

Effective services, priced priorities



Submission to the Commission on Local Taxation

June 2015



Wealthy Nation Institute
Liberty, Independence, Responsibility, Empowerment



The Wealthy Nation Institute

Scotland is a wealthy nation, but we do not benefit from our wealth as much as we could. There is a range of political and economic reasons for this, but one of them is certainly a lack of understanding among Scots, from the government downwards, about how wealth is created.

The Wealthy Nation Institute brings together a group of Scots businessmen, academics, entrepreneurs and commentators. We seek to break with the prevailing consensus in Scotland and the UK, so as to release ideas that can raise our country to a new level of prosperity. We believe that in the end it is through the independence of the nation that this will be best achieved. Short of that, we support the greatest possible freedom for Scotland in matters of policy, for only Scots can have the will to carry out this transformation of their country.

Our goal is to create the confidence that Scotland can be wealthier and to destroy the consensus in favour of mediocrity that has held us back for too long. This consensus is founded on political and economic control of the Scottish people and their talents. Instead of resting content with one of the slowest long-term rates of growth in Europe, we should throw off the deadweight of managerialism and central planning – the programme of every political party in Scotland. We should turn rather to a model that champions economic, social and personal liberty for us all.

Here, localisation of enterprise and diversity of endeavour are essential. This is the basis of the proposals that follow to the Commission on Local Taxation.

Michael Fry, Chairman
Wealthy Nation Institute

TaxpayerScotland

TaxpayerScotland is an independent advocacy group favouring lower taxes and constraints on government spending in Scotland. Our aim is to bring the interests of individual taxpayers to the attention of the Scottish Government.

We are well aware that the present consensus in Scotland, as elsewhere in Europe, is left-of-centre social democratic. Our intellectual lineage is older, emerging from a longer Scottish tradition of classical liberalism. However, we are led and advised by professional political economists and our analysis is therefore couched in the ideas and language of contemporary public choice economics which examines decision-making in public policy using the principles of economics.

This submission is offered as a contribution to the debate about local taxation in Scotland. We are supporters of localism, yet believe this has not been well defined in the civic debate. We hope our submission will engage and inform the Commission about options for change in local taxation and its links to how we spend those tax revenues. We are keen to stress that a focus on equalisation does not, by necessity, require centralised mandatory methods; there are other ways of introducing “fairness” through choice and variable pricing.

As always, TaxpayerScotland declares no party political allegiance. We are set up and funded entirely by private non-corporate donation from Scotland.

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Preamble

We have attempted to answer the consultation in a way that offers a bridge between our own views and that implied by the questions offered.

We are rather disappointed that the link between the raising of tax revenue and the spending of that revenue has not been recognised within the approach taken by the Commission. Our world view is predicated on the idea that the transfer of income through taxation is not always the best way of providing for the funding of local services.

We do not believe that resorting to more taxation as an immediate response to any new demand for public services at local level is an efficient way of enhancing the wealth of Scotland, nor indeed of creating a greater perception of fairness within our communities.

We are keen that the Commission considers not only the visible arithmetical summations of revenue that can be easily calculated on any proposed tax base, but the less visible dynamic effects through time of tax changes. These unintended consequences usually make the outturn of such tax collections quite different from what might be expected.

In short, supply side effects matter greatly.

Question One

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 you wish to see retained or changed?

1.1 Delivering fairness must recognise that effectiveness is altered by induced effects

1.1.1 The UK's property taxes are the second highest in Europe after France¹. Due to the lower banding, the recently introduced Property Transaction Tax in Scotland is higher than that of England, Wales and Northern Ireland. Scotland does not have low property taxes despite the freezing of Council tax.

1.1.2 As with all taxes, the tax base, thresholds and rates imposed generate behavioural changes that are often hidden to the administrators of the tax. The higher the tax burden the more householders will adjust their behaviour. These effects are often ignored in the construction of tax policy resulting in suboptimal structures with unintended consequences for both taxpayer and the state.

1.1.3 It is these induced and deleterious effects that we at Wealthy Nation are keen to have considered by the commission in any evaluation of "fairness" and "effectiveness". The design of any effective tax system must optimise the net outcome of both revenue gained and these induced adjustments by taxpayers.

1.2 Asking what is "fair" is a moral question that has no objective answer.

1.2.1 "Fair" can mean;

a) equitable in the sense that the burden of a tax does not land prejudicially on one person over another

b) equalising in the sense that a tax is designed to redistribute a cost burden on those with a greater capability to pay, aimed at approaching outcomes such that post-tax, post-benefit disposable incomes are the same, or nearly the same, for all.

c) well-targeted, in the sense the level of tax-funded services obtained is related to the cost of receiving them by, for example, introducing variable pricing.

1.2.2 While equitability offers just rules applied to all, equalisation implies subjective judgements about how to impose tax rates that impinge more harshly on some over others. Behavioural changes then apply and effectiveness is trumped by politicisation of service provision in favour of one group over another.

¹ See

http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/2014_eu_wealth_tax_project_finale_report.pdf Section 5.22 Table 21.

1.2.3 Only the last approach (well targeted) allows a local taxation system to introduce the liberty and productivity of choice. Behavioural changes then cease to be a disrupter and instead become a driver for the effective use of tax as a channel for good services provided at low cost on a collective basis.

1.2.4 Absence of targeting - the arbitrary raising of tax independent of the related services – always acts as a disruptive force, leading to sub-optimal resource allocation, insensitive to considerations of efficiency and value-for-money.

We explore the beneficial process of targeted taxation using consumer choice as a driver for designing services later in this paper.

1.3 More bands for larger households will have behavioural effects

1.3.1. Alternative tax regimes using higher tax bands for larger households or additional income taxes have been suggested. It is important to recognise that these will be considered subjectively unfair by those adversely affected but more significantly, will on all objective measures of human behaviour result in damaging side effects and actions.

1.3.2 The Stiglitz hypothesis proposes taxes can be at a penal level on property since the taxpayer cannot avoid them (property is considered immovable). History shows that resentment vitiates even this apparently logical thesis. The Window Tax levied in Scotland from 1747 to 1851 notoriously led to blocking up of windows²; in the 1950's and 60's, also in Scotland, the tax rule that rates were not levied on roofless mansions led to the highest rate of destruction of such heritage assets (proportionately) in the UK (over 2,000 documented.) even though most could have been converted to other uses. Through time, unintended consequences are a powerful destroyer of bad policy and reduce revenue streams from taxation dramatically.

1.3.3 Were Scotland to introduce penal additional bands then several reactions can be expected; inappropriate subdivisions of properties, effective expulsion of cash-poor inhabitants (effectively a new “bedroom tax”) and a decline in maintenance activity. The first increases the extent of inadequate housing. The second, if ameliorated by housing benefit supplements, adds to an already wasteful money-go-round of transfer payments which damage our economic efficiency.³ The third destroys renovation income and employment for skilled trades.

1.3.4 In addition, the perception that higher banding taxation is to be the norm in Scotland enhances incentives to emigrate especially among young graduates planning a career and expecting to build wealth through their lives. Scotland cannot afford the loss of these talents. Conversely, disincentives are created to remigration into Scotland by Scots abroad and others who might settle here and boost the national economy.

² The aversive behaviour occurred even though for a house of over 20 windows the tax rate in 2015 money was only £49.57 p.a.

³ <http://www.reform.uk/publication/the-money-go-round/>

1.3.5 The driver for proposing higher tax on the wealthy is the objection that the lowest bands pay a higher tax rate as a percentage of their property value than the large homeowner. This approach is in error for three reasons.

- Firstly, it implies that the annual charge out of income should be seen as small against a much larger capital value producing the perception of a chargeable burden of only a few percentage points of total asset value. But since this is an annual charge, this implies, at say 2% of value, a 40% extraction of total capital value over a 20 year period. If instead the charge is seen as a percentage of the notional rental value, payments by those in top bands of, say, £3,000 to £6,000 annually out of after-tax income represent a major transfer of discretionary spending power from the individual to the state. Comparing 'income out' with 'capital value', instead of 'income out' with 'income in' is not a good basis for tax policy.
- Secondly, the capital values on which these comparative ratios of burden on 'rich vs poor' are calculated ignore the fact that tax on larger properties can rise to 12 per cent, such that the owner can never actually obtain the capital value implied by the calculations in the high band models for Council Tax. Asset value is instead destroyed over time.
- Thirdly, a full view of what is paid by whom has to look at the reality of what are known as 'money-g-round' transfers between the redistributive state and those in the lowest bands. A high proportion of Band A to C dwellings consists of social housing in which rents at approximately a third of market values are charged. Around 50% receive housing benefit such that no rent or a reduced rent is paid. It is not clear at all that many of these taxpayers are being unfairly treated with respect to the impact on their disposable incomes when all elements of this income are taken into account.

1.3.6 These and other egalitarian policies need to be considered together, rather than looking at council tax in isolation. A fair policy will not always turn out as what appears to be an egalitarian policy, unless there is some statistical proof of inequality of outturn.

1.4 Council Tax has limitations, but it is the known incumbent

1.4.1 The criticisms of the present Council Tax with respect to equity are:

- It only indirectly links its imposition to ability to pay. That is, it is not directly cash flow based on income or consumption.
- Rentiers pay more in relation to their means than house owners as the tax is calculated on the value of a house that they could not normally afford.
- The thresholds for valuations are clumsy – a slab basis is not a good design
- Localised valuations may not be equitable or indeed consistent – especially through time as property values adjust to local circumstances.
- It is difficult to update because re-rating is expensive and disputatious. Bandings can become badly skewed – especially where properties are empty - so the tax base becomes inequitably skewed.

- It has, as a result, ended up with a large set of reliefs and adjustments. It therefore loses simplicity and clarity and encourages appeals and dissent.
- It tends to seem proportionately large to householders because it is a large regular mandated annual outgoing (rather than a set of discretionary payments).

1.4.2 On the other hand, as the incumbent system:

- It is relatively easy to collect once a valuation is agreed, and the majority of valuations are still in relative terms proportionate, even though over time this becomes less likely for those fees with development potential.
- Its tax base is difficult to evade: with over 95% collected annually by Scottish Local Authorities.
- Trained local council staffs are in post and understand its workings.
- It would consume a lot of time and resources to change it, and create considerable disruption to local council operations.
- It has ceased to be the key source of funding for local councils for the many services they presently provide. Insufficiency of our local tax bases has led to centralised support growing with associated political and administrative controls.
- To a great extent, transparency over what our councils achieve has led to a regular and stable dedicated hypothecation of revenue for local purposes, albeit constrained by caps or Concordats.
- Certainty about the long term presence of a tax regime minimises behaviour changes.

1.4.3 As we shall see, our proposal is to retain Council Tax but adjust the way services are provided to optimise the transparency of its burden, while maximising householders' choices over the impact of that burden.

1.5 Localising business rates only moves a tax burden

1.5.1 While outside the scope of your questions, we believe there is a case for returning business rates to local council control. However, past experience shows that this should only be attempted with accompanying constraints. Linking proposed rises in business rates to rises in Council Tax would impose a guaranteed equity of burdens.

1.5.2 It is essential to remember that business rates are not in the end paid by businesses, but by their customers, i.e. in large measure those who already pay Council Tax in the locality.

1.5.3 Localisation has advantages in our view of introducing competition between councils on service provision; such competition is correctly seen as a way of obtaining knowledge about performance. Localisation of business rates must only be done with the inclusion of key performance indicator measures published nationally to allow comparisons in the efficiency of tax revenue use across councils.

1.5.4 However, we stress that any localisation of business rates only moves a tax burden. It does not satisfy the real need to integrate the availability of tax revenues with the use of those taxes on spending programmes.

Question Two

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?

2.1 Stability and clarity allow focus on best value – any alternatives must meet this rule

2.1.1 All tax regimes require a stable and identifiable tax base, an imposition that is easy to understand, low rates to minimise incentives to adopt adverse behaviour, and defences against complexity creep through time.⁴

2.1.2 The core issue is one of practicality in tax governance; that is, obtaining best value in the spending of the revenues raised in a way that is attuned to users' needs and wishes. As was observed by the Burt review of Local Authority revenue raising in 2005⁵, it is illogical to separate the raising of local authority taxation from spending decisions: no prudent household operates on that basis. As we have said, it is precisely this linkage of fundraising and expenditure that which optimises "fairness" and "effectiveness".

2.1.3 We therefore provide here a brief review of our reasons for accepting the current local authority domestic tax base as passing, on balance, the "effectiveness" test, and so rejecting radical change. We then point to the key factors which we think need to be concentrated on to supplement in stages, rather than radically abolish, the design of Council Tax.

2.2 Alternative One: Local Income Tax would breed complexity

2.2.1 A local income tax independent of a national income tax would be inordinately expensive to administer. Income taxes are difficult to calculate and issues arise over the domicile of the householder particularly in areas where rental properties are prevalent, or where there is a high proportion of holiday homes. As with all income-based taxes, clarity over the "income" that forms the basis of the tax can become extremely complex to achieve.

2.2.2 A local income tax as a precept taken from a national income tax can have the same issues on domicile and base. There are also issues over political control arising from the centralising of collections. The time-scales and needs of national revenue raising priorities may be quite different from those at local level. That would devalue local governance.

2.2.3 The localising of governance, as opposed to mere administration, is a principle that needs statutory (indeed constitutional) protection to meet a democratic desire for autonomously funded local spending. We make two points here.

- First, the "fairness" question. A centrally managed or legislated local income tax would borrow the moral values of the centre. However, the application of fairness in the sense of a

⁴ Today, this phenomenon of creeping, and costly, administrative complexity is often incentivised by electronic computation and billing systems.

⁵ "Fairer Local Tax for Scotland" www.gov.scot/Publications/2006/11/06105402/0

general principle of nationalised equitability of imposition might not be fair were the same rules to be applied to, say, an area with many low-income retired couples, such as Dumfries and Galloway, and a locality populated by well-paid professionals, such as Glasgow's West End. This raises the prospect of a local income tax then becoming complicated by additional reliefs and entitlements aimed at tuning its local impact to local inhabitants.

- Second, *competition* between local tax regimes offers the opportunity to generate knowledge about how best to use local tax to offer local services. It is an error to declare any emerging differences as bad outcomes creating a "post-code lottery". Any tax which imposes a non-trivial burden creates winners and losers. "Fairness" considerations may require adjustments through reliefs and entitlements, but keeping these localised optimises the effectiveness of the tax regime as these adjustments will be reactions appropriate to local circumstances.

2.2.4 Competition in taxation continually produces "best practice" evidence. There will be a period of experimentation and error which may give an impression of uncertainty compared to a more uniform regime. In the world of local government where information is shared, uncertainty is part of a process through which competing players learn to use their tax revenues more effectively.

2.3 Alternative Two: Imputed rental income tax would reduce local responsibility

2.3.1 Some economists favour an imputed rent tax as the basis for taxing households. This tax would generate much revenue and could act as a replacement part of any national income tax regime. It is based on the idea that individuals gain from home ownership in the form of imputed income that would have had to be paid were they renting.⁶

2.3.2 At present local authority and national taxation treats owner occupiers as receiving no taxable income in kind from the benefit of owning their own home. They instead only pay Council tax to support services. By contrast, tenants must pay rent out of after-tax income and then pay council tax in addition (in relation to the banding) of a property they do not own.

2.3.3 There is some dispute as to whether imputed, and real, rental values offer a more exact cipher for valuations to act as a tax base. Our view is that in theory an imputed tax does offer this advantage but in the real world of disparate property types, uses and locations, the benefits would be swamped once again by the difficulties in, and need for, continuing valuation.

2.3.4 Once again, the equitability issues that this raises, along with inevitable administratively complex arrangements to assuage distortions seen as unfair, would in our view lead to costly, disruptive and ultimately ineffective changes.

2.3.5 An imputed rental tax could raise considerable revenues. It allows local councils powerful varying powers within their locality. This could lead to wide variations in tax burdens imposed

⁶ A good review of the issues involved can be found in a study by the IFS at http://www.ifs.org.uk/fs/articles/callan_nov92.pdf

between different councils. Again, behavioural effects apply, this time with a large potential impact on house prices.

2.3.6 While we would see this tax competition as an advantage, there are concerns that if some councils were unable to control their tax and spend needs, a runaway spiral of higher taxation on a shrinking tax base in those localities could emerge. As such the imputed rental tax has been criticised for the temptation it would offer to be taken into national control through political interference. The history of the re-nationalising of business rates applies.

2.4 Alternative Three: Local consumption taxes

2.4.1 Consumption taxes avoid inimical distributive effects where choices over consumption are made by individuals. However, the scope for local consumption taxes where a national inflexible VAT rate and tax base already exists is small. They would be inordinately difficult and expensive to collect as a tax in addition to VAT. There would be a tendency to reduce their tax base to easy-to-target goods and services which would produce highly distortive outcomes, particularly if different councils taxed differently.

2.5 Alternative Four: Localisation of a VAT precept

2.5.1 There would be some merit in examining an extension of the Smith Commission's proposal to allocate part of the UK national VAT collection to Scotland. A logical extension of this would be to further allocate a localised precept to local authorities of VAT collected in their local area.

2.5.2 This proposal has the advantage of providing some incentive to local authorities to choose policy measures which increase local trading. Improved economic performance would be directly linked to an improved tax revenue stream. There is evidence too that taxes based on spending are favoured by the electorate over other taxation methods.⁷

2.6 The real alternative – do you get what you pay for?

2.6.1 Our analysis suggests that the focus that is required to optimise “fairness” and “efficiency” has to be on the link between what the householder pays and what the householder obtains for that payment. We therefore turn now to how the services provided by local councils might be adjusted to offer different value outcomes depending on what tax is paid by householders. In short, we believe that there is a need to inject an element of variable pricing into the provision of local services.

2.6.2 The variability in itself is used to provide fairness through graduated charging through which higher charges would impinge on wealthier property owners or service users, but in return for better service levels as in any purchasing transaction.

2.6.3 More specifically in the context of fairness, where this graduated pricing is offered, all services obtain a new element – the choice of users to adjust their behaviour to create best fair value for themselves as they perceive it.

⁷ <http://esp.sagepub.com/content/22/1/77.abstract>

Question Three

How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? Is there room for improvement, how should things change?

3.1 Principles governing value-based standards allow priorities to be met

3.1.1 Well-documented trends in public spending in the years since 1948/9 have seen an increase, at constant purchasing power, from £105 billion to £720 billion annually in state purchasing.⁸ This growth in spending has been weakly constrained. Special interests seeking additional funding trump the general interest of local taxpayers in keeping control over their own money.

3.1.2 Throughout this expansion, the adoption of effective value-based auditing standards and the stimulation of innovation to control costs have both been notably problematic in the face of voter demands. Councils still operate on a mechanistic command-and-control basis even though some dialogue with market-based concepts has been apparent in recent years. Best value rules, performance management initiatives, outcome agreements and eventually the Concordat based on a tax freeze have all been used to cap the growth of spending and make councils more efficient.

3.1.3 All of these initiatives are a relatively crude system of restraints on local council autonomy and reduce their ability to respond to localised needs. Councils have become a political plaything, caught between local voter interest in more spending, and a national interest in not losing votes from higher taxation. This tension becomes particularly acute when the proportion of purely local domestic tax funding is at the low levels of under 15% that we see today in Scotland and councils essentially rely on central government grant funding for their daily operations.

3.1.4 For economists, using local taxation to fund collective needs provided by a council acting as a monopoly service provider has the inevitable observable effect of rationing services. Councils are locked into a world of high, and growing, service demand with perennial financial shortfalls. The result is oft-expressed taxpayer dissatisfaction even though the Council Tax is less than one-sixth of the cost of running councils.

3.2 Re-establishing the link between community priorities and service provision

3.2.1 The fundamental flaw in our present arrangements is the disconnect between the predominantly central government tax-funded services and the priorities of the community. The community do not call the tune; electorate turnouts are notoriously poor and votes for a given party only weakly represent spending preferences against the multiple outputs of local government. There is an absence of service prices to offer evidence as to their value to those who notionally "buy" them, nor easy recognition of true value for those in the local councils that provide them.

3.2.2 The answer to being able to provide the scope for community priorities to be met is to allow:

⁸ Source:IFS (2014). No period has shown a reduction of more than £14bn (1977-79)

- a) Stratification of service levels based on variable charging levels where possible. Those with the highest consumption footprint, who tend to be wealthier, pay more on a service by service basis. Other provision is made for those who cannot reasonably be expected to pay.
- b) Auditing of services to generate a specific reconciliation of costs and revenues in their accounting – essentially a profit and loss account for specific services, transparent and publicly available by creating fully identifiable business units within local government.
- c) The further evolution of contractual service-level based management control of public service functions: council operations move from direct control models to specialising in arm’s length contract management functions. In this, using the principles of “Following the Public Pound”, a range of contracting parties including well-regulated Arms’ Length External Organisations, community groups and, where appropriate, purely commercial third parties are empowered to provide specific additional services which the council cannot achieve cost-effectively.

3.2.3 The core issue here is knowledge of function, costs and possibilities. Councils cannot know how all services might be provided, or the costs of diverse and flexible options. Through time, it is only localised and specialist service providers that can have the operational focus to discover new cost-effective ways of providing existing and improved services.

3.2.4 These three measures would generate information as to what local users of local services consider to be a priority. Councils can react to this new knowledge to optimise fairness and efficiency. They are also released to expand services from growing revenues fairly obtained through use-based priced charging.

3.2.5 Here again, the revenue need is integrated with the spending function and optimised through the ring-fenced operations offering graduated priced services. The question posed above then needs to be phrased in terms of what services these should be in the context of the revenue needed to provide them.

3.3 Revenue for community priorities cannot be assumed

3.3.1 We take first the term “priorities” to mean the successful and economic provision of desired services rather than any imposition of a subjective moral principle of equalisation through redistribution of funding.

3.3.2 In the view of most taxation specialists, Scotland does not have a large cohort of high-income earning taxpayers who could provide significant further transfers to the less well-off. Only 8,000 individuals in Scotland are thought to pay tax at the top 45% rate (plus 2% NI) under the present UK tax regime. Only 6 % of Scottish domestic properties are in Bands G and H.

3.3.3 Indeed one of the behaviours we would foresee should any tax policy be attempted that introduced greater progressivity in local taxation would be the disappearance of the targeted capital and income from the Scottish communities attempting it. This group is generally mobile and, without tax evasion or avoidance of the sort open to challenge, able to shift their wealth into less tax-exposed legal entities or territories as necessary. We should not underestimate this capacity,

protected under Human Rights legislation relating to property rights, freedom of movement and open commercial exchange.

3.4 Aspirations cannot be considered priorities without a price being known by the community.

3.4.1 We are doubtful whether there are “community priorities” that can be identified rationally without taxpayers being told at what cost those would be provided. Scotland suffers from a tendency for civic groups to announce uncosted Utopian aspirations. Communities however need to progress towards understanding optimised cost/benefit constraints under which those aspirations might become possible. Many aspirations are often not truly democratic community outcomes, but special interest outcomes presented as those of the community. In that sense, claims on local tax revenues are in no way connected to actual community priorities; those priorities are decided on by political influences. This process does little more than produce struggling corporate governance teams within our councils trying to be all things to all groups.⁹

3.4.2 In encouraging the empowerment of local communities we propose that all local councils should construct framework relationships in which cost/benefit disciplines are integral to increased devolution of activity. There is a role here for statutory arrangements in favour of functional ring-fencing and mandatory cost/benefit analysis being added to the responsibilities of the Community Planning Partnerships – giving them proper powers to monitor use of our taxes in relation to their use in spending.

3.5 Identifying priorities can be discovered through disaggregating functions

3.5.1 Disaggregated use of tax revenue involves specific profit and loss accounting of defined functions. These include:

- Environmental Services – cleansing and rubbish collections.
- Roads and other civil engineering matters
- Public realm activities – streetscape, car parks, community parks, sports grounds.
- Heritage and cultural services
- Social support services

3.5.2 Our vision for the use of our taxes is for local councils to be commissioning bodies defining and releasing transparent contracts to arm’s length bodies for these spending functions. Contracts should allow charging for services wherever feasible, and those charges should be left to the discretion of the contractor. Where charges are thought impossible there is scope for virtual charging using techniques of priced service emulation. This represents an extension of existing “best

⁹ The term used in local council circles is “multiple agendas”. What is rarely admitted are the astonishing overheads in administering these agendas in the face of confused and conflicting objectives. Vast amounts of taxpayers’ money are spent on meetings and initiatives which are unable to resolve operational matters in any effective fashion.

value” rules, in which private sector pricing and viability tests for local government operations already have a role, to creating disaggregated business units within councils.

3.5.3 As such, contractors should be free – within every disaggregated and audited function – to offer additional stratified services. The limitations of rationing on local councils are removed where consumers of those services are available to purchase them. New payment streams supplemental to existing local authority taxation are created through voluntary rather than mandated payment.

3.6 Graduated charging

3.6.1 Where a general principle of user payments is set up within a ring-fenced cost and revenue audited function, scope for graduated charging is released. We provide some examples here to illustrate the general principle.

a) Waste collections

Why are all waste collections generally charged at the same price? It is quite possible to offer a standard service at one price, with augmented pricing assumed for large properties requiring additional bins, additional specialist collections, or specifically remote collections. Prices can be used to augment revenue obtained for visible additional services (usually provided to wealthier people). Equally, where service providers can find methods of offering their basic standard service more cheaply in areas of concentrated populations through agreement with communities the price of those services can be reduced, and so releasing funds to the service provider for service value improvements elsewhere.

b) Road use

Why does the council tax in respect of road expenditure fall on everyone, whether pedestrian, low user, or multi-car high-mileage household? The presence of vehicles incurs a cost on local councils; it is possible to put a price on that presence in numerous ways. An additional levy for local authorities derived from DVLA data¹⁰ of a local vehicle excise duty, higher for those with larger cars, would provide a progressive form of income which would raise additional revenue for local roads, allowing for a catch-up on repairs. Scotland has more road miles per car user than the rest of the UK and most car journeys are local, justifying a targeted supplementary levy. Charging for local road use matches a price to a recognisable benefit – the improvement of roads which are deteriorating rapidly in the face of strict rationing of tax revenues from central government. Around 40% of Scotland’s roads are considered substandard.

c) Amenity services

Why do our amenities tend to become run down? Local councils in Scotland have a variable record in charging for specific amenities such as sports centres, swimming pools and playing fields. Too often, they become over-used, under-invested, and consequently

¹⁰ Road Fund taxation does not form part of the Smith commission taxation powers devolved to Scotland, but there is no principle preventing a localised tax supplementing road expenditure being derived from DVLA data

worn or decrepit. However, these facilities lend themselves to organisation via arm's length management, with the right to earn revenue offered as an asset to companies or community groups. Variable graduated charging would allow more revenue to be obtained for additional services, and for peak-hours activity; thus better matching community priorities and allowing proper maintenance and improvement. Innovation in service provision and additional services to cover costs would be incentivised. More complex, specialised and equipment rich activities can be charged at higher prices paid largely by wealthier participants. The introduction of discount card technology enables the council to concentrate on special support benefits to the less well-off should these be desired. Transparency in the costs of such price reductions provides vital information to social services in their efforts to enhance community inclusion.

d) Distributed variable services

Why do councils never seem to have the right amount of snow clearing equipment? Usually because it is assumed that this service is a one-size fits all tax-funded supply system provided through necessity by a monopoly. This is an error.

Adverse weather is a variable event, producing variable demand for clean ups: often, in bad winters, many millions of expenditure occur unpredictably, a major forecasting headache for local authorities. To cater for this requires a variable supply system provided at best value. The solution is to distribute the right to provide the service across multiple suppliers offering graduated services at graduated prices; civil contractors, farmers, local artisans, retailers and volunteers can all be enfranchised into the service need. This is complex, involving main roads, side roads, entranceways, critical facilities, local streets, passageways, paths, and the homes of the elderly and vulnerable. These providers need to be on call since heavy falls are unpredictable, whereas council roads staffs are permanent employees: a mismatch exists. The answer to complex demand is not better centralised planning, but distributed responsibilities made real by contract and pricing.

Local entities such as community councils should be encouraged to raise funds for these emergencies. In rural areas they should purchase their own equipment suited to narrow roads, rather than relying on the slow reaction of a centralised local authority with its relatively rigid planning and priorities. The results would be an improved performance, empowerment of the community and less need for taxation to finance the service.

e) New services

Why are bicycle owners not charged when they cause costs to accrue to local councils? By analysing community overheads created by local activity it is possible to identify new areas where the collective asset which can be exploited and operated within new cost/benefit functions. Public toilets, heritage assets, community halls, specialist schooling (dance, mechanics clubs, etc), are all examples of property and property rights. In terms of cycling, specific access gates can be provided to dedicated paid-for cycle-ways. Even at a nominal charge this creates, over time, new money for further cycle route improvements to support climate change initiatives.

The principle here is graduated charging for new services to augment tax revenues and meet the community priorities of value for money and a restrained tax burden. Again, focus on spending patterns induces good tax management.

f) Voluntary services

Why are all services assumed to be provided only from council funds? Additional social support services can be provided through charges paid by those with money to support those with less. Such prices can involve sponsorship paid by local businesses or clubs, or fund-raising events by local groups intent on improving community inclusion for the elderly or vulnerable. Councils' engagement with third "third sector" is underdeveloped because of the tradition of "command and control".

The assumption that only the local council can provide social support is a driver for a perpetual claim on the public purse. Ensuing high local taxes are partly to blame for the struggle that many of the less well-off have with their basic living costs. Councils have a role here to attempt to reverse this process, bringing voluntary community efforts to bear to increase social support through voluntarism.

3.6.2 All of the above introduce the general principle of enhancing revenue streams (1)through variable graduated charging (2)on the basis of disaggregated services offering best value within their own costs and benefit audit. The revenues obtained are an alternative funding stream equivalent to present tax funding, but with much better targeting and perceived value for money.

3.7 Discarding services

3.7.1 An additional alternative to tax which would allow focus on real community priorities is to introduce a focus on "services" which are unnecessary or unwise for a council to provide. Examples are:

- Economic development services which are in fact merely an offshoot of a restrictive planning department
- Economic development services which promote one council area at the expense of a neighbouring council area. Business promotion should ideally be left for businesses to pay for. Any job creation obtained from these efforts is always negated by the higher taxes imposed to pay for the promotions.
- Web initiatives disguised as public information services, but in reality short-term promotions for special interest groups using tax money for specific campaigning purposes
- Promotional communications which few read and have little value over and above other council information already provided, and are often slanted in favour of the group in power

3.7.2 We urge, as a tax value improvement measure, that the Commission stress how important it is that councils feel free to simply stop engaging in certain historic functions.

3.8 Super-localisation is a way of maximising targeting of services to local priorities.

3.8.1 If a framework of properly accounted for priced, part-priced and virtually priced services is achieved there is a further step. This reinforces the democratic credentials of the council and allows decision-making to be maximally localised. It develops the analysis of COSLA's Commission on Local Democracy examination of localisation which stressed that "experience has shown that it is the only truly effective way of getting things done."¹¹

3.8.2 This involves devolving budgets to the lowest level possible within a framework. That is, council budgets for specific functions are hypothecated to local communities who become the commissioners of services as they wish. They can also underspend, augment their spending in other areas, or adjust their spending as they wish within the prescribed function.

3.8.3 Available tax funding is then placed by the local community with one or more of the approved ALEOS commissioned as community service providers. Per unit of value obtained, we use less tax.

3.9 Perceived value for the tax pound in achieving priorities can release more services.

3.9.1 We hope that it will be seen from the above examples that there is huge room for change and improvement. This, however, requires a direct linkage between the expression of priorities and the purchasing done to achieve those. Traditional monolithic tax-funded methods will fail and only offer rationed services that do not satisfy community needs. In that environment, any discussion about satisfying priorities will stall in the face of competing claims on scarce tax resources. Only by allowing expansion of services through graduated service charges can more value be obtained from our tax pounds.

¹¹ <http://www.localdemocracy.info/2014/08/14/time-to-rebuild-scottish-democracy-what-the-referendum-decides/>

4. End Note

Achieving constraint and value

When our taxes are used to provide a service, the offer of good value must be constantly revisited. The key to offer taxpayers good value is to find ways of incentivising councils to make repeated annualised zero-budgeting decisions about what they offer to communities. Rigorous profit and loss accounting as these budgets are spent provides transparency about performance.

In this way fairness and effectiveness in taxation are achieved through evidence about what is being done on the ground within communities.

- Without constraint, some councils will damage household wealth by putting the special interests of spending factions against taxpayers to the point of harming their communities.
- Incentivising councils to create additional revenues over and above any overall spending constraint gives any community new potential. That is, they use the allocated property right of the management of the public asset to generate funding, as requested by local inhabitants paying arm's length enterprises. Councils earn money for their overall governance in this way as the taxing authority.
- This also provides a mechanism to stop councils demanding more revenue when they provide a bad service that incurs higher losses than necessary.
- One advantage of priced services is that taxpayers would be able to cross-compare one council with another to see if they were indeed offering fair and effective services. Current measurement mechanisms are riddled with definitional inconsistency and do not in practice give Councils the information to act differently
- Fairness in service availability is assuaged through graduated pricing which in almost all cases allows for the wealthier to pay for more, or the poorer to receive discounts. That is, a council is always able to step in as a virtual customer on behalf of those who cannot pay to support them.

Conclusion

Scotland is centrally planned, and the evidence that central planning ever works well is slight. Our approach would seek diversity of outcomes – which may include locally enabled solutions not in compliance with the National Performance Framework and/or Single Outcome Agreements. They would however meet the democratic wishes of those who pay for the Councils who provide them.

To make a local taxation truly fair and efficient requires that the tax monies raised are spent in a way that is deemed fair and effective by those who use the tax-funded services. We do not believe that all local services need be totally tax-funded; many could be part funded, and others could be released from public funding altogether. Only in allowing these citizen-focussed institutional changes to take place will we obtain a genuinely fair and effective local tax regime.