas of spend, leads to greater local empowerment and engagement.

#### 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.**

In considering design and location of any community engagement events, we would be keen to ensure a North Ayrshire venue is offered. We have a well-established Community Planning Partnership and are in the process of setting up our Neighbourhood Partnerships. We have extensive experience and success in engaging our community on key issues and would welcome the opportunity to co-host a local event.

On-going, clear and early communication of the progress of this important piece of work would also be appreciated.

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

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