

REPORT TO: East Lothian Council

MEETING DATE: 23 June 2015

BY: Chief Executive

SUBJECT: Response to the Commission on Local Tax Reform

1 PURPOSE

- 1.1 To seek Council's agreement to the terms of a written representation to the Commission on Local Tax Reform.

2 RECOMMENDATIONS

- 2.1 That the Council agrees the terms of the suggested response in the Appendix to this report.

3 BACKGROUND

- 3.1 The independent Commission on Local Tax Reform has been set up to look at ways of delivering a fairer system of local taxation in Scotland. It is chaired jointly by Marco Biagi MSP, Minister for Local Government and Community Empowerment, and Cllr David O'Neill, President of COSLA.
- 3.2 The Commission has invited written evidence. It also has set up an electronic survey to gather further views and will plan to take oral evidence too. It plans to present its findings late in 2015.

4 POLICY IMPLICATIONS

- 4.1 In drafting the Council's suggested response, officers have borne in mind the Council's priorities of **reducing inequalities across and within our communities**, and of **maximising the efficiency and effectiveness of services provided to the public**.
- 4.2 These priorities suggest that the Council would support a system of local taxation that is fair and transparent, and for which an effective and efficient system of collection is possible.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none arising from this report.
- 6.2 Personnel - none arising from this report.
- 6.3 Other - none arising from this report.

7 BACKGROUND PAPERS

- 7.1 www.localtaxcommission.scot for more detail on the work of the Commission.
- 7.2 <https://www.surveymonkey.com/s/LV6K7F6> - the Commission's electronic survey, available to any individual and which, they say, should take no more than five minutes to complete.
- 7.3 http://www.eastlothian.gov.uk/download/meetings/id/15867/06_council_pl_an-two-year_review - for priorities under the Council Plan.

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Appendix: DRAFT RESPONSE TO THE COMMISSION ON LOCAL TAX REFORM

Questions in **bold** are themes specifically suggested by the Commission on Local Tax Reform.

East Lothian Council welcomes the opportunity to contribute to the thinking of the Commission on Local Tax Reform. Any tax system involves a balance between different principles. The Council advocates fairness, progressiveness, transparency, democratic accountability and efficiency of collection in a system of local taxation.

East Lothian Council supports the six principles of local taxation promoted by COSLA:

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 the 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 resources.

The Council also supports the European Charter of Local Self Government and specifically Article 9 of the Charter, which states that local authorities are:

“entitled to adequate financial resources of their own, of which they may dispose freely” and to resources of a “sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of carrying out their tasks.”

- 1. Scotland’s Current System of Council Tax: To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?**

The advantages of the current council-tax system being property-based are that:

- i) it is administratively efficient;
- ii) effective systems of collection already exist;
- iii) collection rates are good and improving: in East Lothian last year the collection rate was 96.52%
- iv) it is difficult to avoid;
- v) property value differentials are capable (for the most part) of constituting an appropriate proxy for people's material circumstances and thence their ability to pay, without the requirement and associated expense of assessing their actual income on a regular basis.

However the current council tax system has scope for improvement. Changes that might be considered are:

- i) the introduction of further bandings so that the system better reflects the ability to pay of the most and least wealthy in our society;
- ii) establishing a much stronger link between local spending, income generated directly from local taxation, and the wishes of the local community as expressed through the democratic process. Currently, Council Tax accounts for only around 20% of a local authority's income in Scotland, and the ability to vary local authority taxation income in line with community priorities is at best extremely limited and in recent years has effectively been non-existent.

2. Reform of Local Taxation: Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

Any alternative system would need to be administratively efficient and deliver greater transparency and strengthened democratic accountability.

3. Local Priorities: How well to you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?

East Lothian Council's overarching priority, as expressed in our current Council Plan, is in **reducing inequalities across and within our communities**. This is an expression of the rationale behind the strategic

planning and delivery of the Council's services, and is also behind its commitment to the prevention agenda.

The current system of council tax represents to an extent the ability of people in different communities to pay, in that property values are lower in less affluent communities (although more sensitive bandings would reflect some individuals' ability to pay larger or smaller amounts in line with what they can afford).

A democratic deficit is apparent in the current funding structure for local government. Local taxation currently accounts for a minority share of a council's income, and it is arguably difficult for individuals, businesses and communities to discern how the council's spending choices for "their" money relates to either the choices they make at local government elections or the charges they are asked to pay. At present the local community has no way of directly affecting the Council's income (or the extent of its expenditure) through the ballot box. A similar deficit also exists in respect of businesses who often find difficulty reconciling increased charges with reduced levels of service.

Individual responses to the Council's budget consultations over the past few years have suggested that the position in respect of council tax is not well understood by the general public: neither the proportion of local government funding constituted by council tax income, nor the mechanics of the council tax freeze. Collectively we need to ensure that any system is transparent and capable of being easily understood in principle.

Audit Scotland have made a convincing case for medium and longer term planning within the public sector and Local Government in particular. It would therefore be desirable to have a greater degree of certainty and continuity of funding. The Council already recognises the importance of setting medium-term spending plans (currently producing three-year budgets), but under the current circumstances, this has become increasingly difficult verging on impossible given that its main source of income is neither within its direct control nor planned on anything other than a short term basis.

Further information: We would like to keep the conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.

The Council is not aware of any networks over and above those of which the Commission will already be aware: in particular, the Convention of Scottish Local Authorities and the various professional bodies active in local government. We have publicised the Commission's consultation within our own networks.