



THE COMMISSION ON LOCAL TAX REFORM

WHAT'S THE FUTURE OF LOCAL TAXATION IN SCOTLAND?

Tell us what you think

We are an independent Commission that brings together expertise and experience from across Scotland to look at ways of delivering a fairer system of local taxation in Scotland. The Commission is chaired by Marco Biagi MSP, Minister for Local Government and Community Empowerment, and Councillor David O'Neill, President of the Convention of Scottish Local Authorities. The Commission will present its findings in late 2015. You can find out more information about our membership and remit at www.localtaxcommission.scot

We want to begin our work by hearing your views and suggestions about what happens now, and what the future might be.

This call for evidence is only our first step in listening to you. Any information that you give us now will help start the debate, but we also want this to be an ongoing conversation. Over the next few months we will be setting up different ways in which you can meet us or tell us what you think. A good way to find out about these is by signing up to our newsletter by following @localtaxscot on Twitter.

How to Respond

We will use your information to develop our work, and so what you tell us is really important. For that reason, we want to hear from you by **22 JUNE 2015**, or sooner if you can. *However, let us know if you need more time.* Please also feel free to share any other information with us.



You can complete and return this form electronically to:
evidence@localtaxcommission.scot



You can also respond online via our website:
<http://localtaxcommission.scot/initial-call-for-evidence/>



Alternatively you can post a copy of this form to:

The Commission on Local Tax Reform
Verity House
19 Haymarket Yards
Edinburgh, EH12 5BH

If you are responding as an individual we would be grateful if you could also provide some other information at the end of this form. This will help us develop an overall picture of the information we have. This is optional and will be used anonymously and remain strictly confidential.

If you have any queries please contact info@localtaxcommission.scot or call us on 0131 474 9332.

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>Society of Local Authority Lawyers and Administrators in Scotland (SOLAR)</i>
Forename	
Surname	
Address	
Postcode	
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
	an area with both urban and rural parts
	xx <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	
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	
* 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 type="checkbox"/> Yes	
Which of the following best describes your organisation? (Please select one option only)	
<input type="checkbox"/> Professional body	
Short description of the main purpose of your organisation: SOLAR represents staff in local authorities across Scotland within the wide disciplines of law, administration, elections and other specialist disciplines such as data protection and freedom of information.	

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

At the Society of Local Authority Lawyers and Administrators in Scotland Annual Conference in March 2015 the Minister for Local Government and Community Empowerment, Marco Biagi outlined four principles for taxation. Council Tax performs well against these four principles of a local taxation system namely:

- Efficiency;
- Certainty;
- Convenience; and
- Proportionate to ability to pay.

Efficiency

Council Tax can be considered 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. Council tax has a number of strengths. It is set locally by Councils, has a large tax base across all households in a local authority area with high collection levels (around 95% in year nationally), the tax is difficult to avoid due to its connection with a fixed property base, and the cost of collection is low at less than 2% of receipts nationally. 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.

Certainty

Residents understand the purpose of the tax and it forms strong links to Council Services, and local democracy and accountability. Its yield and receipts are predictable, which ensures that sound financial decisions are made as part of the Council's three year budgetary process and future investments.

Convenience

The amount of tax to pay is highly visible to customers, it is easy to pay and people on low income receive access to Council Tax Reduction. Convenience and fairness 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, making it easier and affordable to taxpayers.

Proportionate to ability to pay

The Council Tax hybrid structure of 50% property value and 50% personal provides Councils with sufficient flexibility to vary liability and ensures fairness on the amount of tax to be paid where a property is empty or used as a second home. A discount scheme is in place to help reduce liability for single adults (25%). People with a disability can benefit from a reduction in their Valuation Band, and students and other status groups (for example carers) can obtain reductions. These schemes are integral to Council Tax and go some way to address the perceived regression in the current system.

A 25% single person discount has been awarded since the tax was formed in 1993. The percentage awarded is considered somewhat arbitrary but does reflect that a single household may use less Council Services. Council Tax is underpinned by a means tested Council Tax Reduction scheme providing residents who are in and out of work on low income with a reduction in the amount of Council Tax to be paid. This ensures that individuals are no worse off than under the previous scheme, and provides a level of fairness to residents if their circumstances change and their income reduces.

The Scottish Government and all Scottish Councils' fund 10% of the Council Tax Reduction scheme. The UK Government has indicated that a further £12bn of welfare reforms will be made. This may increase demand for the Council Tax Reduction scheme and increase Councils' expenditure. The introduction of Universal Credit and its single 65% taper to incentivise work, however, may offer more generous support for in work claimants than Council Tax Reduction. We believe there is an opportunity to review the current discount and Council Tax Reductions schemes as part of any reform of Council Tax to sustain their relevance and affordability in the long term. For example Councils could be given flexibility and powers to offer reductions at a local level to reflect local circumstances.

Valuation Bands, ratios and property valuations

The current design of Council Tax bands and ratios and a lack of property revaluations since the system was introduced in 1993 have made it somewhat regressive when comparing the level of tax payable to property value. Capping Council Tax for Band H properties to three times Band A means the amount paid on higher-value properties increases less-than-in-proportion to their value. For example, a house in the middle of Band G (£158k at 1991 prices) pays less than twice Council Tax than a Band C property (£40,000), despite being worth nearly four times as much. The Council Tax Reduction scheme mitigates this to an extent with most recipients residing in Bands A to C. However, change in property prices since 1991 has not been matched with a change to the Banding structure to fully redress this disparity. Council Tax Bands and ratios are in need of modernization at the lower and top end to improve fairness of Council Tax if it is retained.

We believe 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 property is required on retention of Council Tax, and a revaluation cycle introduced. For example, non-domestic rates carry out five yearly reviews and a similar model may be required. Re-banding and revaluation are interrelated and every revaluation should include a review of the banding structure. This will ensure a fairer, stable and more progressive system of local taxation into the foreseeable future.

Equalisation of local government funding framework

Council Tax levels currently vary across Scottish local authorities but the existing local government funding framework ensures that Councils total funding requirement is equalised through both Council Tax and Revenue Support Grant (RSG). Since 1991 growth in house prices has varied on a geographical basis with some parts of Scotland experiencing higher rates of growth than others. If a property revaluation is carried out then it is likely that those local authority areas with the largest growth will see an increase in their tax base. This will mean that some areas will contribute more Council Tax income than others where growth has been slower or where the tax base has fallen. It is essential that revaluation of all properties in Scotland is completed on a cost neutral basis. That means there will be no change to total amount of funding and no change to the amount received by each Council. This will require equalisation adjustments to be made to the RSG to compensate for the variation in growth. This will reduce any financial risk to all Scottish local authorities.

It is important to consider how increased house prices and Council Tax revaluation will impact on the stability of funding for local government. We request that the Commission carry out robust modelling to establish if income neutralisation should be considered at a national or local level. This is required to ensure there are no unintended consequences to the current funding framework, and equalisation is achieved in a manner that is least detrimental to the taxpayer and Councils.

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 to be awarded would require modelling to ensure the stability of funding for local government.

Council Tax freeze

Freezing Council Tax at a national level since 2007 has removed Councils' ability to set and raise its own level of local taxation. This has potentially diminished Councils' democratic relationship between the electorate and reduced local accountability. The majority of Council Tax Reduction claimants pay no Council Tax and have not benefited directly from the freeze. However, it has offered protection to taxpayers in higher banded properties who may otherwise have contributed more income to the Council. It could be argued that the freeze has affected the fairness and effectiveness of the Council Tax system.

Any reform of Council Tax needs to include a review of the freeze to ensure that it operates as a modern, effective and fair system of local taxation. Lifting the freeze would strengthen local democracy. This could be achieved independently of a change to the Banding structure and property revaluations or before a new taxation system is introduced. The Commission should consider if a freeze has a place in a modern local taxation system.

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.

Summary

Council Tax performs well against the principles of efficiency, certainty, convenience and proportionate to the ability to pay. Council Tax is easy to understand. Its yield is predictable, with the cost of collection low compared to income received. Furthermore, it is difficult to avoid, there is a Council Tax Reduction scheme in place to support people on low income and a discount scheme reduces Council Tax for single households and others such as students. Councils have a strong track record for collection.

However, a number of reforms are required to modernise Council Tax to ensure it is fit for purpose, offers best value and provides local government with a long term and secure form of local taxation. North Ayrshire Council recommends the following reforms to the Commission if Council Tax is retained:

- A review of the Valuation Bands with consideration given to extending the number of Bands at the lower and top levels
- A review of the ratios between Valuation Bands to ensure a level of fairness when levying Council Tax
- A full property revaluation is carried out and a review cycle introduced
- Consideration of an interim transitional relief scheme to mitigate against significant changes in property values
- Reform of Council Tax to be cost neutral
- Development of an effective equalisation scheme on a national or local basis
- A review and development of Council Tax Reduction 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 instalments, making it easier and affordable to taxpayers
- Removal of the ability of Government to control Council tax through a Council tax freeze mechanism

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?

We agree with the Minister's four principles in relation to local taxation. These are:

1. Any system needs to be efficient to administer
2. The system needs to provide certainty to the local authority on the level of income, and to local residents on the costs they will incur
3. It has to be convenient and easy to access and pay
4. Any local taxation system needs to be proportionate to the ability to pay

There is close alignment with these and principles developed by COSLA in considering a response to the Commission inquiry. These include:

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

In addition to the principles above, it is the view of SOLAR 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.

Please provide your response here

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

Commission on Local Tax Reform
Verity House
19 Haymarket Yards
Edinburgh EH12 5BH
0131 474 9200
email: info@localtaxcommission.scot
twitter: [@localtaxscot](https://twitter.com/localtaxscot)
