

Briefing for the Public Petitions Committee

Petition Number: [PE1816](#)

Main Petitioner: Lewis McCathie

Subject: Reform of local authority financial powers

Calls on the Parliament to urge the Scottish Government to reform the financial powers of local authorities by—

- Reforming the council tax
- Devolving more tax powers to local authorities

Background

Council Tax

Council Tax is the system of local taxation that is used to part-fund local authorities. It was introduced in 1993 to replace the Community Charge (known as the “poll tax”) and, until 2017-18, remained unchanged since its introduction. Key elements of the current Council Tax are:

- The rate of tax payable is based on the value of residential property in 1991, and the amount that households pay depends on their band (A to H).
- Local authorities set the Band D rate, and other bands are calculated as a set ratio to the Band D rate.
- Various exemptions and discounts apply and people on low incomes may be eligible for Council Tax Reduction, which replaced Council Tax Benefit in 2013-24.

Council Tax reform

In 2015, following a recommendation by the Parliament's [Local Government and Regeneration Committee](#) (2014), the Scottish Government and COSLA established the [Commission on Local Tax Reform](#) (“the Commission”). The Commission reported in December 2015 and, although not recommending a single course of action, modelled alternative structures for the ratios of Council Tax bands.

In March 2016, the Scottish Government [published its proposals for reform of the Council Tax](#), which focused primarily on adjusting the ratio to Band D of

Bands E-H. The Scottish Government estimated that this would generate an additional £100 million a year in direct revenue for councils (not taking into account other proposed changes to Council Tax). The Council Tax (Substitution of Proportion) (Scotland) Order 2016 was agreed to by Parliament on 3 November 2016.

In recent years SPICe has explored the impacts of Council Tax reform on Council income. The briefing [Local Government Finance: Facts and Figures 2013-14 to 2020-21](#) showed that since Council Tax reform, there had been an average increase in Council Tax revenue of 22.3% across all of Scotland's local authorities. It's important to note that, when Council Tax income increases, the general revenue grant provided by the Scottish Government to local authorities decreases accordingly. This is explained in detail in the briefing [Local Government Finance: the funding formula and local taxation income](#).

Devolution and creation of other taxes

At Stage 2 of the Budget Bill 2019-20, as part of the deal with the Green Party, the Cabinet Secretary for Finance, Economy and Fair Work announced the proposed introduction of a transient visitor levy ("tourist tax"), and a workplace parking levy.

The workplace parking levy was introduced through an amendment to the [Transport \(Scotland\) Bill](#) that would allow Scottish local authorities to introduce a workplace parking levy (WPL), if they think it appropriate. A [SPICe Blog](#) gives further details on the background and aims of this. This amendment passed alongside the Bill in October 2019.

The transient visitor levy (also explored as part of a [SPICe blog](#)), was expected to be brought in during Session 5 of the Scottish Parliament. The Scottish Government's [programme for government](#) published in September 2020 set out plans for a Transient Visitor Levy Bill, to create a power for local authorities to apply a "tourist tax" on overnight visitor stays, stating that that "receipts will be to fund local authority expenditure on tourism.". The Scottish Government [consulted on proposals](#) in late-2019. However, plans to move ahead with the legislation were [put on hold](#) as a result of the COVID-19 pandemic, despite calls, [notably from Edinburgh City Council](#), for it to go ahead.

Scottish Government Action

As well as the actions mentioned above, the Scottish Government has led carried out a number of pieces of work which look at the wider devolution and/or reform of local government, and changes to aspects of service delivery that have impacted local government finances, which provide some useful wider context to the question of devolution of further tax powers to local authorities.

The [Commission on the Future Delivery of Public Services](#) (aka the Christie Commission) explored how public services should change to meet the

medium and long-term financial challenges and the expectations of the people of Scotland. It concluded that –

“The need for reform is now urgent. If it is not substantially achieved in this Parliament, the chance to fashion an effective, sustainable and valued form of delivering public services for the future may be lost. We cannot allow the obstacles that have hampered reform in the past to thwart the action that is now required.”

In 2013, the enactment of the [Police and Fire Reform Act 2012](#) meant that police and fire services in Scotland were reallocated from local government to central government. This resulted in approximately 29,000 employees shifting from local government to the new central forces, and removed funding for police and fire services from the local government settlement.

In December 2011, the UK Government launched City Deals as part of its [Unlocking Growth in Cities White Paper](#). The Glasgow City Region Deal was signed in August 2014, and since then subsequent City Region Deal and Growth Deals have been launched or are under negotiation to cover and involve all of Scotland’s local authorities.

[The Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) paved the way for the introduction of Integrated Joint Boards for Health and Social Care delivery. In 2014 COSLA convened the independent [Commission on Strengthening Local Democracy](#) to examine the evidence and engage widely about what should change within Scottish local government. The report contained recommendations on making democracy local, creating local tax and spending choices, securing local democracy, and making participation work. The report argued that –

“A radical transfer of power to communities is essential if we are to rebuild confidence in Scotland’s democracy and improve outcomes across the country”.

The [Community Empowerment \(Scotland\) Act 2015](#) reformed areas such as community planning, community right to buy land, involvement of communities in public service delivery and communities taking on public assets.

In December 2015 the Scottish Government announced it would review business rates. It established the independent Barclay review group, whose [review report](#) was published in August 2017. The [Non-Domestic Rates \(Scotland\) Bill](#), which makes the required legislative changes to implement recommendations from the Barclay review was introduced in the Scottish Parliament in March 2019 and is currently going through the Parliamentary Bill procedure.

In December 2017, the Scottish Government and COSLA [jointly launched](#) the Local Governance Review, with [interim consultation findings](#) published in May 2019. This process is ongoing with legislation not expected within the current parliamentary session.

Scottish Parliament Action

The Local Government and Communities Committee was the lead committee in scrutiny of the [draft Council Tax \(Substitution of Proportion\) Order 2016](#), which put the Scottish Government's proposals for Council Tax reform in to play. It has continued to look at the impacts of reform as part of its annual Budget scrutiny process.

The question of whether to reform or devolve local government tax powers has come up indirectly in the Local Government Committee's scrutiny of the Budget in recent years, specifically in the form of discussions around the local government funding formula.

The following excerpt from the SPICe briefing 'Local Government Finance: The Funding Formula and local taxation income' covers some of this discussion.

Whilst the guaranteed current block model gives local authorities freedom over how to deliver the priorities agreed between COSLA and the Scottish Government, COSLA have argued that including commitments such as these within overall presentation of the headline change in the local government budget means that the core Revenue Budget is, in effect, lower than it might first appear. During the Local Government and Communities Committee's scrutiny of the Draft Budget 2018-19 COSLA submitted its proposals for what it called the 'fair funding of essential services'. This did not call for a change to the Local Government Funding Formula. It did, however, imply that a more fundamental review of funding for local government is needed-

"We cannot keep going on like this, storing up problems for the future. Over the long term, linking in with the overall Scottish budget process, we need a fundamental review of Scottish priorities and how services are funded, ultimately with a view of improving outcomes."

The Accounts Commission, in its report, Local government in Scotland: Challenges and performance 2018, looked further into population trends and reiterated a point made in other recent publications that "the Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government."

It explained-

"In our 2017 local government financial overview report, we outlined how the Scottish Government funding formula is largely based on the size of council's populations, although under proposals to review funding for education, this may change. Currently, those councils with a projected decrease in population

can expect to see greater reductions to their budgets compared to councils with increasing populations. However, all 11 councils which are expected to have reduced total populations are expected to have increases in the number of people of a pensionable age and over. These councils will therefore have a higher dependency ratio and a consequent increased demand for services at a time of reduced funding. Many of these councils are also rural which poses an additional challenge in delivering services as cost effectively as urban councils.”

Ailsa Burn-Murdoch
Senior Researcher
19 August 2020

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