



To: Council

On: 25 June 2016

Report by: Director of Finance & Resources

Heading: **The Commission on Local Tax Reform**

1 Summary

1.1. In June 2014, the Scottish Parliament's Local Government and Regeneration Committee's Inquiry into the Flexibility and Autonomy of Local Government unanimously called for a cross party Commission to be established to "*facilitate meaningful debate on alternative approaches with the aim of having a new system identified in time for the next local government elections in 2017*". This recommendation was subsequently reflected in the Scottish Government's Programme for Government 2014-15.

1.2 The Commission is jointly chaired by COSLA President Cllr David O'Neill, and Minister for Local Government, Marco Biagi MSP. The membership of the Commission includes both political and non-political representatives, including two MSPs, five Councillors, and six non-elected representatives from elsewhere in public life. The political appointees on the Commission are augmented by representatives from elsewhere in public life, with a view to achieving a balance between those with particular expertise in finance and taxation, and representatives who can promote social justice and fairness in relation to the Commission's considerations and the impact of its findings on Scottish households.

1.3 The remit of the Commission does not compel it to make a recommendations but it does require the Commission to explore in detail the available options and set out considerations in relation to these. Any changes would therefore be a matter for the government elected in May 2016. The published remit of the Commission is:

“To identify and examine alternative systems of local taxation that would deliver a fairer system of local taxation to support the funding of services delivered by local government. In doing so, the Commission will consider:

- The impacts on individuals, households and inequalities in income and wealth;
- The wider macro-economic, demographic and fiscal impacts, including housing market and land use;
- The administrative and collection arrangements that apply, including the costs of transition and subsequent operation;
- Potential timetables for transition, with due regard to the 2017 Local Government elections.
- The impacts on supporting local democracy, including on the financial accountability and autonomy of Local Government;
- The revenue raising capacity of the alternatives at both local authority and national levels.

1.4

In conducting its work, the Commission will engage with communities across Scotland to assess public perceptions of the emerging findings and to reflect this evidence in its final analysis and recommendations which are expected to be published in late 2015. In terms of this process of engagement, the Commission has asked the following specific questions:

- *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?*
- *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?*
- *How well do you think that communities’ local priorities are accounted for in the way local taxation operates at the moment? If there is room for improvement, how should things change?*
- *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.*

1.5

Responses to the Committee are required to be submitted by the 22nd June 2015. Attached to this report is a proposed Council response which has been developed at the request of and in consultation with the Council’s Administration Group.

2. Recommendations

- 2.1 It is recommended that the Council consider the content of the proposed response.

Implications of the Report

1. **Financial Implications** – the draft consultation response calls on a fundamental review of the local government finance system operating in Scotland

2. **HR and Organisational Development Implications** – none.

3. **Community Plan/Council Plan Implications**

Wealthier and Fairer – the consultation response presents evidence to the commission for a range of significant reforms required in the overall system of local government finance to support a fairer distribution of resources and access to financial levers at a local level that can be used by local authorities to support local decisions targeted at improving and tackling inequality across the country.

Smarter – none

Healthier – none

Safer and Stronger – none

Greener – none

Developing and Organisation – none

4. **Legal Implications** – none.

5. **Property Implications** – none.

6. **Information Technology Implications** – none.

7. **Equal Opportunity Implications** – none.

8. **Health and Safety Implications** – none.

9. **Procurement Implications** – none.

10. **Risk Implications** – none.

The Commission on Local Tax Reform

Response from Renfrewshire Council

June 2015

1. INTRODUCTION

- 1.1 Renfrewshire Council welcomes the opportunity to respond to the work of the Commission but would, at the outset of this response, highlight that a focus merely on local taxation, represents an overly narrow perspective when seeking to consider how best to support local authorities to address some of the major challenges they face to support and be accountable to their communities across Scotland.
- 1.2 Responses to the specific questions posed by the Commission are detailed within this paper, along with a case for a significantly more fundamental and far reaching review of the overall financing framework supporting local government across Scotland. In the absence of such a fundamental review, health, economic and social inequality will persist across the country and local authorities such as Renfrewshire will continue to receive an insufficient funding to allow it to best address the needs of all of its residents across all of its communities.
- 1.3 In England CIPFA and the Local Government Association (LGA) formed an Independent Commission which in February published its report on its consideration of the local government financing system in England. As is recommended in this response, that Commission recognised that the need for a review which extended to the whole finance system supporting local government and not merely the role and form of local taxation. Its recommendations are far reaching and present a real challenge to both national and local government alike. What is important to recognise is that much of the underlying reasons for the introduction of the independent commission in England are equally relevant to Scotland. As such, many of the key messages and recommendations of the commission should be of direct interest to both the Scottish Government and to local authorities. Some of the key messages include, but are not restricted to the following, many of which echo the key recommendations from Renfrewshire Council:
 - The Commission recommends the establishment of an independent body to advise government on the funding needs of local government and on the allocation of funding to local authorities and sub-national areas.
 - The Commission recommends that the incoming government ends the policy of setting referendum limits on council tax and leaves the decision to local politicians.
 - The Commission recommends that the incoming government should devolve council tax discount setting and the power to determine who receives council tax support to local authorities.
 - The Commission recommends that 100 per cent of business rates and business rate growth should be retained by local government.
 - The review of business rate administration that has been announced by this government must look at the appeals process and propose ways to reduce the time it takes to resolve an appeal, as well as proposing options for reducing the time from valuation in which an appeal can be launched. This needs to be done in advance of the 2017 valuations.
 - The Commission recommends that as part of the review of business rates, the government should consult on options for the localisation of business rate relief.

- The Commission recommends that the incoming government commits to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public sector services.
- The Commission supports councils having the freedom to determine fees and charges locally.
- The Commission recommends that sub-national Pioneer areas should be given the power to determine the number and value of council tax bands and when properties are re-valued.

1.3 The following are the key messages outlined in this paper that would support a major and fundamental shift in the overall financing and funding framework for local government in Scotland and provide the opportunity to deliver better and more equitable outcomes and a fairer society across the whole of Scotland, including a fairer, more progressive and accountable local system of taxation.

- The focus on reviewing only the local taxation system is too narrow and there is a pressing need to take forward a more fundamental and far reaching review of the local government finance system operating in Scotland.
- This should include an independent review of the current system of resource allocation system used to distribute Scottish Government resources to local government, to ensure as far as possible that resources are directed towards the achievement of public service outcomes and have proper regard to the geographic, economic and social characteristics of different localities which drive demand and the cost of public services.
- Scottish Government should move to return to local government control the setting and retention of Non Domestic Rates income. It is essential that local authorities enjoy an appropriate level of financial autonomy and accountability, in order to foster and grow local democratic renewal and greater community involvement, moving local government closer to a 50% locally / nationally funded position. Whilst local government needs to act in partnership with central government to deliver a range of service objectives, a balance needs to be struck to ensure that local democracy is not undermined and local authorities do not become mere agents of central government. In many areas local authorities are best placed to judge the needs and priorities of the local communities it serves and should remain accountable to them for the local taxation and expenditure proposals. In many respects, this position echoes that being played out at a national level in terms of the changing devolution relationship between the Scottish and the UK Government and the consensus view being established over Scotland securing greater accountability not just for what it spends but for what is raised through national tax arrangements.
- The Council consider that it is appropriate that a proportion of the local tax raising capacity in Scotland should be based on a progressive property tax levied on the chargeable dwellings in Scotland. The rationale for the Council's support for a progressive property tax is based on an appraisal of a progressive property tax against some of the key principles highlighted in this submission. In conducting this appraisal the Council has identified a number of areas of key reforms which could be undertaken to the present system council tax system to increase its progressive characteristics encompassing:-
 - A review of the number of bands operating within the system and the fixed relationship between each.
 - The need for a revaluation to be undertaken to update the 1991 valuation base to more fairly redistribute the tax burden across the country, for a regular cycle of revaluation to be established moving forward and for revaluation to be underpinned by an appropriate equalisation mechanism operating through the grant distribution process to ensure revenue neutrality and that no individual local authority wins or loses from the process of revaluation.

- For the review of the council tax system to incorporate a review of both the Council Tax Reduction Scheme arrangements and other reliefs and discounts to enhance the progressive characteristics brought out by element of the existing system that focuses on the individual and their personal circumstances as part of the overall system.

2. THE NEED FOR STRATEGIC CHANGE IN THE LOCAL GOVERNMENT FUNDING FRAMEWORK

- 2.1 It is acknowledged that the Commission is focusing on the issue of local taxation and how this is best framed moving forward. However, it needs to be recognised that public services across Scotland have a critical and leading role to play in tackling poverty, deprivation and inequality which exists and indeed persists across the country. The root causes of poverty, deprivation and inequalities are complex, however their impact is far reaching in social, health and economic terms. Reversing this trend to create a fairer and more equitable society where communities, families and individuals can prosper and look forward to a positive future should remain key objectives of government at all levels and across all public sector service providers.
- 2.2 At present, the financing and funding arrangements supporting local government fails to provide a fair and flexible enough framework that would allow local authorities such as Renfrewshire to address such inequalities in a way that is sustainable and delivers real democratic accountability to its residents and businesses. As has been recognised by the CIPFA/LGA Independent Commission of local government finance in England, providing local government in Scotland with a finance system that will support long term sustainability, the opportunity to tackle long established economic and social inequality and strengthening local accountability requires fundamental and far reaching review of the local government finance system in Scotland. The remainder of this response sets out some of the key issues that require to be considered by such a review as well as addressing the key questions posed by the Commission in respect to local taxation.

3. THE DISTRIBUTION OF RESOURCES BY THE SCOTTISH GOVERNMENT AND THE DISCONNECT TO THE STRATEGIC POLICY CONTEXT

- 3.1 Addressing the impact of poverty and deprivation and the consequential economic, social and health inequalities is a key and jointly held priority at all levels of government and public services across Scotland. There exists a wide range of jointly agreed national strategies between the Scottish Government and local Community Planning Partners across Scotland which set a clear strategic direction across public services to deliver outcomes which begin to address, in a significant manner, poverty and inequality and create a society where communities, families, children and adults can enjoy a more positive and equitable future.
- 3.2 These strategies include for example “Achieving Our Potential” – A Framework to tackle poverty and income inequality in Scotland, Child Poverty Strategy for Scotland, The Early Years Framework and “Equally Well” task force report on health inequalities. Such strategies have helped to create a clearer strategic direction for public services and imbedded within each is an inherent need to strategically shift resources to support aims and objectives which for example place an increasing emphasis on directing resources to earlier intervention and prevention, recognising the importance closer working across public sector boundaries and the importance of a wide range of economic interventions, in particular those which provide sustainable employment opportunities and economic growth.
- 3.3 Given the developing consistency, clarity and consensus in relation to the strategic policy direction and need to deliver a strategic shift in both services provision and the deployment of resources by public bodies, there exists an obvious omission in the strategic financial context where there has been no associated review of how best to fundamentally realign and redirect resources at a national level by the Scottish Government. Such a review is badly needed to ensure resources are more effectively distributed across Scotland to better support the range of public bodies in the areas of the country where inequality, deprivation and poverty are at their most acute. Indeed, as far back as 2007 the Scottish Government recognised and committed to ensuring that public funds are invested, where appropriate, with a focus on deprivation.

- 3.4 The reality is however, actions by the Scottish Government to confront this challenging issue, have been marginal at best, with only limited change over the period since 2007. Indeed, the pressing need for such change has become increasingly acute and is reflected in growing calls from independent bodies for the need for such a review and similar change that is being recommended to be taken forward in other parts of the UK.
- 3.5 In March 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) highlighted, in their evidence provided to the Local Government and Regeneration Committee. CIPFA, that the current system of distributing resources to support local government in Scotland by the Scottish Government does not support the delivery of better outcomes, and suggest that in order to deliver better outcomes across the public sector a more holistic means of funding public services should be considered.
- 3.6 Local authorities in Scotland are currently funded by block grant, amounting to around 80% of their funding. The methodology used by the Scottish Government to determine the level of grant is largely formula-driven, the Grant Aided Expenditure (GAE) System. Such historic formulae, which was designed in the early 1980s and remains fundamentally unchanged, are largely input based. CIPFA share the view of the Independent Budget Review Panel which reported in June 2010 that there is a need to move towards a more outcomes-based approach to public service management.
- 3.7 CIPFA highlight the growing disconnect between the largely historic input based approach to resource allocation and the outcome expectations for our public services and in this context recommended that:
- “An independent review of the current system of resource allocation is undertaken, to ensure as far as possible that national resources are directed towards the achievement of public service outcomes and have proper regard to the geographic, economic and social characteristics of different localities which drive demand and the cost of public services.”***
- 3.8 In addition and as referred to above, the Independent Commission in England has called for a similar review to be carried out in recognising many similar shortcomings in the existing system operating south of the border, despite deprivation for example already having a greater degree of influence in the distribution of resources than is experienced in Scotland.

4. THE NEED TO ADDRESS THE BALANCE OF FUNDING

- 4.1 Whilst much attention in recent years has focussed on alternative systems of local taxation, including the focus of this Commission, there continues to be a need to provide a means of promoting local accountability and increasing flexibility for local spending decisions, and of incentivising local public bodies to promote investment in their local areas, and further grow the local economy for the benefit of all.
- 4.2 The Layfield Report contributed much to the debate on local accountability of local government, concluding that this had been weakened by the tendency for government grants to grow when compared to the contribution from local taxation and this remains present within the current system. Layfield recommended that local accountability can be revived by making local government responsible to their electorate for both the expenditure they incur and the revenue they raise and above all for increases in either. The Layfield view was that tax raising and spending together guarantees accountability.
- 4.3 In Scotland, although local government has tax-raising capacity from both NDR and council tax, these systems as they currently operate, dilute accountability rather than support it:
- NDR is effectively a national levy by central government, and outwith TIF schemes, are without direct accountability of authorities to NDR taxpayers (e.g. local businesses); and
 - Elements of Scottish Government grant funding have become conditional upon the freezing of council tax since 2008/09. Such has been the scale of the conditional grant, coupled with the landscape of declining overall resources available to local authorities, decision making

in relation to Council Tax levels has for all intents been removed from local authority control. This has created a disconnect between the accountability of the local authority to its tax payers, fundamentally altering the balance of accountability and creating the situation where local government is more accountable to central government (as a provider of finance) than to the citizens as the electorate and recipients of services.

- 4.5 Locally raised revenues provide one of the direct links from taxation to service provision, which makes local government directly accountable to its citizens. The higher the level of tax autonomy, the more incentive to ensure best value in use of taxpayer's money. Local taxation is levied specifically to contribute to the delivery of local public services. This simple and central purpose ensures the link between local democracy and local accountability.
- 4.7 As such and as part of fundamentally reviewing the future of local government finance in Scotland, the Scottish Government should move to return to local government control the setting and retention of Non Domestic Rates income. It is essential that local authorities enjoy an appropriate level of financial autonomy and accountability, in order to foster and grow local democratic renewal and greater community involvement. Whilst local government needs to act in partnership with central government to deliver a range of service objectives, a balance needs to be struck to ensure that local democracy is not undermined and local authorities do not become mere agents of central government. In many areas local authorities are best placed to judge the needs and priorities of the local communities it serves and should remain accountable to them for the local taxation and expenditure proposals. In many respects, this position echoes that being played out at a national level in terms of the changing devolution relationship between the Scottish and the UK Government and the consensus view being established over Scotland securing greater accountability not just for what it spends but for what is raised through national tax arrangements.
- 4.8 The retention of responsibility for non domestic rates income will provide a significant shift in the balance of funding operating at a local level and is already a change which is progressing in England. Although it is recognised that such a change would require careful consideration in relation to the need for an equalisation mechanism to operate across the country, it would provide real incentives for local authorities to increasingly deliver strategic interventions to support deliverable economic growth for their areas. Renfrewshire Council, along with other partner council in the Glasgow and Clyde Valley City Region have a demonstrable track record of being willing to take forward and deliver such strategic economic interventions through the City Deal arrangements to support real economic growth and tackle inequality, providing genuine and sustainable long term opportunities for individuals and families to secure routes out of poverty and deprivation.
- 4.9 As currently constructed the existing funding structures act as a limiting factor and require change in order to increase local flexibility and financial deliverability of such projects and ultimately local democratic accountability. Without change, innovative and ambitious local authorities and their partners will be restricted in delivering very real opportunities to the most deprived neighbourhoods.

5. ASSESSMENT OF EXISTING SYTEM OF LOCAL TAXATION

- 5.1 Moving onto addressing the specific question of the future of local taxation as part of the local government finance system in Scotland. In developing our response, the Council considered it necessary to firstly set out the principles which any system of taxation should meet. These principles are well recognised and have been well trailed in previous considerations of what form local taxation should take.
- 5.2 As detailed above, the Council believes that the benefits of local government retaining, and indeed growing its partial fiscal power, its responsibilities and its autonomy from central government have been both underestimated and overlooked. Consequently, the Council advocates a progressive property based system of local taxation, set and raised locally and based on a reformed council tax. The Council has appraised the current property tax system against the principles of taxation and indicate clearly where some reforms are needed.

5.6 PRINCIPLES OF TAXATION

The Council considers that in the context of local government in Scotland, local taxation can be tested against each of the following principles:

Accountability

In a democratic society the first requirement of any system of taxation is that 'the government, whether central or local, should be accountable to the electorate' for the tax which it raises. The relationship between local tax raising powers and democratically elected members has always been viewed as a strength of local authority accountability. However, its is recognised consideration of accountability in local government finance reviews (Layfield 1976, Burt 2006) some thirty years apart resulted in different conclusions on the relationship of local tax raising powers to accountability.

Fairness

There are at least three ways to consider fairness. Firstly, fairness between individuals, where those in similar circumstances should be treated alike and secondly, fairness between areas which takes account of varying needs and circumstances. Thirdly, the assessment of fairness will include the consideration of the wider basket of taxation which applies.

Stability and Predictability

Stability and predictability means that taxpayers, local authorities and the government should be able to rely on reasonably firm expectations about future commitments. Local authority services require predictability of income in order to set corporate and service plans and to set budgets accordingly. Individual taxpayers should reasonably expect to incur tax rates which do not fluctuate, other than marginally, between fiscal years.

Buoyancy of Tax Base

This criterion is generally considered to be the relationship of the tax yield to specific economic conditions. In a local tax this may be growth in levels of income or property valuations. Buoyancy while more likely to be evident in an income related tax, can also be detected in a property related tax. Buoyancy will however be dependent upon the prevailing economic conditions.

Ease of Understanding and Transparency

An individual should be able to understand easily how their tax liability has been determined. If there is a related system of discounts, exemptions, personal allowances and other reliefs, this should not make it difficult to predict how much an individual has to pay.

Ease of Collection including administration

This principle is similar for both the taxpayer and tax collector. For both, the tax should be easily collected and easily paid. The design of the tax should make it difficult to evade payment and allow ready identification of those who have not paid.

5.7. LOCAL PROPERTY BASED TAXATION – THE PREFERRED OPTION

- 6.1 One of the main arguments against the council tax is its regressive characteristics, in particular that it is not directly linked to ability to pay and therefore, impacts adversely upon fairness. The Council consider that it is entirely appropriate that a proportion of the local tax raising capacity in Scotland should be based on a progressive property tax or taxes levied on the chargeable dwellings in Scotland.
- 6.2 The rationale for the Council's support for a progressive property tax is based on the following appraisal of a progressive property tax against some of the key principles highlighted earlier in this submission. In conducting this appraisal the Council identifies some areas of key reforms which could be undertaken to the present system

Accountability

A local property tax, set by each local authority ensures the local link between elected members and local tax raising powers. The part property and part personal based nature of the present tax could be objectively examined to consider how the present reliefs and discounts could be more closely related to the property base than to personal circumstances to improve the progressive nature of the tax system.

Fairness

The prescribed and relatively narrow relationship between Band H and Band A maintains the regressive nature of the tax. There is a strong case for expansion of the number of bands and reconsidering the extent of the relationship between the highest and lowest band. The Burt Review considered that property was a reasonable proxy for the wealth of an individual. These two competing views are linked by the existing Council Tax reduction scheme which introduces the ability to pay at a later stage in the system. In simple terms, the regressive nature of the underlying tax system is smoothed by the introduction of fairness at the point at which an individual pays the tax as measured by the Council Tax reduction scheme. Indeed, the replacement of the Council Tax Benefit (CTB) Scheme with the Council Tax Reduction (CTR) Scheme as part of the UK Government's welfare reform agenda offers an opportunity that until only a couple of years ago didn't exist. The existing CTR Scheme for practical purposes replicated the old CTB scheme. This was put in place as a temporary measure whilst a longer term CTR arrangement was developed. As part of the development of this longer term scheme, the Scottish Parliament now has the devolved power to establish a reformed arrangement that could look to simplify the overall arrangements between the temporary CTR scheme and the other existing system of discounts and reliefs. This could be taken forward as part of a programme to reform the existing council tax system, with the overall aim of increasing the progressive nature of the underlying council tax system and the progressive influence of discounts and relief scheme. This may for example involve a change to the tapering effect and upper threshold that currently exists with CTR scheme which would see more people becoming eligible for some form of relief.

Stability and Predictability

The stable nature of the tax base, the number of properties, enables a local authority to set an accurate local tax designed to raise resources to meet local need.

Buoyancy

There is some evidence of buoyancy within a property based system but without the volatility of income related taxation. Buoyancy, which for many, is a strength of a tax system would be supported by stability and predictability and as such a property tax base would provide the stable basis for continuation of local services.

Ease of Collection including Administration

Local authorities in Scotland collect council tax, at a level of approximately 98% of the expected level. Council tax is collected over time and for some local authorities the actual collection level is in excess of 99%. It is considered that any tax which results in collection levels of this magnitude provides, in itself, a strong argument for retention and would maintain a link between local compulsory levy and local accountability. The tax base as well as noncollection is of course capable of being identified precisely with a fixed rather than a shifting tax base. In addition, within Renfrewshire at approximately 1.5% of the Band D tax level, the cost of collection provides a reasonably efficient cost base, something which is recognised through the existing joint billing and collection which are operated on behalf of Scottish Water.

Ease of Understanding and Transparency

The property tax register is a matter of public record and taxation bills are provided statutorily on an annual basis. The tax bill is identifiable to a property.

There has been no revaluation of the council tax property base since 1991. The Council considers that given the elapsed time alone since revaluation, provides a robust reason for

considering a current revaluation and for regular revaluations thereafter. It would need to be recognised however, that the purpose of a revaluation exercise should be to more equitably re-allocate the tax burden across the tax base and should be revenue neutral across the country. As such, any revaluation exercise would require to be accompanied by an appropriate equalisation mechanism within the Government Grant distribution process. The objective being to ensure that overall individual councils are no better or no worse off as a direct consequence of the revaluation process.