

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>Policy Scotland</i>
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Telephone	
Email	
Do you consider yourself or your organisation as from or representing?	
<input type="checkbox"/> a rural area	<input checked="" type="checkbox"/> an urban area
<input 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"/>	Local Authority
<input type="checkbox"/>	Other public sector organisation
<input type="checkbox"/>	Third Sector organisation
<input type="checkbox"/>	Professional body
<input type="checkbox"/>	A business
<input type="checkbox"/>	A government department or agency
<input type="checkbox"/>	A social enterprise
<input checked="" type="checkbox"/>	Other (please specify)
	<i>University policy research centre</i>
Short description of the main purpose of your organisation:	
<i>to exchange knowledge and maximise the impact of policy research by University staff</i>	

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.

Council tax (CT) is a collectable tax which is difficult to avoid. Tax liabilities are only loosely related to property values. The main problems with the tax that prevent it being fair, effective and indeed sustainable are:

First, there is the failure to carry out regular general revaluations. Not only is increasing resource required to value new properties back to 1991 values; but more importantly we have no sense of the adequacy of the banding today. Have properties and their neighbourhoods remained static in relative terms and not risen or fallen with economic and social change? Of course not. And it is not simply about conducting a general revaluation - we need to keep doing them every few years, preferably on a statutory basis.

Second, council tax is regressive in two important ways. First, as a proportion of property value, lower valued properties pay a larger proportion of their value in council tax than do higher valued properties. To the extent that the distribution of property values proxy for wealth this is not fair in a progressive sense. This is a direct consequence of the banding weighting system. Second, the Burt Review in 2006 also suggested that lower decile income groups tend to pay an increasing share of their income in council tax but that it falls once we are over the median level of income. Households in the top two deciles pay the lowest proportion of their income in council tax. It is also the case that the poorest 10% appear to pay more than anyone else despite income-related assistance.

Third, CT is collectible but does less well in terms of buoyancy and yield. The tax base is fundamentally inelastic – it does not increase until more homes are built or there is a general revaluation – thus yield increase is much more dependent on tax rate increases i.e. the band D rate.

Fourth, the decision to weight the different bands relative to band D such that the distribution of tax payments is more compressed than the distribution of actual (and assessed) property values is arbitrary and clearly favours higher value properties - adding extra bands does not systematically overcome this problem. Any banded system needs to adequately address this preferably with a more proportionate rather than compressed set of weights.

Fifth, CT is the residual element in the system and in principle is the element local government has discretion over along with, to a limited extent, the scope to draw on fees and charges, and, more recently, by dipping into reserves. Central Government grant in parts tries to compensate for differences in local spending need but also provides support for specific services and on a per capita basis redistributes non domestic rate income back to local governments. The wider system of local government finance system is also problematic though it is not within the terms of reference for the Commission. CT was essentially grafted on to the previous (community charge) system of local government finance - so any reform needs to keep the door open for further rounds of reform to address the balance of funding question between taxation and grant for local government, and the issue of localising non domestic rates.

Sixth, for 8 successive years there has been a freeze on council tax, aimed at protecting households' cost of living but at the same time removing any local fiscal accountability. Apart from this corrosive effect on local government, It is also very expensive. The annual cost of the council tax freeze begun in 2008-09 was £70 million paid from the Scottish Block. In the 2nd year to retain the level of support the annual cost was £140m, the following year, £210 million, such that by the current year (2015-16) the cost per annum of the council tax freeze is £560 million. In cash terms, the cumulative overall loss to the Scottish Block is £2.52 billion That is a huge opportunity cost.

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?

On the basis that a new local sales tax is not legally possible and a return to some form of poll tax is so politically unpopular to be a non-starter, there would appear to be five options:

- substantially-reformed council tax*
- a new property tax*
- a land value tax*
- a local income tax*
- a combined property tax and supplementary local income tax.*

John Muellbauer has suggested a worked up reform of the council tax providing for a general revaluation, exempting the first £40,000, adding a high value band and suggesting an equity share model for deferring council tax payments. However, this will not get to the root of the problems with the council tax and in particular would retain the weighting relativities between band D and the other bands. A simple progressive way forward would be to reweight according to the actual relativity between the median of the band and the benchmark band (currently D) - this would make the council tax more like a Burt property tax but would still rely crucially on regular revaluation. The fact is properties are skewed towards the earlier bands and this needs to be more evenly redistributed relative to band D (or whatever benchmark is chosen) - there will be losers from this process but that is why there should be a transition and dampening process to set a ceiling on losses per annum during the transition. There will still need to be a rebate system and considerable investment to educate and encourage use of deferrals.

A new property tax of equivalent total yield would be preferable and the choice would be between a simple Burt-like or Northern Ireland property tax - due diligence should be carried out to confirm that the evidence on the proposal set out in the Burt review still applies. Again, rebate and deferral options should be available along with a transitional dampening phase.

The other property tax option is a land value tax. This again would aim to collect the same total yield. This would be a large undertaking to set up but does appear to be perfectly feasible in terms of valuation principles based on highest and best land use. LVT could be again related to deferrals and rebates and would need to be phased in and losers supported. Evidence from previous studies (Wightman for the Green party) does suggest quite large increases for those currently paying higher band council tax - this will be highly visible and politically difficult. Possible solutions to this would be to (a) combine LVT with a local income tax that together raise the same yield - with the added benefit of reducing revenue risk and shifting tax to a more efficient source of revenue; or (b) thinking of LVT as a national tax that could reduce reliance on the inefficient LBTT (again seeking to capture the same overall yield - though its long term yield would also be stabilised by shifting towards a recurrent rather than a transactions based tax which is much more volatile).

A local income tax is a less attractive option for a single local tax because of fiscal flight/mobility risks to the tax yield, labour supply disincentive effects (Burt suggests quite high implied tax burdens for taxpayers), and, of course, we would lose the wider benefits accruing from property taxation. A more attractive option and our preferred one would be to combine (for the same total yield) either LVT or a Burt-like property tax with LIT, embedding a degree of progressivity and reducing the dependence on either tax. Burt's concerns about multiple taxes are we believe overstated and outweighed by the benefits - this would also bring Scotland into line with common international practice.

The reform route taken is also critically dependent on ending the local tax freeze. Not only is it weakening local accountability, it is a direct reduction of the Scottish Block which is accumulating larger and larger sums each year. The new system and its transition should begin from a revenue neutral yield, but it would be up to elected members in councils to decide on future spending and tax priorities (within reason - one could not imagine central government not having some view or a legitimate desire to control annual ceilings on tax increases) and to let local voters adjudicate such decisions at the ballot box.

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?

The current system is almost entirely top-down, the assumption being that central government is better placed, perhaps even better suited, to resource generation. The current council tax freeze illustrates this. Central government controls the methods by which local government receives the overwhelming majority of funds: it decides the tax system and base; controls the reallocation of non-domestic rates; and can impose conditions on resource receipt. Local authorities then have only reserves and charges as own-source revenue sources. Spending allocations too are subject to central government scrutiny, with 'failing' local authorities subject to central government censure. The only real censure for central government is national elections. Local government is driven to being functional rather than dynamic because it is so constrained in what it can do.

Removing the council tax freeze would achieve multiple benefits: it would remove a significant cost from the Scottish Government's budget; it would allow local communities to see more clearly the workings behind the local government services they receive; it would separate more clearly the remits of local and central government; and it would raise the perception of local government with local electorates. Improvements to achieving local priorities are likely to be at the margin, since the decision would remain how to allocate a budget among competing priorities, but by removing fiscal and structural constraints on local government they are more likely to be able to reflect their communities' priorities.

We are not proposing an entirely bottom-up alternative - rather, there needs to be grant equalisation and we think it only reasonable that the different tiers of government agree the upper limits of annual tax changes but that primarily tax rate setting within these limits should be a matter of local councils and their citizens.

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