

SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE

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Date:	August 2019
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Topic of submission:	Call for Evidence on the Long-Term Financial Sustainability of Local Government

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Call for Evidence on the Long-Term Financial Sustainability of Local Government

SUBMISSION FROM Reform Scotland

Reform Scotland is delighted to have the opportunity to respond to the Local Government and Communities Committee's call for evidence on the long-term financial sustainability of local government. Local government finance is an issue Reform Scotland has commented on a number of times over our 11 year history and is one that we believe is in need of urgent addressing.

Our comments focus on question two in the call to evidence:

“How effectively are councils addressing these challenges? Do councils currently have all the powers they need to do so?”

Councils across Scotland face huge differences, not just in terms of geography and population density, but also in economic growth. Circumstances in Edinburgh and Aberdeen are very different to those in Dundee and Dumfries; but equally Edinburgh and Aberdeen also face different challenges.

Consider the following:

- Edinburgh is one of the top ten performing regions across the whole of the UK and already outperforms the UK average considerably.
- Business births per 10,000 people range from between 100 in Aberdeen City to 28 in Dumfries & Galloway.
- Over the next ten years Aberdeenshire is expected to face a 40% increase in the number of over 75s, compared with 20% for Inverclyde.

Our councils.

Local authorities across Scotland are facing a range of differing circumstances but struggle to make a major difference to their local communities because they have no real control over fiscal powers. One-size-fits all centrally directed policy solutions will not and cannot work. Councils need to be able to tailor solutions to local need.

Last year the Scottish Government launched its 'Democracy Matters' consultation. The consultation noted there was a *“growing recognition that it is often better for decisions about the issues that affect different communities in Scotland to be taken with more active involvement of those communities”* and that this could help enable *“public services to work in ways which meet local circumstances and reflect the priorities of different communities”*.

Reform Scotland welcomed this sentiment. More decision making needs to be devolved away from Holyrood and towards local government and beyond. Local government in Scotland requires renewal. It should have the ability to take advantage and introduce policies which are right for each individual area but that cannot happen without additional finance powers also being devolved beyond Holyrood.

The Scottish Government's decision to pass to councils the ability to introduce new taxes, such as a work-place parking levy and a tourism tax allow councils to respond to some of the individuals circumstances they face. Indeed, charges such as these are part of an important source of revenue for local authorities. In 2016/17 customer receipts, covering sales, rents, fees and charges, which cover a

wide range of issues from burial fees to music tuition, amounted to £2.5bn. This is more than was raised in council tax and accounts for about 15% of local authorities' revenue. However, there is a danger that, in the absence of any other fiscal powers, there is an over reliance on this income which can lead to increases that are often felt more sharply by less well-off residents. Audit Scotland's Local Government Financial Overview 2017/18 noted that from a sample of 16 local government charges, 11 had been increased by more than the rate of inflation.

The call for evidence asks how local authorities can respond positively to current challenges and what practical steps they can take to help become "future proofed" against foreseeable financial risks. However, the problem is that, apart from charges such as these, local authorities have very little financial levers with which to look to future proofing. What is required is real local empowerment through devolution in full of local taxes.

To begin with, non-domestic rates should be devolved to local authorities in full. This would allow local authorities to vary how and to whom the tax applies based on their own circumstances. It would also ensure that non-domestic rates are the genuinely local tax they are supposed to be. The increase in local financial autonomy and accountability is more likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new business start-ups and attract businesses to invest since this will benefit the council directly by increasing its income from business taxes. Passing control of business rates to local authorities would also mean giving them control over business rates relief schemes. As a result, it would be up to each individual local authority how the tax operated within their area.

We are aware that if business rates were simply devolved some councils could be worse off, due to the re-distribution of income that occurs centrally. However, it is possible to re-adjust the block grant to ensure that in Year 1, no council loses out, creating an equivalent of the fiscal framework that could be used for local authorities.

Just like business rates, council tax is a largely a local tax in name only. Although freeze was lifted, increases were then capped by the Scottish Government. This has hugely tied the hands of local government as well as hugely confusing accountability and obscuring transparency.

Reform Scotland has welcomed the Scottish Government's decision to review council tax following the recent budget negotiations. However, we are concerned about the drive to simply replace one centrally controlled tax with an alternative centrally controlled tax.

Reform Scotland believes that local authorities should have complete control over their local tax - including the rates, bands and indeed form of the tax. This would allow individual councils - should they choose - to retain, reform or replace Council Tax with another form of local taxation. Crucially, this would be a decision about a local tax made by a local authority for its local area, taking into account local circumstances and priorities. A true local tax.

We see no problem with some local authorities maintaining a Council Tax system, while others may opt to choose from a range of different forms of taxation, including a land value tax. The most important element is that the tax is fully devolved to the local authority and, therefore, local councillors making decisions on local taxation and are fully accountable to the local people affected by those decisions.

According to the Scottish Local Government Financial Statistics, in 2017-18, local authorities' revenue income was £17.5bn. If both business rates, which raised £2.7bn, and council tax, which raised £2.3bn, were devolved this would mean that, together with customer receipts, councils controlled just over 40% of their revenue income. Although they would still be impacted by central government decisions, this would be an important step in the right direction, a signal that we value this tier of government and recognise that the centre doesn't always know best.