

ABERDEEN CITY COUNCIL

COMMITTEE Finance, Policy & Resources Committee
DATE 09 June 2015
INTERIM DIRECTOR Angela Scott
TITLE OF REPORT COMMISSION ON LOCAL TAX REFORM
REPORT NUMBER: CG/15/84
CHECKLIST RECEIVED Yes/~~No~~

1. PURPOSE OF REPORT

1.1 The purpose of this report is to

- i) Advise the Committee of the Council's response to the Commission on Local Tax Reform to its call for written evidence.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

- i) Note the submission of the officers response to the Commission on Local Tax Reform contained in the Appendix to this report.

3. FINANCIAL IMPLICATIONS

3.1 None at this stage. Ultimately any changes made to local taxation as a result of the Commission's work will impact upon the Council's financial position but that would not be quantifiable at this stage of development.

4. OTHER IMPLICATIONS

4.1 None

5. BACKGROUND/MAIN ISSUES

5.1 The Commission on Local Tax Reform is examining alternatives that could deliver a fairer system of local taxation in Scotland.

- 5.2 The Commission has called for written evidence about how Scotland's system of local taxation might improve and the Council has been invited to make a submission. Responses are requested by 22nd June 2015.
- 5.3 The call for evidence consists of responses to 4 questions posed by the Commission. The Council's proposed response is attached. It is based on Officer observations on the existing system and some research of alternatives used around the world.
- 5.4 The Commission expects to present its findings in late 2015.
6. IMPACT
- 6.1 The reform of local taxation will more than likely have a direct impact on the Council's financial position, but such impact cannot be quantified at this stage.
- 6.2 Any changes to the existing system of local taxation will impact on the citizens of Aberdeen as there would always be gainers and losers from any reform of the system.

7. BACKGROUND PAPERS

Research papers sourced via internet:

ICLGF report

http://www.cipfa.org/-/media/iclgf/documents/iclgf_final_report.pdf?la=en

Financing Local Government Ireland

<http://www.oireachtas.ie/parliament/media/housesoftheoireachtas/libraryresearch/spotlights/Financing-Local-Government-print.pdf>

GFOA tax reform letter USA

<http://gfoa.org/sites/default/files/GFOA-NLC-USCM-NACO-ICMA.pdf>

Local Government Funding USA

<http://www.ipspr.sc.edu/grs/LGRP/DOC/LGFP%20National%20Issues%20Trends.pdf>

Australian Tax reform Join the conversation

<http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/tax-reform/Documents/Tax-reform-national-challenge-april-2015.pdf>

Re Think Better Tax Better Australia

http://bettertax.gov.au/files/2015/03/TWP_combined-online.pdf

Tax reform in NZ

<http://www.ipa.org.au/library/review51-1%20Tax%20Reform%20in%20NZ.pdf>

Who pays for local services

http://www.local.gov.uk/c/document_library/get_file?uuid=1ca3b6c3-6a1e-4efb-9b6a-00b78fe93f2a&groupId=10180

Comments received from other officers

Scottish Cities Alliance survey <http://www.surveymonkey.com/r/WSJCNQR>

8. REPORT AUTHOR DETAILS

Paul Dixon
Accounting Manager
pdixon@aberdeencity.gov.uk
01224 346355

Call for Evidence re: Local Tax Reform

Question 1: 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 question of fairness is to some degree subjective, and dependent upon a personal view of the extent to which local taxes should reflect ability to pay or level of consumption of services.

What we can say is that council tax is regressive in nature i.e. those living in lower banded properties will tend to contribute a greater proportion of their income than those living in high value properties. This is particularly so in a city like Aberdeen with a large proportion of high value properties and a significant gap between rich and poor, and where the cap on council tax banding at band H exacerbates the gap in relative proportions of income met by the higher earning residents.

Could the bands be more fairly split? Whilst accepting that the banding and the capping of the upper limit to some extent is an attempt to achieve a balance between ability to pay and level of consumption of services, consideration should be given to the extent to which that balance has shifted over the years. For example, using Aberdeen City's council tax rates, a Band A property value of £27,000 is 13% of the lowest value Band H property (£212,001), however, a Band A property pays 33% of that of a Band H property.

Band A	up to £27,000	£820.26
Band B	£27,001 – £35,000	£956.97
Band C	£35,001 – £45,000	£1,093.68
Band D	£45,001 – £58,000	£1,230.39
Band E	£58,001 – £80,000	£1,503.81
Band F	£80,001 – 106000	£1,777.23
Band G	£106,001 - £212,000	£2,065.65
Band H	More than £212,001	£2,460.78

It is also true to say that the current council tax system, in common with any property based tax, does not necessarily take into account a person's real income for taxation purposes. Property is to some extent a proxy for wealth and values do not always accurately reflect a householders relative income and ability to pay. This links to consideration of measures to retain an element of fairness (reduction scheme, rebates, benefits etc.).

Whilst there is some correlation between property occupancy and the provision of local services e.g. refuse collection, street lighting etc. that is not the case for other locally provided services e.g. education.

If a property based system remains then it could be more fairly linked to household income. In this way it could help to meet issues brought about by welfare reform.

The lack of revaluations since council tax was implemented 24 years ago means that it is increasingly inequitable. This results not only from the difficulty of maintaining equity of valuations for new properties, but also as property values have fluctuated. The public can't connect the bands to the real value of property.

In terms of effectiveness then council tax, in common with other forms of property based taxes would tend to be a very efficient tax:

- The collection rate is good (>96% in Aberdeen)
- low cost to administer <2% of receipts
- gives a predictable income to Councils. Property does not move and that gives some degree of certainty over the level of income and increases the ability to collect the charge. Aberdeen raises approx. £100 million per annum in council tax charges
- The current system also allows collection of Scottish Water and Sewerages charges (approx. £35 million per annum) in one payment

The recent history of capping council tax inhibits local democracy and limits a Council's ability to raise local funds to meet local issues.

The current system allows for a degree of assessment of ability to pay via council tax reduction schemes, and consideration should be given to reviewing the effectiveness of the current system in terms of ensuring such measures remain fair and equitable.

It would be desirable for future taxation systems to retain the strengths of high collection rates, low cost administration, certainty of income etc.

If a property based tax is retained then it is important that regular updating of values is undertaken to maintain consistency and equity of charges.

The current banding system should be reviewed. Consideration should be given to reducing the regressive nature of the tax by increasing the number of bands and the relationship between the charge at the banding levels. Consideration should also be given to removing the bandings and applying individual property values with a single rate of payment.

Consideration also needs to be given to the rationale for charging on second homes and empty properties, with a view to ensuring that charges remain fair and equitable and that the aims of the charge are not distorted by unintended consequences.

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

Going back as far as the Layfield Commission report this debate has largely been about a balance between property tax and income based tax. The questions have always been a balance between:-

- local democratic accountability for tax and spend;
- responsible administration (which led to central capping);
- central control over priorities;
- costs of administration and collectability;
- levels of income generation.

On the worldwide stage the same questions are being asked of the balance between such taxes, with a relatively similar set of options to consider.

Alternatives would perhaps split into 5 categories i.e.

- i. An alternative property based tax
Choices here would appear to be either a reformed council tax, based on occupancy, but perhaps with individualised property values and single rates of tax, or a shift to a charge based on ownership of land rather than occupancy of the property.
- ii. An income based tax
This could take the form either of an addition to the national rate of income tax, and could be set locally, but based on the same system of tax free allowances and taking into account ability to pay, or a locally based charge.
- iii. Taxes related to alternative bases e.g. sales tax, tourism tax, environmental tax
- iv. A “per head” flat charge. Clearly this has been attempted previously – the community charge (poll tax) was unsuccessful as it proved very unpopular, and inefficient in terms of collection rates/costs.
- v. A combination of 2 or more of the above alternatives, perhaps linked to the funding of specific services. This may be used to increase the extent of revenue raised locally, and to maintain a level of equity between ability to pay and consumption of services.

The possibility of specific tax generation for prevention investment should be considered. If investment in prevention is needed to unlock significant return on investment, taxation could be a vehicle to generate the initial investment.

To the extent that property based taxes are retained then it is essential that revaluations take place at appropriate intervals in order to maintain equity of charges.

Any new system needs to be simpler to understand. The discount scheme needs to have less regulations and legislative interpretation.

Use of locally determined taxes such as local income tax or local sales tax could supplement council tax and provide more local autonomy.

More relaxed use of charging could provide additional income to Local Government, and give Local Government the levers to effect behavioural change.

Some examples of consideration of Local Government from around the world exemplify the issues that the commission will need to grapple with:

A review of local government funding in Ireland in 2010 suggested that a greater share of the funding for Local Government should be determined locally. The report also suggested an increased extent of property based taxes (domestic properties were not previously subject to tax). The report rejected local income tax, poll tax and local sales tax as inconsistent with other government economic and employment policies, and likely to be considered to be unequitable or unacceptable to the public. Whilst rejecting a general use of a tourism tax it was agreed to explore the use of a localised tourism tax in specific areas to fund additional tourism related expenditure.

The balance between local and central control over tax rates and funding for Local Government is again a common theme internationally. A recent letter to the Senate produced by joint Local Government representative bodies in the U.S.A. urged opposition to reducing the extent of locally determined taxes.

A detailed review of the funding of Local Government in the U.S.A. by the University of South Carolina in 2000. The U.S.A. uses a combination of property taxes, local sales and income taxes, local motor vehicle licenses and fees and charges to fund Local Government. The report suggests that there was a trend of property based taxes becoming more unpopular with the public, though they remain popular with Local Authorities due to the advantages of low cost administration, high collection rates and certainty of level of income. Most States allow local sales taxes and many authorities use it, some States also allow local income taxes, but there is a lesser take up of this. Some adopters of local income tax base it on a per head basis i.e. poll tax basis. The report also outlines a number of factors that should be considered when evaluating local option taxes.

In Australia a discussion paper was launched in March of this year to encourage a national debate on the reform of the whole taxation system. This identifies municipal rates (domestic property tax) as the only source of locally determined income for Local Government.

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

Local priorities are not reflected particularly well in the current system, especially in the context of council tax freezes. Furthermore, the low level of democratic engagement in local elections possibly reflects to some extent the relatively limited control that Local Government has over its funding sources.

Because the valuations used for council tax are so out of date householders are unable to connect the bands to the real current value of property.

A return to local setting of tax rates would allow Council's greater freedom to determine local priorities and give more control over local finances. In turn this may lead to improved public engagement in the local decision making processes. Consideration of this measure should also include the retention of business rates income by Councils and the setting of those rates locally.

Consideration may also be given to greater freedoms for Councils to raise income via local taxes and fees and charges. This may include consideration of supplementary local taxes based on the drivers of local economies such as tourism (hotel bed/room tax) , retail for big cities that attract shoppers (local sales tax) and how people travel to the city (environmental tax, such as congestion charge). Improved engagement and linkages to funding of local priorities could be increased if a case is made by establishing local democratic support for such measures. Given that some areas will have significantly greater opportunities to raise additional income in such manners than others then some consideration of the extent to which the level of income raised in this way is reflected in the needs element of national grant settlements would be required.

Links between communities' local priorities and local taxation would be strengthened by an improved dialogue with citizens regarding the provision of accessible easy to understand information about council tax, tax generally, public sector budgets, what they fund and how communities can be more involved and engaged to participate in decision making and monitoring accountability, as envisaged in the Community Empowerment Bill currently under consideration at the Scottish Parliament.

At present there is no direct link between the level of council tax and expenditure on specific services, rather the council tax simply contributes towards the overall level of funding of the totality of services provided by the Council. In Aberdeen council tax income funds approximately 16% of the total cost of services provided. Increasing the link between the local tax and specific elements of the Council's budget may increase the level of engagement in discussions on the balance between local priorities and tax levels. For example, the level of services funded specifically from council tax, or an alternative property based tax, could be directly linked to those aspects

of council services directly linked to occupancy of the property e.g. refuse collection, local roads, street lighting etc. This may increase the acceptance of property based taxes and engagement in discussion on local priorities and provision of services. Similarly the linking of services provided to businesses including investment in economic development, infrastructure services, education (the workforce of the future) etc. with the local rate of business tax may also stimulate engagement/understanding.

As part of the consultation process on local tax reform perhaps the final proposals should be subject to a referendum in order to more fully engage the general public in both the discussion and the decision making process. As any reform of the local taxation system will naturally lead to winners and losers it is particularly important to have as wide a range of public acceptance/support for the reforms as possible.

Question 4: We would like to keep this conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.

Further dialogue would be appropriate via various forums:

Local Authorities via the Local Government Partnership and CoSLA

Professional bodies including CIPFA and the IRRV

The general public - capacity building and communications are required to support this. Locally this may be supported by discussion at the Community Planning Board. Locally, we could also develop some new approaches to inform citizens about the taxation system as it currently operates and support communities to be more informed about the Commission and what it is trying to achieve – presently most people will struggle to participate in the consultation as they don't understand the current system. This may require additional funding to be identified.

Other networks available e.g. Scottish Cities Alliance, Homes for Scotland, regional forums, such as North East Property Group.

In order for the most informed future solution to be arrived at, and to keep the conversation going, it is suggested that in addition to consultation with individual local authorities and networks a more integrated programme of engagement connecting practitioners with both theoretical and local experience is initiated. There would be particular value in this being centrally facilitated and providing support to ensure that knowledge and experience is exchanged pro-actively.

Changing the local taxation system will bring organisational demands for public bodies at a time of simultaneous change, financial and social pressure. Ensuring the governance, implementation plans and technology exist to underpin the system change is critical as is early commencement of discussions on the practicalities of system conversion. The impact of the risk of loss of tax take as any new system is embedded could have a high impact on ability to deliver local services and this should be factored into any change programme.