Reform Scotland submission to the consultation on the Community Empowerment (Scotland) Bill

I am pleased to respond to the Local Government & Regeneration Committee’s consultation on the Community Empowerment (Scotland) Bill.

I refer to part 8 of the bill which includes provisions for local relief schemes to NDR as well as additional measures which Reform Scotland believes would improve community empowerment in Scotland.

NDR relief scheme

Whilst the ability to create localised relief schemes to reflect local needs and support communities proposed by the bill is to be welcomed, we would like to see far greater decentralisation. Reform Scotland believes that each tier of government should be responsible for raising the majority of what it spends. Councils in Scotland today arguably have no real control over raising the tax revenue they spend (due to centralisation of NDR and the council tax freeze) despite being responsible for a significant proportion of expenditure.

Our report Local Taxes, published in March 2012, explained in detail how council tax and non-domestic rates could be properly devolved to councils, giving them far greater control over raising the money they spent, as explained below.

Business rates are a form of local taxation and Reform Scotland believes that as well as collecting the tax, councils should be responsible for setting it too. Just as it has been argued that there is little incentive for the Scottish Government to improve the economy if any increase in revenue as a result of greater economic growth is returned to Westminster, the same argument applies to business rates. There is little incentive for an individual council to develop the local economy if any increase in business rate revenue resulting from a stronger local economy is simply returned to Holyrood. Devolving business rates to local councils would restore the link between local economic development and higher revenues. It would give councils a real incentive to work with local businesses to improve the performance of the local economy.

Devolving business rates would obviously lead to a reduction in the grant given to councils and would result in a situation of net winners and losers since some councils account for a larger proportion of business rate revenue collected relative to their resident populations than others. Some of this is due to differences in economic performance across the country and some due to council boundaries not reflecting real economic flows. Reform Scotland
recommends that, in the first year of operation, the Scottish Government grants to each council should be based on the grant they received the previous year, less the business rates collected from the council area. Councils would then receive the revenue raised from business rates in their area, with the remaining part of their revenue grant adjusted to ensure no council was better or worse off.

Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce business rates. Councils would have an incentive to provide a competitive economic environment. A council could seek to increase business rates which might have the effect of increasing income in the short term, but is likely to lead to poorer economic performance and lower income from business rates in the longer term. However, the increase in local financial accountability is more likely to provide an incentive for councils 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.

Reform Scotland also believes that local authorities should be able to introduce other taxes, such as a ‘bed tax’, if they feel they are appropriate for their area. If the electorate disagrees, they can register this protest at the ballot box. Such schemes also increase diversity and allow councils to learn from the experiences of other local authorities. Importantly, they also make councils less dependent on central government grants.

As well as giving local authorities freedom to raise and cut council tax as they see fit, we also believe that local councils should be able to choose to whom the tax applies, where discounts can be offered and indeed the type of local tax they wish to operate. There are a number of different types of local taxes which are used around the world; each with its own pros and cons. Reform Scotland believes that it should be up to local authorities to decide what type of tax system they want. There is no reason why, for example, Edinburgh couldn’t operate a council tax system while Midlothian used a Land Value Tax. By allowing different forms of tax to exist around Scotland, this would help to increase diversity as well as discovering which systems work best for different communities.

Reform Scotland's proposed reform to local democracy
Devolution was never supposed to stop at Holyrood, but increasingly this seems to be the case. This is why Reform Scotland’s reports on a range of issues from healthcare to policing and finance to planning have argued that more power needs to be devolved down to our local authorities and beyond to make those services more responsive to local needs and priorities as well as making service delivery more accountable and transparent.

We believe that local authorities should have greater fiscal powers to help ensure that they are responsible for a greater proportion of their own expenditure. Given the current limitations of the fiscal powers of the Scottish Parliament, at present this could be done only by giving councils full power over council tax and non-domestic rates, which would also require legislation to enable the councils to have control over issues such as the tax base, the bands, discounts etc. Further powers could be devolved once they are first devolved to Holyrood.

Reform Scotland favours a diverse structure of local government in Scotland, reflecting the diverse circumstances of the different parts of Scotland. Two options which we feel should be considered by the new councils would be an enhanced area committee system where more decisions are taken for the local area by the councillors from that area and directly-elected
mayors, or provosts as they could be known in Scotland. Reform Scotland does not believe that either of these options should be forced on a local authority from the centre, but should be options that they could introduce should they wish. To enable this, Reform Scotland would recommend the introduction of legislation which would allow local authority areas to hold referendums on the introduction of a directly-elected mayor, or provost, where 5 per cent of the population signs a petition or a council resolution is passed. Elected civic leaders would help address the problems of local government’s lack of visibility and, therefore, accountability. As they are elected by the public across their council area, rather than just one council ward, they have a stronger democratic mandate and a much greater incentive to focus on responding to the concerns of their electorate.

Local authorities should, in turn, consider devolving greater responsibilities to community councils in order to better involve the local community and encourage participation within community councils. While some community councils are viewed as effective, others are not and participation is low. However, just as is the case with local government, if a community council is seen to have no meaningful role in a community it is very difficult to encourage volunteers to become interested and increasing responsibilities should help address this issue.

Reform Scotland does not think there should be a single model for community councils across Scotland, rather local communities in conjunction with their local authority should develop a system that best suits their area and circumstance.

Worryingly, there appears to be an appetite for reforming public services by bringing more power to the centre. While this may be being done in the name of efficiency (i.e. apparent financial savings from merging the police) or to save people money (council tax freeze), the end result is the erosion of local accountability and decision making.

Whilst there is near unanimity that more powers should be passed down to Holyrood, on the basis that politicians in Scotland are better placed to make decisions for the people of Scotland, this argument has yet to apply to local government in Scotland.

Reform Scotland believes there needs to be a fundamental change in approach towards extending devolution beyond Holyrood.

Yours sincerely,

Geoff Mawdsley
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