

SCOTTISH BORDERS – OFFICER RESPONSE

22 June 2015

EVIDENCE FROM CORPORATE MANAGEMENT TEAM OF SCOTTISH BORDERS COUNCIL

- 1 Local government forms an integral part of the democratic structure of Scotland. As such the principles of autonomy and accountability which form the cornerstone of any democratically elected body should characterise the local government taxation system. The need for these principles to be enshrined in Scotland's public finances is recognised at a national level, and the desire to ensure that local as well as national politicians are accountable for the money they raise and spend on behalf of communities needs to be properly recognised. This can best be achieved by allowing local authorities to raise a significant part of its funds locally. This will ensure accountability between local elected members and citizens for the delivery of services. Traditionally around 20% of funding for council services is raised locally although this percentage had reduced over the period of the council tax freeze. Ideally a greater proportion of taxation should be raised locally whatever the system agreed to replace the current council tax system to strengthen the link between local authority spending, service delivery and communities. It is felt that greater transparency and a closer link between taxation and spending would increase understanding not only of where public funding comes from, but how it is spent and thereby strengthen the local accountability of elected councillors through the ballot box.

- 2 Any system to replace the current council tax should be evaluated against the principles of sound taxation. It should be:
 - Based on Fairness and Ability to Pay.
 - Simple process and Easy to Understand.
 - Administratively efficient and difficult to avoid.
 - Determined locally to ensure local democratic accountability.
 - Flexible enough to allow rates and reliefs to be set either nationally or locally, and
 - Have a stable and buoyant underlying tax base, and
 - Have local flexibility, empowering local authorities to raise local funding for local priorities.

- 3 There are two key options for taking forward local taxation. These are a local income tax and a property based system.

Local Income Tax

- 4 A local income tax system where income is taxed using a PAYE based approach does present an option for local taxation. Such a system could meet many of the principles outlined in 4.2 especially in relation to fairness, and ease of understanding.

The implementation of a local income tax system is potentially workable and could be seen as progressive being based on the ability to pay. Alternatively however, people may object to paying higher levels of taxation based upon income for access to the same local services.

It should, as with current income tax system, enjoy a relatively high collection level; it is debatable however whether collection levels would match those of a property based tax and the costs of implementation, policing compliance and on-going collection may militate against its effectiveness as a source of funding for local services.

The method of calculation and collection would have a material impact on costs. For example a tax calculated and levied locally would have very different costs from a national system levied Scotland wide and collected by Revenues Scotland. While potentially more efficient the national collection of a local income tax will break the link between a local authority's ability to tax and spend on behalf of the local electorate.

- 5 It is considered that a local income tax would require to address the following issues:

- As the tax is on people and not property the number of taxpayers will increase, relative to those who pay council tax, typically the householder, and there is a danger that the tax will be seen as an additional tax rather than replacing the Council Tax.
- Scotland may be viewed as an area of higher taxation making it less attractive for potential and prospective residents as well as businesses. This is even more of a concern for the Scottish Borders due to the area bordering England. There is a risk that people (especially those near the border) would migrate into England for the financial benefit.
- The effects of the national economy and rates of unemployment will affect the tax base and yield as the economic cycle progresses.
- A tax based on personal income may encourage tax avoidance behaviour especially by those able to obtain specialist tax advice.
- Any tax based system based on income levels may be subject to annual fluctuation requiring top up through borrowing. The stability principle which is so important in funding local services may be compromised.
- Students who are currently exempt from Council Tax may find themselves paying tax on part-time earnings. This may have an impact on where students choose to study as well as where they choose to work after qualifying. It may also have the indirect effect of increasing the level of student loans.
- Many young people living in the Scottish Borders and Scotland who

do not currently pay Council Tax may consider leaving if the impact of a local income tax on take home pay is significant and is not a factor in England. There are therefore potential tax displacement effects in the South of Scotland that need to be considered.

- Businesses may look to relocate elsewhere due to higher personal taxation, higher taxation for their employees and the administrative complication of two tax rates. There is the potential for businesses to be targeted to relocate especially into the North of England which this local authority borders.
- Finally local people may object to paying the same level of taxation for services whose quality is perceived to vary across Scotland.

Property Based Taxation

- 6 It is considered that a property based system like the council tax presents advantages for rural areas such as the Scottish Borders. This importance of property based system is that it taxes people on where they live and use services.
- 7 While recognising the current system is in need of reform and some modernisation, in general the current system benchmarks well against the principles of effective taxation. It is very stable, has high collection levels, reasonably buoyant, has low collection costs at around 2% and is generally understood and accepted by large sections of the local electorate.
- 8 It is considered that the following changes could be made to improve the Council Tax System:
 - The overall fairness and ease of understanding could be improved by undertaking a wholesale revaluation with regular revaluation thereafter to maintain a fit for purpose framework.
 - A fair system of banding is pivotal to a progressive system of local taxation, as such the number and widths of the Council Tax bands, rather than discrete values, require to be amended to make the system more progressive, consideration should be given to increasing the number of bands at both the top and bottom ends and the ratios between bands with a review of bandings being undertaken at each valuation cycle.
 - Work towards lifting the council tax freeze to ease the pressure facing local government services, particularly in the Borders with respect to the increasing numbers of older people requiring care.
 - Review the Council Tax Reduction and Discount Schemes, including Single Persons Discount, to ensure system is more progressive and fairer with a clear link to ability to pay and to ensure factors associated with Universal Credit are considered.
 - Complement the modernised Council Tax system with the ability of local authorities to introduce further local taxes to allow local spend to meet local need e.g. a tourist tax or land tax.

- A fit for purpose appeals process requires to be in place.
 - Recognition of the interdependency between bands and revaluation with any changes to bandings or band widths being developed alongside property values which are subject to regular revision.
 - Transitional relief may be required to facilitate the move to the new arrangements, to ensure equity at the earliest opportunity this should not be for an extended time period, resourcing of any transitional relief is required to ensure the stability of funding for local government
- 9 In addition there has been a considerable shift in property values across Scotland since 1991. Any revaluation is likely to result in a shift in the local tax burden. This will lead to a debate about fiscal neutrality at a national or local level. Careful consideration is required to ensure there is a full understanding of this alongside grant distribution arrangements. The local government settlement to some extent equalises the impact on revenues from movements in the tax take at local authority level with the aim of achieving stability of income for individual local authorities. There is the likelihood of a significant shift on the tax base following the implementation of a change to the current system of taxation and this needs to be fully evaluated and understood to avoid instability and potential damaging movements in individual council budgets.

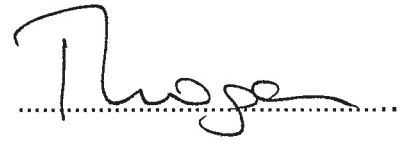
Other Matters

- 10 Equity between local authorities should be a fundamental part of, and be 'locked' into, any new system of local government taxation. Moving forward the system needs to recognise that financial compensation provisions and adjustments will need to be made to the settlement in favour of those local authorities such as Scottish Borders Council with relatively low working age populations and relatively low income and wage economies. The current Grant Aid Expenditure System has a floor mechanism for this equitable distribution as well as providing stability in terms of funding and such arrangements will require to be continued in one form or another. These mechanisms may however vary with the system of local taxation adopted.
- 11 It is desirable, particularly in rural areas that the administration of local taxation is carried out locally rather than being centralised. There are relatively high value jobs involved in the local taxation process and their loss would adversely impact on local economies particularly in rural areas. While the costs of decommissioning council tax systems and implementing new collection arrangements could be significant, the development of a national IT system could help to minimise the costs of administration.
- 12 It is considered that the Commission carries more detailed research in to other possible forms local taxation particularly land tax, tourist tax and Development Land Tax. This form of taxation would take a levy on the increased value of land once development has taken place on it.
- 13 The staffing implications of any change to the current system would have to be fully thought through and be funded centrally by government.

The Council would wish to see any new local taxation arrangements being

made as progressive as possible to ensure a fair tax burden on those with the greatest ability to pay while protecting those who are most vulnerable in society

Tracey Logan
Chief Executive Scottish Borders Council
22 June 2015

A handwritten signature in black ink, appearing to read 'Tracey Logan', written over a horizontal dotted line.

