



Our Ref: BH/ejg

16 July 2008

A Fairer Local Tax (CRE959)
CRU
Stur U5b,
Saughton House
Broomhouse Drive
EDINBURGH
EH11 3XD

Dear Sirs

CONSULTATION ON LOCAL INCOME TAX

Many thanks for the opportunity to reply to the above.

The Administration of East Dunbartonshire Council is a Labour/Conservative minority coalition. There are three opposition Groups on the Council – these being SNP, Liberal Democrat and Independent.

At the most recent Council meeting an impartial officer report was presented as an agenda item and draft submission (enclosed).

It was the view of the Administration that this report should form the official response from the Council. However, this motion was voted down by way of an amendment from the SNP Group. The decision of the Council was to allow each Group to make a submission directly to the Scottish Government.

Therefore, the Leader of the Council and I are delighted to forward you that report and draft submission, which we believe sets out the position, as seen by many who have public sector financial expertise. It is also our contention that the plan for LIT has many unanswered questions and will cause financial hardship to the majority of East Dunbartonshire residents.

I should again make it clear this is the position of the Administration Groups. I understand you may receive individual Group responses from the three opposition parties.

I would be grateful if you would acknowledge receipt of our submission.

Yours faithfully

A handwritten signature in cursive script that reads "Billy Hendry".

COUNCILLOR BILLY HENDRY

Cc Council Tax Abolition Team, Scottish Government, Area 3J North, Victoria Quay, Edinburgh EH6 6QQ



EAST DUNBARTONSHIRE COUNCIL

24 JUNE 2008

REPORT NO:

CSD/146/08/IB

**BY: CORPORATE DIRECTOR
(CORPORATE SERVICES)**

CONTACT OFFICER:

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HEAD OF FINANCE & ICT

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**SUBJECT TITLE: RESPONSE TO THE SCOTTISH GOVERNMENT CONSULTATION
“A FAIRER LOCAL TAX FOR SCOTLAND”**

1.0 PURPOSE

- 1.1 To provide Council with a report setting out the issues raised in the Scottish Government’s consultation document which proposes replacing Council Tax with a Local Income Tax and, to agree the proposed Council response.

2.0 SUMMARY

- 2.1 The introduction of a Local Income Tax to replace Council Tax was one of the main legislative changes proposed by the new administration at Holyrood and on 11 March 2008 a consultation document, “A Fairer Local Tax for Scotland”, was released.
- 2.2 If these radical proposals are agreed in the Scottish Parliament and enacted they will have far reaching implications for local authority finances and a number of particularly significant factors are set out in this paper. They will take time to implement and the commencement date is assumed to be no earlier than 2011/12.
- 2.3 Particular concerns are raised in the Council’s response regarding a projected shortfall in revenues raised by LIT and a reduction in local accountability. Additionally it is suggested that the scope of the consultation should be widened to include modification of current Council Tax arrangements.

3.0 RECOMMENDATION

- 3.1 It is recommended that Council considers the draft response to the consultation document attached as Appendix 1.

4.0 IMPLICATIONS FOR OTHER DEPARTMENTS

- | | | |
|-----|------------------|--|
| 4.1 | Finance | Depending on the outcome of the consultation there could be significant implications for local government finance. |
| 4.2 | Legal | Any future Bills will require scrutiny from Legal Services. |
| 4.3 | Human Resources | The abolition of Council Tax has direct implications for around thirty-five staff in Revenues and Benefits who deal with billing, collection and benefit awards. |
| 4.4 | Public Relations | None identified as yet. |

***IAN BLACK
HEAD OF FINANCE & ICT***

5.0 BACKGROUND

5.1 The 2007 SNP election manifesto included a commitment to introducing a Local Income Tax (LIT) to replace Council Tax and on 11 March 2008 the Scottish Government launched a consultation seeking views on its proposals. The consultation sets out these plans and invites comments on them and also opens up discussion on alternative approaches. The primary consideration is that LIT is intended to make local taxation fairer and based on ability to pay.

There has been significant public coverage on this consultation at a UK level, with HM Treasury insisting the devolved administrations have no powers to levy a nationally set LIT, DWP disputing the claim that resources currently expended on Council Tax benefit of circa £400 million should continue to be allocated to the Scottish Block if LIT is introduced and challenges as to whether the level of revenue yield would be sufficient to match that currently raised under Council Tax.

5.2 Timescale for the Consultation:

Responses are sought by Friday 18 July 2008 with the Scottish Government aiming to issue a report in Autumn 2008, introducing legislation in the next Parliamentary session.

5.3 Consultation and Key Issues in the Consultation:

The consultation outlines the Scottish Government's proposals, which include:

- A tax free personal allowance that matches the UK personal allowance levels
- A 3% rate applied to earned income that is subject to UK income tax
- HMRC as the Collection agent through (PAYE) and self-assessment
- Exemptions for savings and investment income
- A tax for second homes, broadly comparable to the current Council Tax on second homes.

The consultation notes that the Scottish Government will seek the cooperation of the UK Government in administering LIT. The consultation sets out relevant issues and states the Government's view that the majority of households would be better off. Respondents are encouraged to consider 24 specific questions. The consultation paper is divided into sections, which can be broadly summarised as follows:

Section 1 – How much local income tax will people pay?

This section sets out the main proposals for how local income tax would be calculated:

- Personal allowance, linked to the UK allowance
- A tax rate, proposed at 3% throughout Scotland, payable on all income above the personal allowance, except income from savings and investments
- Other kinds of local income tax, including the possibility of local authorities having the power to set their own rate of local income tax.

Section 2 – How will local income tax be collected administered? - This section explains how the Scottish Government would propose to administer LIT and suggests collection would be most efficiently carried out by HMRC.

Section 3 – What will be the impact of a local income tax on our economy and people? - This section looks at the potential wider impact of introducing LIT from an economic, employment, democratic and equality perspective.

Section 4 – How will local income tax pay for local authority services? - This section reviews the financial implications of introducing LIT, which would only be used to fund council services.

Section 5 – How will empty and second homes be taxed? - This section reviews issues surrounding taxation on empty and second homes.

Section 6 – How will domestic water charges be affected? - If Council Tax was abolished there would need to be a review of these arrangements through a separate consultation on proposals for future billing and collection of domestic water charges.

Section 7 – Are there other taxation systems that should be considered? - This section considers land value tax and environmental taxes. The consultation concludes that adapting Council Tax would fail to meet the primary objectives of improving fairness and ability to pay.

5.4 Summary of Draft Response by East Dunbartonshire Council to the Consultation Document:

The draft response (Appx 1) has been formulated after assessing the relevant issues, including those considered at COSLA and initial research by professional bodies (IRRV, CIPFA, etc).

The draft Council response identifies that for a strong local government finance system to exist it should contain the following key features:-

- A focus by central and local government on outcomes continuing the spirit of the concordat;
- Scottish Government grant funding provided with as few restrictions as possible;
- A stable and collectable base of taxation earmarked specifically for local authorities;
- Government grant support that provides adequate ongoing finance for Councils; and,
- Any changes to local authority taxation should be cost-neutral.

The response also sets out key factors that the Scottish Government should take into account when assessing local taxation systems. The factors are consistent with those identified by COSLA and include: Accountability; Ability to Pay; Stability; Predictability; and being Easily-Understood.

These are consistent with the factors supported by COSLA in considering the merits of different types of local taxation. No system is likely to be the most suitable for all the factors and a degree of value judgement may be required in considering the pros and cons of different taxation systems.

Whatever system of local taxation is in place, it is essential that the full range of technical issues are properly addressed. The response will request that there is full consultation on an ongoing basis with all relevant stakeholders including relevant professional bodies as part of any changes to the local tax system. Technical issues include cash flow, rate and ease of collection, tax raising powers, distribution, and the collection and recovery of residual Council Tax.

5.5 Particular Areas of Concern

Based on the proposals in the consultation document there are two particular areas of concern.

5.5.1 Revenue Projections

An analysis carried out by the Office of the Chief Economic Adviser estimates a revenue shortfall in funding of £710 million in 2011/12 as summarised in the table below.

	2011-2012 £million
Council Tax – net of collection	2,326
Local Income Tax set @ 3% – net of collection	<u>1,616</u>
Predicted Shortfall	<u>710</u>

Whilst the Government have stated that they would expect £429 million to be transferred from DWP to the Scottish Block in lieu of Council Tax Benefit, this is by no means certain and initial indications are that HM Treasury have not accepted this proposal. In addition there would remain a residual gap of £281 million. Within this Council, and local authorities generally, there is little scope for any funding gap that may emerge from taxation changes to be bridged from organisational efficiencies due to existing financial pressures. It is therefore essential that this funding gap is resolved.

5.5.2 Accountability

The Layfield Report is widely regarded as an authoritative study on local government finance. It concluded that for local authorities to be properly accountable they should be responsible to local electorates for both the expenditure incurred and the revenues raised to finance it. The LIT proposals break that linkage as far as revenue raising accountability is concerned because there would be a single LIT taxation rate of 3% which would be determined nationally.



“A FAIRER LOCAL TAX FOR SCOTLAND” – A SCOTTISH GOVERNMENT CONSULTATION

RESPONSE FROM EAST DUNBARTONSHIRE COUNCIL

1. INTRODUCTION

East Dunbartonshire Council welcomes the opportunity to respond to the Scottish Government on Local Income Tax (LIT) contained in the consultation document “A Fairer Local Tax For Scotland”. The Council is aware of the considerable debate around the consultation proposals including:-

- focus on the powers of the Scottish Government to introduce a Local Income Tax;
- the financial modelling upon which the proposals are based; and
- the assumptions around resources currently paid by DWP for Council Tax Benefit of currently around £400m per annum.

As an opening comment, it is essential the above issues are resolved when further work commences. The main focus of this response is to provide feedback on the issues raised in the consultation paper to ensure a secure and sustainable long-term future for local authority finances.

2. APPROACH

This response will set out:-

- An appraisal of the technical aspects of the issues; and
- A response to the 24 questions in the consultation document

3. GENERAL CONSIDERATIONS

As an active participant in debate within COSLA and the various officers groups (SOLACE, CIPFA, IRRV etc) the Council is aware of the approach being taken in responding to the consultation by a number of stakeholders and subscribes broadly to the approach taken by COSLA in identifying and grouping some key aspects of Local Taxation. These are set out in the sections below.

3.1 Accountability

Previous studies on Local Government Finance, principally the Layfield Report, concluded that to maximise accountability, local authorities should be responsible to their electorate for both their

expenditure and the revenues they raise. Using Layfield as a measure, the effect of implementing LIT as proposed will limit local accountability, which is not viewed as a positive development.

3.2 Ability to Pay

Whilst there is no single definition of fairness in taxation, there is a linkage with the ability to pay. Under existing Council Tax arrangements, the value of property is effectively taken as a proxy of ability to pay, with state benefits acting as a safety net. Previous definitions of 'ability to pay' considered as part of the Burt Committee were based on a wider view of wealth and included both a person's assets as well as their income. The LIT proposals exclude "unearned income" (savings, investments, dividends etc.) which does not seem equitable. Whilst there may be costs from collecting taxation from these sources, further analysis is required to demonstrate it is not cost effective to include this within the scope of LIT. In addition, the proposal will bring in an additional taxation burden for full-time students, who are currently exempt from council tax.

3.3 Stability and Predictability

Public sector organisations require certainty in the level of resources available to apply to services. This ensures sustainability and facilitates long-term planning.

It has been estimated that in 2011/12 LIT will raise £710 million less than that currently raised by Council Tax, to be balanced by an assumed £429 million in Council Tax Benefit monies that are sought via transfer from DWP to the Scotland Block.

Within this Council there is little scope for any funding gap that may emerge from taxation changes to be bridged from organisational efficiencies due to our existing financial pressures. The financial model for LIT needs to provide a stable funding platform for local government. Therefore it is fundamental that the LIT proposals address any funding gaps with no risk to local authorities.

Various economic factors can impact upon LIT yield due to changes in the economically active populace. This has the potential to introduce uncertainty and unpredictability which the current Council Tax system addresses in part by access to HM Treasury via DWP benefits.

If the LIT collected locally is all allocated in line with payments from local authority residents then the various factors used to distribute Revenue Grant need to be considered carefully to ensure no wind-fall losses or gains arise as a result of taxation changes.

3.4 Easily Understood and Public Perception

Experience of changes when Community Charge and Council Tax were introduced is that the new scheme must be easily understood by the public to ensure credibility. Tax bills must have clear and definitive explanations as to what they represent and any exceptions within them must be fully explained. This will require close working with HMRC, media promotions etc.

4. TECHNICAL ISSUES FOR CONSIDERATION

4.1 Treasury Management & Cash Flow

Over 96% of East Dunbartonshire's Council Tax is collected in-year so the introduction of LIT could have substantial cash flow implications for local authorities. An adverse impact would be felt should there be a high proportion of individuals paying tax through self assessment, where only a proportion of tax is collected in-year.

Arrangements must also be made with HMRC who it is suggested will collect LIT to ensure there is no time-lag. Whilst the Scottish Government indicated this could be mitigated by

front-loading grant settlements, this would have to be substantial to fully address the issue. COSLA have estimated this to cost between £130m and £200m for all Scottish Authorities.

4.2 Rate and Ease of Collection

Due to employment mobility, taxes based on property are easier to collect than those based on individuals. Councils achieve high rates of collection of Council Tax because a key incentive is that the burden of non-payment of Council Tax is borne by local authorities. It is therefore in Councils best interests to have effective collection mechanisms in place.

The new LIT will require HMRC to maintain improved information on individuals for PAYE purposes, including home addresses, which could limit their scope to implement LIT effectively.

Additionally when LIT is introduced considerable levels of legacy debts will exist from Community Charge and Council Tax. Collection in these areas will be challenging given a possible inclination to avoid payment of what may be viewed as a historic debt.

4.3 Cost of Collection

The consultation recommends HMRC administers and collects LIT and assumes administration costs would be less than the cost of Council Tax collection, benefit and valuation. This Council recommends that detailed costings are carried out to ensure this assumption is robust.

Currently local authorities bill and collect water charges alongside Council Tax and similarly, housing benefit is administered alongside Council Tax benefit. Changes in the current local taxation system will not negate the requirement to administer housing benefit claims, and it is probable that economies of scale could be lost, reducing the savings generated.

4.4 Distribution

Distribution of Revenue Grant post-LIT needs careful consideration to ensure financial stability within local authorities and to minimise turbulence across local authority areas. It is understood that Ministers are currently proposing an overall review of the current distribution system, and this review could be broadened to include the likely distribution of LIT.

5.0 CONCLUSION

The consultation on LIT is helpful in prompting and stimulating debate on local taxation arrangements. One clear issue is that no single scheme could address all stakeholder concerns.

This Council has particular concerns in relation to diminution of elected Councillor accountability, the yield of LIT and its ability to fully match revenues raised from Council Tax without leaving a financial burden on local authorities. In several areas further cost analysis is recommended.

In taking the debate forward the Scottish Government is asked to broaden the scope of its consultation document to include a review of the current Council Tax arrangements to determine if it would be more productive to implement amendments which would address any concerns which have been expressed.

Local Income Tax Consultation Questions

No.	Consultation Question
1	In your view should the local income tax personal allowance be the same, higher or lower than the UK income tax personal allowance?
The same. There is no case presented to suggest any advantage in having different personal allowances for LIT, having the same allowances would aid consistency and be better understood.	
2	Do you think a flat rate of 3% is too high, too low or about right?
Based upon the analysis by the Chief Economic Adviser. The 3% rate is insufficient to match revenue raised under council tax leaving a shortfall of £710 million.	
3	Would you be inclined to pay more Local Income Tax (i.e. above 3%) to provide for better quality local services?
<p>A single national rate of 3% precludes councils from raising funds to meet local priorities. Under such an arrangement it would be difficult to target a LIT tax increase towards services in any single locality.</p> <p>As an alternative LIT could be set locally allowing councils to identify and respond to local needs through the setting of their local taxation.</p>	
4	Do you believe the level should be set locally or nationally?
LIT should be set locally ensuring accountability is maintained between the public and elected members, with no cap set.	
5	<p>Among the following, which should or should not be taxed as part of Local Income Tax?</p> <ul style="list-style-type: none"> - Earned Income / Wages? Yes - Income from Pensions? Yes - Income from Savings? Yes - Income from Financial Investments? Yes - Income from Second Homes? Yes
The proposals state savings and investments should be exempted on the basis of cost of collection, meaning some individuals would not contribute towards the cost of local services for significant elements of their income. The fairness of this should be reconsidered as it takes no account of ability to pay for individuals with "unearned" income.	
6	In your view, do you think that there should be any special exemptions or discounts from a local income tax?
There should be some ability to pay consideration of the implications of LIT for groups who currently receive council tax benefits – as an example, LIT brings a new and potentially significant financial burden upon full-time students' earnings – a group who receive discounts/exemptions from Council Tax.	
7	<p>Do you agree that a Scottish taxpayer should be defined using the definition already contained in the Scotland Act, as described below:</p> <p>'Someone who lives in the UK for income tax purposes, and Scotland is the part of the UK with which they have the closest connection during the year'</p>

No.	Consultation Question
	<ul style="list-style-type: none"> - If you disagree, how would you propose residency be defined?
Agreed	
8	<p>In your view should transitional arrangements for individuals apply?</p> <ul style="list-style-type: none"> - If yes, please give your reasons and provide any comments on how you think transitional arrangements should be funded?
	<p>Yes, as per Q6 households facing substantial changes to their liability should benefit from a transitional scheme to protect their finances in the short-term, whilst giving time to plan for the longer-term.</p>
9	<p>Which of the following do you think should collect a Local Income Tax?</p> <ul style="list-style-type: none"> - Her Majesty's Revenue and Customs (HMRC)? <input checked="" type="checkbox"/> - A Scottish Government collection agency? - A private sector collection agency? - Local authorities? - Don't Know
	<p>If LIT is set nationally, HMRC have the infrastructure in place and would be best placed. If LIT is set locally, then collection may be better handled by the councils, but a financial assessment is recommended.</p>
10	<p>Do you think local income tax should be collected at source or through payment?</p>
	<p>A combination of collection at source (PAYE, interest earned etc) and by interim payment (self-employed, rental income etc) to maintain fiscal treasury and cash-flow considerations.</p>
11	<p>If the Government were to offer support to employers to implement these proposals, which would be the most appropriate medium of support in your view?</p> <ul style="list-style-type: none"> - Information booklet for employees <input checked="" type="checkbox"/> - Designated advice hotline <input checked="" type="checkbox"/> - Designated advice e-mail - Website with a section of 'Frequently Asked Questions (FAQs)' <input checked="" type="checkbox"/> - Workplace visits <input checked="" type="checkbox"/> - Roadshows for employees <input checked="" type="checkbox"/> - Media advertising <input checked="" type="checkbox"/> - None - Other (please specify) - Don't know
	<p>All the above are appropriate but particular focus is required with employers as they are the largest single grouping from whom LIT taxation would be relayed to HMRC. There will be significant procedural changes required for employers to ensure payroll systems are compliant.</p>
12	<p>In your opinion, will the introduction of a local income tax have positive economic impacts for Scotland?</p>

No.	Consultation Question
	It is difficult to determine the economic benefits from the LIT consultation paper. It is recommended further research is undertaken to make an assessment on a wider evidence-base.
13	To what extent would the tax rate influence your decision to live in Scotland?
	This is a subjective matter for individuals based upon a range of fiscal, familial and quality of life considerations. LIT may become one factor in organisations and/or people determining whether they locate in Scotland or if they are required to make a decision regarding employment / residence.
14	<p>To what extent do you agree with the following statements about the impact that a local income tax might have on your workplace patterns?</p> <ul style="list-style-type: none"> - I am likely to work more hours - I am likely to work fewer hours - I am likely to work in a different location - I am likely to change jobs to a different sector - It will have no impact on my work patterns - Other work impacts (please specify) ✓
	If taxation is viewed as a disincentive to work, then LIT could be a disincentive to work more; additional earnings will be taxable at an additional 3%. This will be an issue for individual circumstances.
15	On a scale of 1-5, where 1 is strongly agree and 5 is strongly disagree, how important is it that your local authority has the power to set a tax?
	1 Strongly Agree – Refer to answer to Question 4.
16	Please provide any comments you may have about local income tax and accountability and democracy.
	Electors form voting intentions partly based upon levels of local taxation that election candidates may say they will levy, and have a means of addressing any dissatisfaction at subsequent elections. The LIT paper would mean Councils being fully reliant on the Scottish Government distributing all funding on the basis of GAE with Councils having no scope for varying local taxation to meet local needs, impinging upon the fiscal accountability of elected members that currently exists.
17	If you have any specific comment about the impact of our proposals on equality issues, please tell us what these are.
	No comment.
18	<p>Do you feel that the money raised from a Local Income Tax should be distributed to councils according to:</p> <ul style="list-style-type: none"> - Need ✓ - Population in each area - The amount of local income tax raised in each area - Don't know
	The distribution should be on the basis of need reflecting local circumstances to minimise turbulence during the period of change

No.	Consultation Question
19	To what extent do you agree that Scotland should receive equivalent monies to Council Tax Benefit, after the abolition of council tax? (where 1 is strongly agree and 5 is strongly disagree)
	<p>Council Tax Benefit is provided for a specific purpose as determined by DWP. If Council Tax is abolished a case would have to be made to provide justification to continue the payment of Council Tax Benefit to Scotland. To date DWP and HM Treasury appear unlikely to agree to such a change, which could result in a funding gap of around £429 million in 2011/12.</p> <p>If such a shortfall arose directly as a result of LIT this must be fully funded by the Scottish Government, without reducing the spend on the Local Government sector.</p>
20	To what extent do you agree that local authorities should play a part in setting a second homes tax? (where 1 is strongly agree and 5 is strongly disagree)
	<p>Following introduction of LIT there will be minimal yield and poor economies of scale in local authorities collecting second home council tax due to the low numbers of properties it covers .</p> <p>LIT does not cover tax on savings and investment income therefore it would seem incongruous to set up a system to tax Second Homes which could collect less tax revenue than from savings & investments.</p>
21	<p>To what extent do you feel second homes tax should be collected by:</p> <ul style="list-style-type: none"> - Her Majesty's Revenue and Customs (HMRC)? - A Scottish local collection agency? - A private collection agency? - Local authorities? <input checked="" type="checkbox"/>
	If required to be collected it is best done by local authorities dependent upon resources after LIT is introduced.
22	<p>Which do you feel is the fairest approach to taxation?</p> <ul style="list-style-type: none"> - Council Tax <input checked="" type="checkbox"/> - Land Value Tax - Local Income Tax - Environmental Tax - None of the above - Don't know
	<p>Based upon the proposals in the consultation document, further development of Council Tax could prove to be the most suitable means of addressing any perceived weaknesses in local taxation</p> <p>Property tax is well recognised and established in the UK as a means of raising revenues to fund local services. The advantage of property taxes is that they are a reasonable proxy indicator of ability to pay (when moderated by robust state benefits systems) and are straightforward to identify and pursue.</p>
23	<p>Which approach do you feel will provide a more wealth Scotland?</p> <ul style="list-style-type: none"> - Council Tax - Land Value Tax - Local Income Tax - Environmental Tax

No.	Consultation Question
	<ul style="list-style-type: none"> - None of the above - Don't know <input checked="" type="checkbox"/>
	<p>Assuming that the total amount of revenue to be raised is not intended to vary, then there would be minimal impact on the net wealth of Scotland. There would certainly be a redistribution for certain groups which may increase disposable income for certain groups. There are however risks that it could impact on some groups who currently are in receipt of benefit or Council Tax exemptions.</p>
24	<p>If a Local Income Tax is introduced, what would be the most significant factor (good or bad) for you?</p> <ul style="list-style-type: none"> - That the Council Tax will be abolished - If my household shall be better off - If my household shall be worse off - That a Local Income Tax system would be fairer than the Council Tax - That it will help make Scotland a wealthier and fairer place to live and work - Don't know - Other <input checked="" type="checkbox"/>
	<p>Other - there is a significant concern that a funding gap will emerge for local authorities and local accountability will diminish.</p>