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<b>Report To:</b>	<b>Policy &amp; Resources Executive Sub-Committee</b>	<b>Date:</b>	<b>18 June 2015</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/47/15/AP/LA</b>
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<b>Subject:</b>	<b>Commission on Local Tax Reform</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to provide background information relating to the Commission for Local Tax Reform and to provide a draft response for the Sub-Committee's consideration.

## 2.0 SUMMARY

- 2.1 The Scottish Government set up a cross party Commission to "identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by Local Government". The Commission is due to report by the autumn of 2015.
- 2.2 Cosla have created a Fiscal Empowerment Task Group to draft a comprehensive response and this is due to be considered by the Cosla Convention on 26<sup>th</sup> June. The draft submission clearly recommends the use of a reformed Council Tax system including a full revaluation, an increase in the number of Bands and a comprehensive review of reliefs and discounts. The full draft is attached as Appendix 2. This has been received on a private and confidential basis pending determination by Cosla and this, meantime, is an exempt appendix.
- 2.3 These proposals are based on six core principles as detailed in 5.4 and these principles and the resultant Cosla recommendations have informed the draft response from the Council in Appendix 1.
- 2.4 If the Sub-Committee agree that a submission should be made by the Council and confirm the contents of the submission then it would be intended that the Council Leader write to the Minister for Local Government and Community Empowerment enclosing the Council's response.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Sub-Committee consider the draft submission from the Council and, subject to any changes agree that the letter be sent to the Minister for Local Government and Community Empowerment.

Alan Puckrin  
Chief Financial Officer

## 4.0 BACKGROUND

- 4.1 In June 2014 the Scottish Parliaments' Local Government and Regeneration Committee inquiry into flexibility and autonomy of Local Government unanimously called for a cross party commission to be established. The purpose of this Commission was 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”**.
- 4.2 This remit was refined and is now **“to identify and examine alternatives 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 cost 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 financial accountability and autonomy of Local Government.**
  - **The revenue raising capacity of the alternatives at both local authority and national levels.**

**In conducting its work the commission will engage with communities across Scotland to assess public perception of the emerging findings and to reflect this evidence in its final analysis and recommendations”**.

- 4.3 The Commission has a wide membership drawn from the Scottish Government, Local Government and Public Life. The Commission will be jointly chaired by the Minister for Local Government and Community Empowerment, Marco Biagi and David O'Neill, Cosla President.

## 5.0 CURRENT POSITION AND REPORTING TIMESCALES

- 5.1 Cosla has been preparing a response to the Commission on Local Tax Reform and this is being developed via a Fiscal Empowerment Task Group which has reported through the Resources and Capacity Executive Group and intends to report to the Cosla Convention on 26<sup>th</sup> June. The draft submission from Cosla is attached at Appendix 2.
- 5.2 To support the Task Group there is a Fiscal Empowerment Officer Group on which the Chief Financial Officer has been a member.
- 5.3 The draft Cosla submission makes the clear recommendation for a reformed and updated Council Tax system which is intended to involve a comprehensive revaluation, a review of property bandings including increasing the number of bandings and a review of reliefs and discounts.
- 5.4 In arriving at its recommendation however the work by the Cosla Group has clearly demonstrated that its proposal meets its principles of local taxation which are:

**Principle 1 – Local taxation should be fair and easy to understand.**

**Principle 2 – Local taxation should be administratively efficient and difficult to avoid.**

**Principle 3 – Local taxation should have regard to the stability and buoyancy of the underlying tax base.**

**Principle 4 – Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates.**

**Principle 5 – Local Government should have discretion to determine whether rates and reliefs are set nationally or locally**

**Principle 6 – Local taxation should allow for local flexibility, empowering local authorities**

**to raise local funding for local priorities. Specifically individual local authorities should be empowered to introduce local taxes, at their discretion, to raise additional resource.**

- 5.5 A clear message coming through the Cosla submission is the need to restore the link between local taxation and democratic accountability. Cosla advise that the 8 year Council tax freeze has eroded this principle and based on the analysis included in the Cosla paper it is clear this puts Scotland out of step with the rest of Europe where a significantly greater proportion of local finance is raised at a local level with local Councils being able to determine their taxation rates.
- 5.6 The Cosla submission is also based on the revision of the Council Tax system being fiscally neutral at a national level. There will undoubtedly be local variances and it is recommended that the Council response stresses the need for the overall impact on a Council's finances to be at worst the same as currently.
- 5.7 The submission also reiterates Cosla's stance that non domestic rates should be returned to local government control. It is believed that by doing this, the amount of taxation determined and raised locally will be approximately 40%. Whilst this still falls short of Cosla's target of 50% of local government finance being raised locally it is a major increase on the current percentage especially taking into account that Council Tax has been effectively frozen.

## **6.0 OFFICER COMMENTS**

- 6.1 There is much to commend in the draft Cosla submission and significant work has been undertaken through an iterative process to develop the proposals and test them against the 6 Principles. There is however a risk in Cosla putting "all their eggs in one basket" and not providing a Plan B.
- 6.2 In maintaining a tax system based around properties then this is believed to provide greater stability, retain the current high collection rates whilst providing a tax largely based on ability to pay on the assumption that in general terms, property values are a proxy for wealth.
- 6.3 A revaluation after 25 years will however generate significant variances across Scotland and will lead to some properties moving up Bands whilst others may drop down Bands. This will vary from Council to Council and also within Council areas. This requires to be recognised and a strategy to address this developed.
- 6.4 The need to review reliefs and discounts should be welcomed and provides an opportunity to consider whether the Council Tax Reduction Scheme, implemented in 2014/15, could be amended. In addition there is the opportunity to review the 25% Single Person Discount and consider whether this could be better targeted and based on ability to pay.
- 6.5 There is a real opportunity to re-establish the link between local democratic accountability and the ability to raise taxes at a local level. At a time of unprecedented budget reductions, Councils require to have this as an option to balance the budget.
- 6.6 From an officer perspective there are some concerns over the transference of non-domestic rates to local government as the buoyancy in the non-domestic rates tax base experienced in recent years is showing signs of slowing down. At present full risk in terms of non-domestic rates income is carried by the Scottish Government. Therefore it will be important that there is clarity as to how non domestic rates will operate locally prior to a final view being taken.

## **7.0 NEXT STEPS**

- 7.1 Following the receipt of written evidence, the carrying out of an opinion survey, the programme of oral evidence and other consultative processes it is intended that the commission will produce a report by the autumn of 2015.
- 7.2 It is intended that the report will not provide a definitive recommendation but rather provide options for political parties to consider as part of the development of their manifestos for the

Scottish Government elections in May 2016.

- 7.3 The current best estimate from the Cosla Officer Group is that even if a revamped Council Tax system was implemented it would not be until at least 2018/19 before these changes will be able to be fully implemented. Clearly if there is a move to another form of taxation then there is a risk that the timescale will be extended further.

## 8.0 IMPLICATIONS

### Finance

- 8.1 On the basis of the Cosla submission the proposals are fiscally neutral and therefore there would be no net financial impact on the Council.

#### Financial Implications:

##### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments

##### Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments

### Legal

- 8.2 Dependent on the Local Taxation option ultimately agreed there will be a requirement for legislation and this will require to be factored into the timescales for delivery.

### Human Resources

- 8.3 There are no HR implications arising from this report.

### Equalities

- 8.4 There are no equalities issues arising from this report.

### Repopulation

- 8.5 There are no repopulation issues arising from this report.

## 9.0 LIST OF BACKGROUND PAPERS

- 9.1 Cosla draft submission to the Commission for Local Tax Reform.

Our Ref:

Your Ref:

Date: 28<sup>th</sup> June 2015

Mr Marco Biagi  
Minister for Local Government & Community  
Empowerment  
The Scottish Government  
Victoria Quay  
EDINBURGH  
EH6 6QQ

Dear Minister

### **SUBMISSION TO THE COMMISSION ON LOCAL TAX REFORM**

I am writing to you as Leader of Inverclyde Council to make a submission to the Commission on Local Tax Reform which you jointly Chair with the Cosla President, David O'Neill.

At the outset I would highlight that the Council supports the submission developed by Cosla which has been through an iterative process with considerable input from the relevant professions as well as different Cosla Groups including the Convention.

Inverclyde Council however would wish to emphasise the following points;

- 1/ The Council strongly believes that the retention of a modified Council Tax Scheme will provide continuity and minimise disruption whilst providing the opportunity to provide greater equality by increasing the number of bands at the upper and lower ends of the property banding scale.
- 2/ With an in year collection rate of well over 95% and an ultimate collection rate of around 97% it is clear that Council Tax is widely accepted with a very high level of payment.
- 3/ As the last revaluation was carried out in 1991 there will be significant variance in the movement of property valuations across Scotland over this period. It is important then that there no unintended consequences as a result of this national revaluation and the Council believes it is perfectly feasible for the overall impact at both a national and local level to be fiscally neutral.
- 4/ Given the recent devolution of Council Tax reliefs to Scotland then there is a perfect opportunity to review the appropriateness of the reliefs and discounts. Inverclyde Council believes that this is at the core of implementing a fairer system of local taxation and will assist in developing a system which addresses some of the existing inequalities. To this end the Council supports a review of the current single person discount of 25% and specifically whether there is an opportunity to reduce the level of discount for higher banded properties.
- 5/ Most fundamentally of all the Council believes that there is a need to re-establish the link between local democratic accountability and the ability to vary tax rates at a local level. Even when Councils had the ability to vary the local tax rates Scotland had one of the lowest levels of locally determined tax in Europe and eight years of Council Tax freeze has exacerbated the situation further.

6/ In light of the unprecedented pressures on Council finances there is a clear need for Councils to be given the flexibility to vary local tax rates without the threat of punitive sanctions and giving Councils back this power cannot wait until any replacement local taxation system is implemented.

The Council welcomes the opportunity to contribute to the work of the Commission on Local Tax Reform and looks forward to the production of the report in the Autumn of 2015.

Should you wish any further information then please do not hesitate to contact me.

Yours sincerely

Stephen McCabe  
Leader of the Council

cc Chief Executive, John Mundell  
Chief Financial Officer, Alan Puckrin