# ADDITIONAL REVENUE STREAMS/SOURCES OF FUNDING FOR THE DELIVERY OF LOCAL GOVERNMENT SERVICES

Report to UNISON Scotland

This report was commissioned by UNISON Scotland and carried out by Professor Mike Danson and Dr Geoffrey Whittam on behalf of the Jimmy Reid Foundation (http://reidfoundation.org/)

ABSTRACT

Expansion of local public services is possible with a fairer system of property taxes, and environmental charges

The Jimmy Reid Foundation

# Contents

## Executive Summary

- Local government has borne the heaviest burden of austerity cuts to the Scottish Budget since the financial crisis.
- While the Scottish Rate of Income Tax has restored an element of progressiveness to the tax system overall, the Council Tax remains regressive and increasingly based on out-of-date property valuations.
- Greater local control and autonomy over revenues and spending are supported by all parties in line with principles of subsidiarity and community empowerment.
- Recent reports, commissions and evidence from elsewhere support local authorities being able to apply a portfolio of taxes, levies and charges to fund their public services.
- Significant property taxes are essential to local government funding.
- New and alternative sources of revenue for local government can be identified based on their introduction and implementation elsewhere.
- The careful analysis and proposals from previous inquiries suggest a number of their findings and recommendations are sound, would improve the efficiency and effectiveness of funding for local government and should be introduced without further delay. Some of the Barclay Review proposals are being implemented and others should follow.
- Some of the proposals and recommendations here would generate new income for local authorities, other changes would rebalance the burden of taxation onto the wealthy and higher income groups. Some changes can be implemented immediately, some require legislation by the Scottish Parliament, others would require significant further devolution of fiscal and other powers from the Westminster Parliament.
- Experiences with introducing new charges and levies suggests there are advantages in communicating the rationales and aims to the public and implementing them gradually at lower rates initially.
- New legislation needs to be well designed, planned to minimise unintended consequences, with realistic timescales and expected outcomes.
- Recommendations:
    - Recruitment of additional council, government and agency staff to ensure that registration, regulation and collection of revenues is undertaken as identified in the Barclay Review and submissions from CIPFA, ICAS, etc.
    - Committees of the Scottish Parliament should examine whether the Small Business Bonus Scheme, and other reliefs from Non-Domestic Rates, are fit for purpose and determine what alternatives could support private and social enterprises and other bodies more effectively.

- Trade unions should remind the Government and Parliament of how the Fair Work Framework should underpin both these reviews and implementation of tax changes. Making reliefs and subsidies and tenders for public procurement dependent on good practices at the local level should raise revenues indirectly for Council budgets.
- Parliament, Councils, and trade unions and communities should explore how new taxes and levies can be introduced to support inclusive growth and the foundational economy. Attention should be paid to the opportunity for such initiatives to change behaviours and overcome negative externalities and market failures.
- Trade unions should consider how municipalisation of buses, energy, and other public services could be appropriately pursued. This may require powers to be devolved from Westminster.
- Trade unions and others should also explore how local authority debts and PFI/PPP contracts can be taken over by the Treasury, saving local government many billions in interest charges each year and so releasing tax revenues for investment in local economies and communities.
- UNISON should consider establishing improved research and policy facilities through collaborations with academics and others in the STUC research network.

## 1. Introduction

This report on identifying alternative revenue streams for the hard-pressed local government sector was commissioned to complement previous studies for UNISON on how the contribution local government makes to our communities and the local economy have been restricted by the cuts in local government budgets [1]. As UNISON is Scotland's largest trade union representing over 150,000 members, primarily in Scotland's public sector including local government, the analysis presented here on new sources of revenue for local government and public services has relevance for other public sector trade unions.

Local government has had the largest cut in Scottish government funding allocations in recent years, bearing the brunt of austerity. UNISON, along with others has highlighted the overall cuts[2] and in their 'damage' series have set out their members' views of the impact on individual services[3]. These reports were updated and expanded in our previous reports to UNISON[4] and argued for a more interventionist role for local government in areas like procurement, the environment and municipal energy in order to contribute to reversing cuts to local government activities, to allow local government to play a fuller role in promoting local economies and communities, and to protect public services; all these initiatives and strategies mean securing greater revenues.

Previous reports by UNISON, the Improvement Service, the Accounts Commission, Audit Scotland and our own work have built on the evidence of

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[1] Danson, M., Stirzaker, R., Cooper, C. and Whittam, G. (2018) The contribution local government makes to our communities and the local economy', http://www.unison-scotland.org/library/jrf-unison-report-2018.pdf; Danson, M. and Whittam, G. (2017) 'A public sector pay rise is good for all', *Scottish Left Review, Nov/Dec 2017*, http://www.scottishleftreview.scot/public-sector-pay-rise-is-good-for-all/

[2] *Cuts to Local Government Budgets*, http://www.unison-scotland.org/cuts-to-local-government-budgets/, February 2019; *Draft Budget 2017-18.* The UNISON Scotland Evidence to the Scottish Parliament Local Government Committee: draft Budget. October 2016. http://www.unison-scotland.org/library/DraftBudget2017-18_UNISONScotlandEvidencetoScotParlLocalGovtCttee_Oct2016.pdf

[3] For example, 'Combating Austerity: Signposting the ways Scotland could limit some of the damage', September 2015, http://www.unison-scotland.org/wp-content/uploads/CombatingAusterity_Sep2015.pdf; 'Poorer workers poorer services: Life in Con Dem Inverness', May 2015, http://www.unison-scotland.org/2015/05/05/poorer-workers-poorer-services-life-in-con-dem-inverness-may-2015/; and the regular issues of *Futures*, http://www.unison-scotland.org/futures-winter-2019-issue-24/

[4] 'The contribution local government makes to our communities and the local economy', http://www.unison-scotland.org/library/jrf-unison-report-2018.pdf

strong public support for the services local government delivers[5]. These recognised how local government delivers efficient and effective public services and could make greater contributions to inclusive growth and quality public services by highlighting the important roles local government makes to our communities and the local economy in particular. Although health and education have been largely insulated from the damaging effects of overall austerity cuts, key areas of creativity, culture and leisure, planning and environmental services have seen disproportionately high reductions in spending. With critical further expenditure falls in the pipeline (in the Scottish Budget the 'Rural Economy' portfolio was to fall by 2.0 per cent and 'Culture, Tourism and External Affairs' by 5.5 per cent, both in real terms), it is vital to the health and wellbeing of citizens, the workforce and local communities and economies that new funding streams are identified. Informed by recent analyses, reports and experience from beyond Scotland, this report aims to explore what some of these might be, within the constraints of the different powers devolved to the Scottish Parliament and Government,

**Research Aim**

The overall aim is to complement the previous studies for UNISON of the importance of the local government sector to the Scottish society and economy and the ensuing negative impacts of austerity on local services and the damage that does to communities and local economies. In particular, it is intended to identify and analyse the prospects for additional revenue streams/sources of funding for the delivery of local government services. This will be undertaken by:

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[5] Audit Scotland (2016) *An overview of local government in 2016*, http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160317_local_government_overview.pdf; Audit Scotland (2017) *Local government in Scotland: Performance and challenges 2017*. http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_170307_local_government_performance_0.pdf; Accounts Commission (2018) *Local government in Scotland: Financial overview 2017/18*, http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_181129_local_government_finance.pdf; Improvement Service (2019) *Councils continuing to perform well for communities but pressures are starting to show*, http://www.improvementservice.org.uk/councils-continue-to-perform-well-for-communities.html; and see UNISON and Danson et al. reports in earlier footnotes.

- Briefly offering the context of cuts, roles and responsibilities of local authorities in Scotland
- Examining what powers are available in Scotland to raise revenues to allow local government to deliver public services
- Developing schema with regard to tax and revenue exclusively for local government of i) existing tax/revenue powers which are not fully used/could be used further; ii) existing tax/revenue powers which are not used at all; iii) areas within existing legislative framework (of Scotland Acts) where new taxes/revenues could be developed; and iv) areas where new taxes/revenue could be developed but which would require new legislation in terms of a further Scotland Act.
- Identifying types of possible taxes, including recent proposals around 'tourism taxes' and 'workplace parking levies', drawing from experiences elsewhere.
- Suggesting how any of these new forms of revenue might be introduced, and what legislation and instruments might be required for them to come into fruition.
- Recommending some approaches to ensure wider support for new sources of funding in the context of how councils could do more to strengthen the economy, improve the environment and raise wellbeing if they had additional funding.

## 2. Reductions in local government funding and consequences for services and jobs

In his introduction to the Accounts Commission's 2018 financial overview report for local government, Graham Sharp, Chair of Accounts Commission, noted that: *The forecast trend is for further reductions in funding from the Scottish Government in the medium term. Pressure therefore remains on councils to make further savings and find ways to meet service demand more efficiently and effectively. This will require difficult decisions and innovative thinking by councillors and senior management working together*[6]. This captures the continuing challenges facing local government but places little attention on possible initiatives to raise finance in new ways, largely because of the obstacles to introducing charges, new taxes, and other ways to increase revenue. There have been several commissions, working parties and proposals over the last two decades exploring how the twin objectives of generating more revenues for local government and increasing the autonomy of the local authorities from central government could be pursued fairly and efficiently[7]; these respective objectives can be reconciled most simply through passing legislation to allow local councils to raise new revenues themselves. These objectives, from the viewpoint of UNISON, other trade unions and many others, are also to be achieved by making the tax system overall less regressive and aimed at reducing inequality in Scotland.

Identifying how to meet these aims and objectives, and in ways that are palatable and politically feasible, has been extraordinarily difficult, with well-researched and argued proposals unable to proceed from the reporting stage to due consideration by political parties and civic society. In the words of the Scottish Property Tax Reform group (SPTR, the panel of experts who advised the Commission on Local Tax Reform): *Previous attempts at reforming or*

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[6] Accounts Commission, 2018, *Local Government in Scotland: Financial Overview 2017/18*, Audit Scotland.

[7] Layfield Committee (1976) Report of the Committee of Inquiry Into Local Government Finance. HMSO: London; *Local Government Finance Review (Burt Review)* http://www.gov.scot/Resource/Doc/153766/0041377.pdf; Michael Lyons (2007) *The Lyons Inquiry in to Local Government 2007*, www.lyonsinquiry.org.uk; and see Gibb and Christie, 2015.

*replacing the Council Tax have been unsuccessful* and they noted the reluctance of all parties to move quickly to reform local taxation (SPTR, 2016). These challenges are all the stronger in an age of austerity cuts to the Scottish Government's budgets – which have been heavily borne by local government – and to families, especially those dependent on social security payments, uncertainty due to Brexit and climate change, and to increasing demands from an ageing and increasingly diverse community.

Interventions from the Scottish Parliament Information Centre (SPICe), the Fraser of Allander Institute [8] and other commentators along with the deliberations of the Budget Process Review Group have, arguably, encouraged the Scottish Government to make the levels and changes to local government spending and revenues more transparent, especially regarding the difference between real and nominal changes, core and ring-fenced funding.

In the draft Scottish Budget for 2019-20, after revenue funding within other portfolios (but still from the Scottish Government to local authorities) is included, SPICe reports that the total allocation to local authorities is to be £11,071.2 million, a cash increase of 3.8 per cent (+£405.1 million), or 2 per cent (+£210.5 million) in real terms[9]. However, the non-ringfenced revenue funding available for councils falls by 1.7 per cent (-£157.2 million) in cash terms, or 3.4 per cent (-£319.1 million) in real terms between 2018-19 and 2019-20. By contrast, COSLA has suggested that the reality of all these changes was a projected decrease in the core revenue budget of £237 million and of £17 million in the capital budget. These various estimates and forecasts have been modified by the negotiations with the Scottish Green Party over the final budget, with Barnett Consequentials in particular financing increases in ultimate allocations to local authorities of about £90 million. Although, all Councils had the power to raise Council Tax rates by up to 4.79

[8] E.g. https://fraserofallander.org/scottish-economy/fiscal-policy/taxing-contradictions-is-scotland-the-fairest-taxed-part-of-the-uk/

[9] Burn-Murdoch, A., Campbell, A., Aiton, A. and Finnigan, K. (2018) 'Local Government Finance: Budget 2019-20 and provisional allocations to local authorities', SPICe Briefing. These figures are before the final local government settlement agreed after negotiations with the Green Party MSPs; these grants to local authorities are still to be published (3rd March 2019).

per cent across all Bands to generate further revenues for local services, only 12 of the 32 authorities settled on this maximum increase, 13 chose a rate of 3 percent and the remaining 7 increased between these two limits. So, overall there will be an increase in local government budgets albeit with significant ring-fenced spending, increases in the regressive Council Tax, and annual and catch-up pay settlements for local government workers to be met.

In addressing the attempts to balance local budgets and protect public services, there are a number of – often contradictory – objectives in local government. These include: improving accountability and powers through local decision making against ending ‘postcode lotteries’; raising more funding locally through the Council Tax rather than through Scottish Government grants against being opposed to continuing with the regressive Council Tax and user charges; overcoming market failures by levying charges on polluting activities against promoting competitiveness for local businesses and employers; and there are other tensions. Resolving some or all of these contradictions within Scotland is neither straightforward nor possible within the current constitutional settlement and tax raising powers of the Scottish Parliament. At the very least, national and local governments should have been aware of the implications and unintended consequences of changing tax rates, introducing new ways to raise revenues, etc. while trying to meet objectives and establish initiatives.

Further, individual taxes and charges need to be considered in the context of other taxes, social security benefits and pensions, other expenditure areas, work incentives, etc. as to their impacts on inequality, revenue generation, competitiveness and so forth. Interactions between these different financial and other factors make analyses complex to undertake and report but they may reveal unintended consequences. Similarly, changes in one element of taxation inevitably mean there are ‘winners’ and ‘losers’, with the latter more likely to gain public attention, leading to conservative outcomes, special cases and exceptionalism.

Borrowing can appear as an attractive way to overcome some of the funding constraints faced by local government and around the millennium there was evidence that investors in the City would have been willing to lend long term at reasonably low rates of interest[10]. Those days are now well gone, and many local authorities – particularly in England – are facing extremely expensive debt burdens, with 'Lender Option, Borrower Option' (LOBO) bank loans especially problematic. While finance institutions may be willing to lend, therefore, the costs of borrowing from them do not offer a sustainable and reasonable source of funding. In Scotland, approaching half of all Council Tax revenues are devoted to servicing the interest on borrowing and PFI/PPP loans; it has been estimated that Scottish local authorities require almost £1 billion to pay interest on loans each year[11]. The effective amnesty on housing debt in the early 2000s for authorities transferring municipal housing stock to community ownership offers a precedent for the Westminster Government to ease the burden on authorities, but is unclear that such an initiative would be on the table today. Using existing powers and introducing more flexible arrangements regarding borrowing have been proposed by UNISON[12] and promoting loans for investment, rather than to cover short-term revenue shortfalls, offers an attractive complement to identifying alternative sources of funding for public services.

After decades of efficiency strategies of 'best value', 'public sector management', followed by PPP/PFI schemes, housing stock transfer and moves of employment and activities out to ALEOs (arms-length external organisations), austerity cuts have left few areas for further reductions without damaging the economic and social life of local communities. Further rounds of restructuring, reductions of back office 'support' functions, management 'de-layering', reduction in estate costs and changes to commissioning and procurement, therefore, are unlikely to offer any significant savings for redeployment in local government budgets. This puts the focus onto identifying opportunities to increase local authority revenues. Several of the

[10] Danson, M., Fleming, I., Gilmore, K., Sternberg, A. and Whittam, G. (1999) *Glasgow City Council Housing Stock Transfer*, http://www.unison-scotland.org.uk/response/ghousing2.html#3

[11] Watson, A. (2016) 'Local Government debt in Scotland: Report to Green MSPs', https://greens.scot/sites/default/files/Local per cent20Government per cent20Debt per cent20Report.pdf

[12] UNISON (2016) 'Relaxing borrowing rules for councils', http://www.unison-scotland.org.uk/briefings/e-briefing_RelaxingBorrowingRules4Councils_Jan2016.pdf

parties now support moving to progressive local property taxes, with several arguing that land value taxation should also be introduced in due course developing these initial moves from Council Tax. As Richard Kerley (Professor of Management, Queen Margaret University) has argued, *a key challenge is to restore accountability in local democracy. An important element in this is the need to link taxation with services* (SPTR, 2016); this is a recurrent theme in the literature and public discourse, with a widespread desire for local government to regain greater controls over its funding. The next section looks at the capacity and powers of the Scottish Government and Parliament to raise funds for local government and, recognising the need for empowering local authorities, to pass legislation for the lower levels of government to generate its own resources.

## 3. Fiscal powers devolved to the Scottish Parliament – taxes, revenues and borrowing powers

The Scottish Parliament and Government have some devolved powers over elements of the tax system, welfare state and social security but many others remain reserved to the Westminster Parliament and Government. Even with all the devolution of revenue powers under successive Scotland Acts[13], the majority of taxes raised in Scotland (57.9 per cent) remain under UK control (Scottish Government, 2018). Recent devolution over some elements of income taxes - powers over many property taxes had already been given back to the Scottish Parliament - has increased tax raising powers from under a fifth (19.9 per cent) to almost a third of total revenues (32.4 per cent) with a further 9.7 per cent assigned from UK-administered VAT. There are greater powers over spending (legislation can now be passed on new areas such as equal opportunities, abortion law, speed limits and gaming machines; additional new powers on welfare, Air Passenger Duty and the licensing of onshore oil and gas extraction are being progressively transferred over time), which has increased recently from 59.1 per cent to 63 per cent of direct public expenditure in Scotland.

Under the Scotland Act 2016, from the developments discussed above, it is estimated that in 2016-17 with the substantial devolution of Income Tax, the total of devolved and assigned taxes would have accounted for about 38 per cent of non-North Sea Scottish revenue. However, and critical for considering the generation of funds for local authorities through taxes on incomes, only 'Non Saving Non Dividend Income Tax Liabilities' have been devolved; Westminster continues to set various elements of the income tax system anyway but also retains all control over non-wage and salary liabilities. That means that the ability of the Scottish Budget to correct the overall regressiveness of the tax system is constrained; the richest are excluded from the normal tax routes to improving equity and reducing inequality. This is important as it means that calls for higher marginal income tax rates will either be unable to raise substantial revenues for passing onto local authorities or

[13] Scotland Acts have been passed in 1998, 2012 and 2016.

will lead to these rich individuals having schemes developed to avoid these rates.

Nevertheless, there are some areas of the Scottish Budget that can be looked at as to whether they are offering the most effective contribution to promoting inclusive growth, investment, and innovation in the economy and community, as envisaged in the National Performance Framework[14]. While it is not the remit of this report to offer an alternative Scottish budget, it is worthwhile to explore whether there are opportunities to use existing tax and revenue powers for local government more fully or productively, whether new taxes could be developed under the existing legislative framework, and if these are inadequate to meet the aspirations of trade unions, local government and civic society generally whether devolution of new powers from Westminster is required with a further Scotland Act.

Establishing the Scottish Parliament, the Scotland Act 1998 transferred the power to legislate for local taxation and also the power to vary income tax by plus or minus 3 pence in the pound (the so-called 'Tartan Tax'). Most taxation powers remained a reserved matter for Westminster. Most relevant here is the reference to 'Local taxes to fund local authority expenditure (for example, council tax and non-domestic rates)'[15]. Following the Calman Commission, the Scotland Act 2012 transferred powers over Stamp duty Land Tax, and Landfill Tax (both since replaced by Land and Buildings Transaction Tax and Scottish Landfill Tax, respectively) and reduced rates of Income tax in Scotland by 10 pence in the pound at all bands, reducing the Barnett formula by the equivalent sum, and requiring the Scottish Parliament to set a Scottish Income Tax rate to replace the lost revenue but with the ability to set it higher or lower than 10 pence in the pound if it wished.

In an evolving path of transfer of powers, the Smith Commission proposed further devolution of taxes to the Scottish Parliament and this led to the Scotland Act 2016 adding powers over Air Passenger Duty and control over

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[14] https://nationalperformance.gov.scot/

[15] Scotland Act 1998, c46, Schedule 5, Part II, Section A1.
https://www.legislation.gov.uk/ukpga/1998/46/pdfs/ukpga_19980046_en.pdf

Income Tax on non-savings and non-dividend income (the personal allowance is still set by the Westminster Parliament).

As described above, over half of all taxes collected in Scotland remain under the direct control of Westminster including all powers over Corporation Tax, National Insurance, Value-added Tax (VAT), Capital Gains Tax, Inheritance Tax, Aggregates Levy Insurance Premium Tax, and Motoring taxes. Some of these could usefully be varied within Scotland to generate additional revenues for public services and would need further legislation to devolve these to the Scottish Parliament.

Within this context, a key area of tension and debate is the ongoing tendency, under different governments and parties, for local government funds to be increasingly dependent on central government grants. As argued by Watson and Wightman (2017): *Historically, local government was responsible for raising the vast majority of its own revenue.* [Over recent decades] *there has been an increase in the proportion of central government grant and a corresponding reduction in the revenues raised by local government through fiscal powers under its control. In recent decades, these limited fiscal powers have themselves come under increasingly central control.* The SPTR agreed with the Commission on Local Tax Reform by highlighting the need for any new system *to depend on more than one tax instrument in order to meet competing objectives of increased autonomy for local government, fairness for taxpayers and efficiency* (SPTR, 2016). Addressing the low levels of local powers and accountability, which both the OECD (Gibb and Christie, 2015) and Council of Europe (1998) have criticized, therefore needs to be considered in any proposals for change to grants, funding and powers for local government in Scotland.

Within the powers of the Scottish Parliament over taxes and spending, as well as moving some funds and responsibilities down the governance hierarchy to local government, some have argued that certain areas of public expenditure would be better organised and delivered under national agencies though, after the issues with the centralisation of emergency services other moves have stalled[16]. Converse to the principles of subsidiarity and local accountability, but recognising the potential for economies of scale and scope, Scottish Fire and Rescue Service and Police Scotland are two areas of public services where local and regional bodies have been reorganised into Scotland-wide establishments. Other agencies have seen some movement in the opposite direction with local authorities taking some of the roles of the enterprise agencies focused on SMEs and new businesses into Business Gateway facilities locally. The need for better alignment and co-ordination of the activities of Scotland's enterprise and skills agencies: Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and the Scottish Funding Council has been confirmed by the creation of an Enterprise and Skills Strategic Board, with regional dimensions revealed as significant in their deliberations. Some have explored whether school education should be 'nationalised'[17] as a way of releasing some of the local government budgets for other service delivery.

Under the transfer of powers under the Scotland Act 2016, from 1 April 2017 the Scottish Parliament now has enhanced borrowing powers:

• Resource borrowing powers up to £600 million each year and £1.75 billion overall. Different limits apply: (i) £500 million a year for in-year cash management; (ii) £300 million a year for forecast error in relation to devolved/assigned taxes and welfare; and (iii) £600 million a year for any shortfall in devolved/assigned taxes or welfare where there is, or is forecast to be, a Scotland specific economic shock. The latest forecasts for the Scottish economy, and particularly performance relative to the UK economy, confirm that lower economic and so tax revenue growth will demand that these powers will be essential to avoid instability over the fiscal year.

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[16] Reform Scotland (2017) addressed such issues in its response to the Scottish Government's consultation on school governance *Commission on School Reform: Empowering Teachers, Parents and Communities*; COSLA mirrored many of these arguments in their response to that review and in their later response to *Empowering Schools: A Consultation On The Provisions Of The Education (Scotland) Bill*, which led to the joint statement with the Scottish Government agreeing not to proceed with empowering schools (over councils) https://bit.ly/2lBcWxJ. Each of these confirms the long term tendencies to centralisation by Scottish-level authorities, apparent for many decades.

[17] EIS have discussed and countenanced against this: https://bit.ly/2Tp8AvR

• Capital borrowing powers up to 15% of overall borrowing cap (equivalent to £450 million a year) and £3 billion in total.[18]

The fragility of Scottish finances suggests there is no flexibility offered by these borrowing powers to underpin increased grants to local government.

Local authorities themselves also have the power to borrow under the Local Government (Scotland) Act 1975. This defines the purposes for which local authorities may borrow and explicitly restricts such borrowing for capital expenditure only. This capital borrowing by local authorities is independent of and sits outside the Scottish Budget. As confirmed by the Scottish Government: *The amount of borrowing that a local authority can undertake is regulated by the Prudential Code under which authorities determine the maximum amount that they can afford to borrow based on a series of indicators such as affordability, prudence and sustainability*.[19] The discussions in the previous section on the burden of debt repayments confirm the limits to borrowing by local government.

[18] http://www.parliament.scot/images/Parliament%20Publications/DevolvedPowers.pdf
[19] https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-five-year-financial-strategy/pages/4/

## 4. Fiscal powers specifically designated for local government

Noted in the Scotland Act 1999 as being an exception under the original continuing reserve of fiscal powers to the Westminster Parliament, there are taxes specifically designated to finance local government spending. Traditionally, these have been Council Tax and Non-domestic Rates, and they supplement the grants from the Scottish Budget to support local authorities. According to the draft statutory instrument, Revenue Support Grant for Scottish local government in 2019-2020 will be £6,619.720 million and Non-Domestic Rate income to local government will be £2,853.000 million[20]. As discussed earlier, there are differences in interpretation between the Scottish Government, COSLA and opposition parties over whether these imply an overall reduction in cash, real and unconstrained terms. What some of those discussions do reveal though are that changes in the Scottish Budget 2019-2020 have indicated where there are opportunities for flexibility in broadening the tax base, bringing new groups into coverage for particular taxes, charges and levies.

In reflecting on these, there are two stages of consideration: whether tax revenues for the Scottish Budget can be increased overall; and secondly whether some of these can and should be distributed to local government in Scotland. Focus here is on the former as the arguments for the latter are beyond the scope of this report; there are, of course, some overlaps as the Parliament can assign new powers to local authorities to raise revenues and there may be impacts on work incentives, consumer behaviours, etc. with interactions between taxes raised by different jurisdictions and levels of government.

Although Council Tax and Non-Domestic Rates have dominated the revenue streams under the direct control of local authorities, with grants from Scottish Government accounting for over 54 per cent of their total income, there have been increasing calls for a fundamental review of these arrangements. In its

[20] The Local Government Finance (Scotland) Order 2019, Draft Scottish Statutory Instrument, http://www.legislation.gov.uk/sdsi/2019/9780111040829

submission to the Local Government and Communities Committee's scrutiny of the Draft Budget 2018-19, COSLA argued:

*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*[21]

The Accounts Commission has also proposed that:

*the Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government.*[22]

Along with repeated calls for the regressive Council Tax to be replaced by a means of raising funds for local public services, these interventions confirm the need for some deeper thinking and actions on the financing of local government in Scotland. Any particular Budget, however, will focus on more incremental developments and the most recent Scottish Budget illustrates this.

Changes initiated in the Scottish Budget 2019-2020 include revision of the Land and Buildings Transaction Tax (LBBT: the replacement system for stamp duty in Scotland) with the amount that buy-to-let investors or holiday home buyers pay on a second residential purchase going up from 3 per cent to 4 per cent. Obviously, this rate could be increased further with modelling and analysis needed to ensure that rents are not increased to the detriment of tenants. Its focus on property might also suggest a closer alignment to the locality where the tax is levied.

The Small Business Bonus Scheme has been criticised for a high degree of spending by enterprises that would have taken place anyway (deadweight) so that this subsidy did not moderate enterprise decisions and repeated

[21] CoSLA (2017, November) 'Submission to the Local Government and Communities Committee: Fair Funding for Essential Services', http://www.parliament.scot/S5_Local_Gov/Inquiries/20171113_Budget_COSLA.pdf

[22] Accounts Commission (2018, April 5) 'Local government in Scotland: Challenges and performance 2018', http://www.audit-scotland.gov.uk/report/localgovernment-in-scotland-challenges-and-performance-2018

concerns that the overall net economic effects are exaggerated and unfounded[23]. Nevertheless, the Budget is maintaining the SBBS at a cost of over £250 million, while the non-domestic poundage rates paid by businesses will see an increase lower than the current rate of inflation; both of these could be revisited to release funds for local government.

The Barclay Review report[24] was tasked with making recommendations on Non-Domestic Rates in Scotland, within a condition that it was revenue neutral, although its evidence, analysis and findings offer the foundations for exploring further developments which raise or redistribute the tax burden. Alongside proposals for reducing effective tax payments by some types of business, Barclay recommended some tidying up and measures to ensure there is less avoidance of coverage and charging to properties. These include: *a 'rateable value finder' product … - to identify properties that are not currently on the valuation roll, so as to share the burden of rates more fairly*; *second homes, owners or occupiers of self-catering properties [should be required to] prove an intention let for 140 days in the year and evidence of actual letting for 70 days*; various changes to restrict different reliefs from paying to empty properties for a more limited period and for others to those that are being actively occupied. Other technical suggestions would ensure that certain clubs and charities are not able to reduce tax paid unfairly by failing to meet common good provision. UNISON has responded to most of these proposals favourably[25] and with the conclusion from Barclay and others that property taxes, domestic and otherwise, should be at the core of raising revenues for local public services and be under the control of local government.

Implementing these proposals would generate about £100 million per annum in extra revenue which is largely offset by abolishing the large business supplement (effectively paid by occupiers of larger premises). We are not convinced that the reduction in public revenues is worth this change given the

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[23] STUC (2012) 'The economic and employment benefits of the Small Business Bonus Scheme', https://bit.ly/2IPxd0Z;

[24] Barclay, K. (2017) *Non-domestic Rates Review: Barclay Report*, https://www.gov.scot/publications/report-barclay-review-non-domestic-rates/pages/1/

[25] *UNISON Scotland response: Barclay Implementation*, September 2018.

relatively small benefit to these property occupiers and the political objective of 'making Scotland 'the best place to do business in the UK'. Communication and transparency are key recommendations from the Barclay review and other reports on public finance; it is accepted across other economies in Europe that enterprise benefits from and should pay for public investment and capital. In a similar vein, Barclay recommends keeping in line with England in the future by uprating NDR poundage at RPI rather than CPI which will increasingly cost the Scottish Budget.

Having more strategic management and control of property at the local government level is consistent with improving accountability but also planning and integrated delivery of services and support for business. Some of the particular tax reliefs, for example, independent schools and sports clubs, would be better considered locally where the health and social care partnerships and secondary education are also focused. This would offer the opportunity to release synergies and economies of scale and scope closer to the community.

Related to these proposals, and going further, there have been calls for the non-domestic rates (NDR) relief to be scrapped or substantially modified as it is not fit for the purpose of supporting small businesses and entrepreneurs[26]. At an estimated annual cost of £685 million last year and rising, and a below-inflationary increase in the NDR poundage (forecast to remove another £35m from Scottish Government revenues), evaluation of these reliefs suggests that approaching £800 million should be reconsidered for how best to support new and small firms. When it is recognised that rates liability can be reduced or removed in three ways: exemption from the Roll (e.g. agricultural land), exemption from rates (derating on, for example, livestock or fishing), or receipt of relief (e.g. the Small Business Bonus Scheme) then, longer term, better ways of encouraging and supporting land-based sectors and SMEs should be explored.

[26] https://fraserofallander.org/scottish-economy/fiscal-policy/taxing-contradictions-is-scotland-the-fairest-taxed-part-of-the-uk/;
http://www.stuc.org.uk/files/budget%20final.pdf.

In the meantime, transferring some of these funds to local government, encouraging their application to support SMEs and local procurement in particular, would go some way to releasing funds within local governments' existing budgets for locally-identified needs and opportunities.

Moving further away from the legacy of the Council Tax freeze, local authorities are being allowed to increase Council Tax levels by up to 4.79 per cent. Although this tax is regressive and so needs more radical reformed or replacement, on average, Council taxpayers in Scottish Borders, for instance, pay £508 less than their close neighbour counterparts in Northumbria[27]. Resurrecting the Burt and other tax commissions, there will be cross-party talks about ways of replacing the Council Tax in the next Scottish Parliament (2021-2026). Despite this further delay in significant change, there is the manifest promise of a progressive property tax being introduced within the next 5 years. Whether such a radical change would be aiming to raise the same revenues as Council Tax or an increase with, perhaps, realignment between the relative amounts raised by Scottish national and local taxes, should be a matter for analysis and debate.

[27] https://www.thesouthernreporter.co.uk/news/five-things-to-expect-from-this-week-s-scottish-borders-council-budget-1-4875622

## 5. Developing schema with regard to tax and revenue exclusively for local government: Exploring existing proposals for local government fiscal reform

While there have been a range of commissions and reports on local government funding and structures (see above), there have been relatively few changes apart from the traditional Rates being replaced by first the Poll Tax and then the Council Tax. In England, the Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed changes in *Local Government Funding. A Local Government Knowledge Navigator Evidence Review* (Scott and Pitt, 2015) and noted the limited range of taxes and levies applied to fund local government across the UK and indeed beyond. Therefore, approaches to a range of commentators which complemented the review of the literature and official reports within Scotland for this report revealed a fairly restricted set of ideas of new sources of funding.

A significant rationale for such caution has been captured by Scott and Pitt and also identified and argued by the Institute of Chartered Accountants of Scotland (ICAS)[28]: introducing any new means of generating revenue for public expenditure 'would need considerable resources to design the policy and the supporting legislation to create new taxes', with evidence from how much time and effort have been involved in 'legislating for the existing devolved taxes, where each of these is largely a cut and paste from the UK legislation'. Further, ICAS and other professional bodies, such as CPIFA, have pointed to the probable constraints on developing these alternatives with a need to have the 'locus of the tax in Scotland'. Time to develop new policies and taxes, and the need to introduce these carefully with full consultation with citizens is emphasised by all if radical changes are to be introduced successfully.

In the official letter to Derek McKay confirming their agreement to support the Scottish Government's Budget for the coming year (2019-2020) with revisions, Patrick Harvie recognised these constraints on pursuing changes: *Visitor Levy and a workplace parking levy are welcome, along with increasing*

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[28] https://www.sbs.strath.ac.uk/economics/fraser/20170926/Scotlands-Budget-2017.pdf

*the plastic bag levy and your commitment to a levy on disposable cups. We will work to ensure that all these measures are implemented as soon as possible…. The proposal to devolve control of NDR empty property relief is also welcome, and we will engage with this alongside the wider case for reform of non-domestic property tax*.[29]

All the reviews, reports and commissions do agree that any schema for funding local government need to be based on a portfolio of taxes, essentially with property taxes being a key component. Significant alternatives or complements to property taxes have included different forms of local income tax.

Ultimately, the raising of more revenues for public services in Scotland either means increasing the effective taxation of those who can afford it and already pay council or income tax here (though much uninformed commentary ignores or exaggerates the potential implications of change on the tax take) or identifying new sources of revenue. The former can be addressed through changes in Council Tax bands, rates, revaluations, etc., and proposals to extend the tax base covered by property and income taxes. The latter could involve taxation of non-residents, including those owning heritable property, tourists and other travellers, car users, and others who impose negative externalities on the economy and society. Congestion charges and the workplace levy in Nottingham are examples of applying taxes to modify behaviours by recognising and seeking redress for the real costs to the environment and health of residents in Scotland that are not met by existing taxes and duties. Overcoming market failures through taxation is a standard public intervention, and here could fund remedial schemes for those adversely impacted by congestion, traffic pollution and other environmental damage.

Other opportunities to nudge consumers while also generating income could include surcharges on activities that cause pollution directly or indirectly. The charge on plastic bags is an example of a direct charge, although the revenues from that accrue to the retailer who then is encouraged to 'donate the net proceeds of the charge to good causes in Scotland, particularly ones

[29] Scottish Budget 2019-20 Stage 1 Scottish Greens agreement letters: Response from Patrick Harvie MSP, https://bit.ly/2SKGLtC

that benefit the environment, and to publish information on donations'[30]. Again, the emphasis on communication and linking interventions to social and public goods is integral to launching a radical initiative successfully.

Deposits on plastic and glass bottles and on other forms of packaging offer some areas for consideration with a consequent reduction in cleansing and clean-up costs. To the extent this reduces social ills and costs, and otherwise offers potential savings in delivering public services, this allows redistribution of resources to other areas.

Without devolution of key areas of public services, social security and associated legislation in, for instance, Employment Law, Equal Opportunities, etc., there are limits to what might be proposed as new levers to encourage such inclusive strategies as the Real Living Wage, Business Pledge and other elements of the Fair Work Framework.

[30] https://www.zerowastescotland.org.uk/litter-flytipping/carrier-bag-charge-guidance

## 6. Identifying new sources of local government revenue

The 2015 Commission on Local Tax Reform achieved cross-party support and secured commitment to reform local taxation following the Scottish 2016 elections, and that this *is an opportunity that must not be missed*. Obviously it was; but the principles were established as they reported:

*Our analysis therefore indicates that a more proportionate property tax, implemented alongside a more progressive system of income and need based reliefs, would be much fairer than the present council tax and connect better to both the income and the wealth interpretations of "ability to pay".*

This is roughly consistent with the conclusions of the Burt Review that[31]:

*a new progressive Local Property Tax (LPT) be introduced, based on the capital value of individual properties and payable by households occupying properties (whether as owner-occupiers or as tenants) and by owners of second homes and unoccupied properties.*

This reasoning has been consistent across several reviews and commissions, therefore, and is likely to have been core to the Congestion charging proposal in 2005 for an outer toll cordon that would have captured many other trips very hard to deliver as an equitable scheme, and so was rejected by Edinburgh residents. An improved scheme more tightly drawn around the centre of the city might have been more welcomed by the electorate[32]. Around that time, similar schemes for city centres in Durham, Cambridge and London were adopted successfully. With driverless cars on the horizon, which will confuse some of the issues of addressing congestion and parking, there have been calls for 'congestion pricing programmes to include two complementary prices—a time-based charge for occupying the public right-of-way, whether parked or in motion, and a distance–or energy-based charge'[33].

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[31] *A Fairer Way: Report by the Local Government Finance Review Committee*, Report on local taxation in Scotland by the Local Government Finance Review Committee (2016) https://www2.gov.scot/Publications/2006/11/06105402/2

[32] https://www.scotsman.com/news/opinion/we-must-learn-from-past-if-transport-is-to-succeed-in-future-john-yellowlees-1-4878608

[33] Millard-Ball, A. (2019) 'The autonomous vehicle parking problem', *Transport Policy*, 75, 99-108.

A Workplace Parking Levy (WPL) was introduced by Nottingham in 2012 to solve the similar congestion problems faced by many other cities and towns[34]. Experience with transport and other public service developments in that city and city regions more generally, especially under City Deals, has confirmed the need to work with neighbouring authorities to ensure boundary issues are dealt with effectively and fairly. Therefore, the WPL charge has not caused problems at the Nottingham city boundary. As proposed for a congestion charge, the WPL started deliberately low, then slowly increased over time, giving employers (and employees) time to adapt. Exemptions for small businesses mean that only 40 per cent of employers pay the charge[35].

Another of the elements in the agreement with the Scottish Greens that allowed the Scottish Budget 2019-2020 to pass in February 2019 concerns the introduction of legislation to introduce a charge on disposable drinks cups. Not untypical of interventions to modify consumer behaviours, this would not promise to generate much income for local authorities but would raise some revenues, reduce cleansing costs at the margin and have positive impacts on the environment. As noted in other sections, such nudge interventions are sound in terms of economic theory and analysis as they seek to penalize socially costly behavior with negative externalities.

In recent times, one worked proposal which addressed the potential for taxing wealth of non-residents was the Scottish Service Tax (SST), with its details in the Bill presented to the Scottish Parliament in 2003[36], based on research conducted by Danson and Whittam (2003)[37]. The income-based elements of that Bill was overtaken by fiscal developments, especially the implications of many elements of Income Tax being devolved to the Scottish Parliament, but some of the arguments and analyses can inform future initiatives. Under the

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[34] Successful implementation of the WFL and complementary charging requires improved public and other sustainable forms of transport, reversing the decline in bus use and increased car use, as discussed below in the section on municipal ownership. https://www.bbc.com/news/uk-scotland-47388550

[35] https://drscottarthur.scot/blog/

[36] *Council Tax Abolition and Service Tax Introduction (Scotland) Bill*, https://www.parliament.scot/parliamentarybusiness/Bills/25541.aspx

[37] Danson, M. and Whittam, G. (2003) 'Time for redistribution of income: the case for a Scottish Service Tax', *Capital and Class*, 27, 3, 61-83.

Scotland Acts of 2012 and 2016, and the attitudes of the Treasury at present, it is unclear whether levying a national tax on all forms of income would be competent in this new context where only non-savings and non-dividend incomes can be subjected to the Scottish Rates of Income Tax. Capturing these ‘exempted’ forms of income into the Scottish tax system would offer a means to raise revenues from those who currently do not contribute according to ability-to-pay.

To an extent, this could be addressed through an important element of the SST which sought to tax anyone who owned heritable property in Scotland but was not liable for income tax under the Scotland Act 2016 devolution settlement. Extending the tax base for local authorities in this way to include all heritable property may be worth pursuing, by first checking that this would be legislatively competent. There were no objections to the SST Bill being outwith the powers of the Scottish Parliament; it was considered legally competent by the architect of the Scotland Act 1998 and this was confirmed by the Scottish Parliament. This is an avenue worth exploring as it would target those who are able to benefit from property ownership in Scotland but not contribute according to their wealth.

## 7. Examples of new/innovative taxes and revenue streams from outside Scotland

Scott and Pitt (2015) noted that local authorities internationally tend to be funded through a mix of central and local government sources with differing forms of equalisation grants and measures to offer some degree of equity in the tax burden and for public services across the country. Within their own range of powers, local authorities apply a limited number of interventions with taxes on local incomes, properties, land values, sales and businesses the main means of raising funds. These are supplemented by user charges which are becoming increasingly applied and more significant in, for example, the USA and Germany.

In a review of powers of local government across Europe, in 2013 COSLA[38] concluded that there was generally some ability to levy taxes, but only where these had been legislated for on a national basis already. There was often the capacity to control the tax rate, varying income tax rates and ranges for property tax, but national governments usually retained overall control. In other words, subsidiarity was limited and, in reality, tax rates and types of taxes are similar across local authorities within national jurisdictions. This is similar to the situation with Council Tax rates for Band D with these varying by only a few pounds across all non-Island Authorities before the Council Tax freeze was introduced and by under £3.50 per week in 2019-2020.

Partly drawing on international experiences and lessons, the London Finance Commission in 2013 suggested that London should have devolved powers over ‘The full suite of property taxes (council tax, business rates, stamp duty land tax, annual tax on enveloped dwellings and capital gains property development tax) … [with] responsibility for setting the tax rates and authority over all matters including revaluation, banding and discounts’ (cited in Scott and Pitt, 2015). Most of these are already in the powers of the Scottish Parliament but there is the need for reforms to some elements of these taxes with regular revaluations, changes to council tax bands, etc.

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[38] COSLA (2013) *Local Government Funding Review,*

Ultimately, it is clear that central government parties try to avoid changes to taxes, rates and bands with alternatives seldom adopted. Proposals for Local Income Taxes or Devolvement of a Proportion of Yield has only been applied to Scotland and then at the national level; Reform of Council Tax / Revaluation has been limited to revaluation in Wales, with some debate about a 'Mansion Tax'; there has been limited Re-localisation of Business Rates in England; devolution of land based taxes has again been restricted to Scotland. In the UK context, therefore, the main innovations have been in the case of Scotland only. Regarding user charges and access to new, 'smaller' taxes, these have been apparent in congestion charging in London and a very few other (parts of) cities, the workplace levy uniquely in Nottingham, with no other experiments or pilots identified in the literature.

Beyond the UK, there have been instances of Sales, 'Tourist' and Land Value Taxes, and charges equivalent to congestion and workplace levies. Outwith the specific examples of Hong Kong, Philadelphia and a selected few other locations, Land Value Tax has not been widely adopted.

Tourism taxes across the European Union[39] are increasingly favoured and applied for two main reasons: first to improve the sector through promotional activities, projects and plans for tourism development, measures and plans to improve infrastructure and tourism services, and otherwise for improvement to public services and facilities that support the sector indirectly: waste management, cleansing, etc. The other rationale for tourism taxes are dedicated for specific purposes around environmental, cultural heritage, and social purposes. Within this group of 'green taxes', there is an inherent recognition of the negative impacts of tourism on the environment so that they are applied to conserve resources, protect the environment and recover resources, encourage awareness amongst tourists and promote a positive image of the location. This focus of the receipts being spent exclusively on tourism-related and relevant public services and assets does suggest a tourism tax is introduced to address the negatives of increased numbers and not as a new source of funds for general expenditure.

[39] *Tourism Taxes across the EU*, https://ec.europa.eu/growth/sectors/tourism/business-portal/financing-your-business/tourism-related-taxes-across-eu_en

Other work on tourist taxes[40] by, e.g., the European Tourism Association reveals that the tourism sector lobbies and campaigns strongly against any imposition of such a levy on visits and accommodation. There does not appear to be substantial analysis behind this position although the attention on the package of tourism taxes, national VAT, road tolls and parking fees demonstrates the sorts of arguments likely to be forthcoming from such bodies if the powers are offered to Scottish local authorities. Arguments by experts on travel and tourism in the context of local government finance have begun to appear and have demonstrated that a proportionate tax related to the current room charge for each particular room offers the optimal economic approach, avoiding market distortions and recognising seasonal and other fluctuations in hotel prices over the period[41].

We are aware that the investigation of how investment could be encouraged by fairer taxation being undertaken for the Labour Party has investigated a number of potential resource based sources of funding. In particular, these contrasted the fiscal and funding outcomes of the exploitation of oil and gas in Norway and the UK and how the former has benefited to a much greater extent but with lower levels of output. For the UK to reap a fairer balance of awards for the country and citizens than for the companies, the recommendations are that the Infrastructure Act 2015 and the Energy Act (2016) should be repealed, an action brought before the European Court of Justice challenging decommissioning payments as illegal state aid, with government pledging to reintroduce a royalty, and commission a study focusing how tax revenue from oil can be used to fund renewable energy development. All these powers and actions, however, fall within the remit of the UK Government as reserved powers; nevertheless, they do hint as to how Norwegian levels of service provision and local government wages could be financed with devolution of such powers to Scotland.

The other significant resource-based potential funding source is land value tax, supported by several Scottish parties and others. Variants of such a tax,

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[40] https://www.etoa.org/events/policy/regulation-and-taxation/tourist-taxes

[41] Kerley, R. (2019) 'A tourist tax won't drive visitors away from Scotland', *The Times*, 1st March 2019.

which is an annual charge for the occupation of land, as opposed to taxes on earnings, profits, or savings, have been adopted in Pennsylvania, New South Wales, Hong Kong, and Denmark. Allentown Philadelphia, for instance, introduced land value tax in 1996. As with other potential new taxes and charges examined here, caution in developing plans, coverage and rates is advised even from strong proponents. As noted in the work for the Labour Party, the introduction of a Land Value tax is extremely radical and could not be introduced suddenly (nor all of its benefits realised immediately). In planning its introduction due consideration would be needed to be given to those impacted by it. For example, there are some elderly people who do not want to leave their homes, and who find themselves to be asset-rich, but with insufficient income; so the impacts on such groups needs to be identified and considered. Indeed, a thorough analysis of the tax should be carried out and discussed widely before it is introduced. Nonetheless, because of the opportunities to raise funds and to address market failures and anomalies, this is a goal which is worth pursuing.

## 8. **Revenue generating scenarios and potential tangible outcomes**

The proposals explored here have been based on the principles adopted by the Lyons Inquiry (2007) in England: economic efficiency, equity, and administrative value for money[42] while adhering to the four criteria established by Stoker and Travers (2001): transparency, equalisation, finance system, and flexibility and buoyancy[43]. Whatever changes are proposed need to be carefully planned, assessed, cognisant of possible interactions with other taxes and charges, matters of equity and ability to pay, and other matters of elasticities and propensities to work, save, own property, and so forth. Returning to the same individuals, households and businesses for new funds has limitations and underlying present information on many aspects of society depends on surveys with limited sample sizes. These issues become more testing at local authority level, so that means to ensure stability across time in local government revenues and equalisation across communities are critical to any significant changes.

The proposals for a more progressive property tax than the Council Tax will be revisited under the Scottish Budget agreement between the Scottish Government and Scottish Green Party. While much learning has already been achieved through the Burt, Lyons, Barclays, and other inquiries leading up to the Commission on Local Tax Reform, preparing such a change and policy with associated parliamentary acts will take some appreciable time. Some of the less radical commitments to investigate and introduce a workplace levy and transient or tourist tax will also require a period effectively of two years or more before any local authority might actually move to implementation. COSLA, on behalf of local authorities in Scotland, has welcomed the commitment in the Scottish Budget *to the introduction of discretionary taxation (Transient Visitor Tax) and the Workplace Parking Levy – it is right that Local*

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[42] 'the widely accepted principles that apply to all forms of taxation' (Scott and Pitt , 2015:10).

[43] Stoker, G. and Travers, T. (2001) 'A new account? Choices in local government finance', https://www.jrf.org.uk/report/new-account-choices-local-government-finance

*Authorities across Scotland should be able to raise revenue locally to address local issues.* [44]

The wealth or heritable property tax could generate more significant revenues but would undoubtedly face opposition in the Scottish Parliament by Conservatives and by that party and their allies in both of the Houses in Westminster, the media, and perhaps the courts.

Less radical measures such as congestion charges could be introduced more quickly but again face the need for the public to be informed, consulted and prepared for a new form of taxation. Even then, experience suggests starting with low rates, levies and duties so that citizens and markets are conditioned to accept different forms of financing public services. Linking taxes to the ability to pay and to the neutralisation of negative externalities offers a route to gaining public acceptance of change.

Some of the proposals would require legislation by the Scottish Parliament within the existing devolved powers; others are more likely to need agreement from the UK Treasury as there is ambiguity over whether the wealth aspects of taxing heritable property is a competence devolved to the Parliament. Others would be dependent on further devolution of powers over fiscal elements and laws with regard to social security, employment and related portfolios. Some of these can be identified as already within the competence of the Scottish Parliament and local authorities, though for some reliance on goodwill from a Westminster would probably be an obstacle to exploration and progression.

Closing loopholes in the collection of NDRs and reassessing the economic benefits of the SBBS are two areas where no new legislation is required and significant additional revenues could be generated fairly readily. Many of these initiatives face political challenges as parties adopt short-term soundbites rather than constructive dialogue, or pursue simplistic comparisons with England and the rest of the UK.

[44] COSLA President Councillor Alison Evison, 31st January 2019, http://www.cosla.gov.uk/news/2019/01/cosla-budget-statement

User charges and other fees contribute about 5 per cent to local government revenues in Scotland but there are challenges to expanding their role in the current economic and social environment. There are modest proposals offered here to raise further monies through the WPL, Tourism taxes, etc. However, in such an unequal country as the UK, including Scotland, unless initiatives are carefully designed and implemented, there is a threat of increasing the overall regressive nature of the tax system. In the Nordic countries, with their low levels of poverty, relatively highly egalitarian economies and societies, fees and charges in education, health and leisure, amongst other public services, are fairly common. To introduce equivalent policies more widely here would have unintended consequences and impact adversely on other public targets and priorities.

Universal services and benefits also are often more efficient and economic ways of delivering to the public. Costs of administration of, for example, medical prescriptions in England are greater than the fees taken in; there is no net contribution by the patient to the costs of the drugs and health outcomes also suffer through non-presentations by those who cannot afford to pay. In years to come, with better jobs, pay and conditions for those on lower incomes there may be reasons to consider whether there should be moves away from universalism in the provision of certain services; until then taxation and free at the point of use have considerable merit in addressing needs[45].

*Re-Municipalisation*

Earlier in this report the extent of cuts which have taken place across Scotland was identified, to deliver the same level of services and provide funding to tackle wider societal issues, it was argued a more radical agenda is required. Prior to the acceptance of monetarism as mainstream economic orthodoxy, Keynesian demand management policies were the accepted macro-economic norm. For Keynes the role of the state was pivotal in ensuring stability within a modern progressive society. The state was a producer rather than merely an enabler. It was not uncommon for local

[45] Danson, M., McAlpine, R., Spicker, P. and Sullivan, W. (2012) *The Case for Universalism. An assessment of the evidence on the effectiveness and efficiency of the universal welfare state*, The Reid Foundation. http://allofusfirst.org/library/the-case-for-universalism/

authorities to be operating many public services such as energy generation, buses and housing. Now that the age of austerity is 'over' or at least 'the end is in sight'[46], it is timely to look again at demand-management policies and to provide opportunities and facilitate local authorities to generate revenues for the Common Good from operating businesses.

There are some examples of local authorities operating energy companies such as Robin Hood Energy operated by Nottingham City Council. Robin Hood Energy operates as a not-for profit company and was the first of its kind in the United Kingdom. Established in 2015 with an investment of £20 million, it has increased its number of customers to 168,000 and last financial year reported a surplus of £742,000[47]. Similarly, some local authorities are once again developing and providing local transport systems. A major driver for this move to re-municipalisation is that deregulation and privatisation of buses since the 1986 Transport Act has led to bus use (outwith London) falling by 32.5 per cent and fares increasing by 35 per cent above inflation. The picture in the 11 local authorities where there are still council run bus services is somewhat different, and the largest of these is Lothian Buses. Legislation introduced in the Westminster Government last year by the Transport Secretary, Chris Grayling, prohibits other local authority bus companies from being established in England. Lothian Buses generated a surplus of £6 million last year and… *Edinburgh's transport was ranked among the highest in the world – and second in the UK after London – in the Arcadis Sustainable Cities Mobility Index*[48]*.*

Whilst it would take a change in legislation in Scotland for local authorities who did not manage to retain ownership to operate buses again, it would appear that this could be a viable source of revenue for local government. Furthermore, if buses were again operated by local authorities then tax payers

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[46] Theresa May, speech to Conservative Party conference, 3rd October 2018, https://www.independent.co.uk/news/uk/politics/theresa-may-austerity-end-over-speech-conservative-conference-tory-labour-a8566526.html; Philip Hammond, Autumn Statement, 29th October, 2018, https://www.theguardian.com/uk-news/2018/oct/29/hammond-claims-hard-work-paid-off-end-of-austerity-in-sight-budget, respectively.

[47] https://utilityweek.co.uk/robin-hood-energy-moves-into-the-black/

[48] https://www.newstatesman.com/spotlight/transport/2018/06/municipal-bus-companies-can-public-ownership-be-profitable

would be relieved of the current high levels of subsidy paid to, often overseas state owned, enterprises who currently run much of our transport infrastructure. Whilst local authorities have been prohibited from reintroducing the operating of buses directly, it has not prevented Lothian Buses from operating trams. In the last financial year, Edinburgh trams increased pre-tax operating profit to £1.6 million, while City of Edinburgh Council had forecast previously it would bring in just £333,000 post-tax[49]. Whilst it can be debated whether such services should be operated to make surplus, these few examples illustrate that, when the legislation is in place, local authorities can operate public services as efficiently as the private sector and with no private shareholders to be paid dividends. Revenues, then, can be generated to finance other societal goals such as other adequate public services; extensions to this model of public ownership are discussed by a collective led by Andrew Cumbers[50] .

Given the scale of cuts that has taken place to local government budgets, it can be argued that a radical proposal in the form of re-municipalisation is needed to generate revenues that have been lost. Further, these revenues are also required for local authorities to maintain the levels of services needed by their citizens and to meet societal challenges in the future, for example in terms of social care and recycling. There are many examples of re-municipalisation across Europe: from those already identified in this document to taxes being levied on products that need recycling currently operating in France, along with fines against supermarkets for dumping food. However, we realise that not all these initiatives are feasible in Scotland but an evaluation of what is and which are possible will be invaluable in lobbying for such initiatives and the coproduction of this knowledge would benefit both unions and local authorities.

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[49] https://www.bbc.co.uk/news/uk-scotland-edinburgh-east-fife-44574819

[50] Cairns, I., Cumbers, A., Danson, M., Docherty, I., Kane, P., Morgan, P., McAlpine, R., McMaster, R., Sullivan, W. and Whittam, G. (2016) *Towards an Industrial Policy for Scotland: A Discussion of Principles and Approaches*, http://allofusfirst.org/library/towards-an-industrial-policy-for-scotland-a-discussion-of-principles-and-approaches-2016/; Cumbers, A., Danson, M., Whittam, G. and Morgan, G. (2013) *Repossessing the Future A Common Weal Strategy for Community and Democratic Ownership of Scotland's Energy Resources*, http://reidfoundation.org/wp-content/uploads/2013/10/Repossessing.pdf

However, to gain knowledge of what is possible and to understand current best practices globally, it is suggested that trade unions should consider engaging in co-production[51], with existing local authorities. This could consist of joint sponsorship of a Knowledge Transfer Partnership (KTP[52]) or indeed joint sponsorship of a PhD with the sole purpose of establishing knowledge gaps and determining an understanding of how and which municipalisation initiatives are possible. We would also suggest an advisory board of academics and other trade union representatives to support this initiative.

[51] http://www.coproductionscotland.org.uk/resources/co-production-in-scotland-a-policy-overview/

[52] For further details see www.ktpscotland.org.uk

## 9 **What happens next?**

A number of recommendations from the Barclay Review have similar underpinnings to the issues with HMRC – investment in professional staff is required to improve coverage, valuations, correct definitions and designations of those liable to pay taxes and duties. The first and easiest steps are to campaign for these staff to be recruited as they offer the opportunity to raise fairness and equity, as well as to generate revenues beyond their own employment costs.

Reconsidering the value of various subsidies and reliefs for businesses and other organisations, such as the SBBS and other NDR reductions, should be undertaken with an exacting assessment of the net benefits to business and the economy. Much of the groundwork for these analyses has been done and published already; lobbying for change should be a priority.

Considering objectively the impacts of congestion charges, WPL, tourism taxes and exploring a wider agenda than just how a few may be affected should help establish a better informed and respected set of outcomes. Trade union members and officers could lead the debates rather than being subject to the outcomes of others forcing the way. A more equitable and progressive system overall can be promised than following a piecemeal approach formed by others.

Representations to plans for longer term changes to move towards a progressive property base alternative to the council tax should be embraced as they will be to the advantage of workers and their families.

More radical interventions which make some real steps towards reducing inequalities and biases in favour of non-residential property owners should be encouraged, explored and discussed. Such debates will generate deeper thinking and support for real changes in power relations in favour of workers and demonstrate the wider significance of trade unions in society.

Many of these initiatives can be pursued within other agendas of keen interest to trade unions: for example, explicitly tying the SBBS to adoption of the elements of the Fair Work Framework, the Real Living Wage, recruiting

Modern Apprentices would raise productivity and workers' conditions while offering value for money to the community and taxpayer.

Enterprises often do not appreciate or recognise that reliefs and subsidies are provided by the taxpayer or have an opportunity cost, introducing such elements to the public debate alters the focus of the discourse.

## 10 Conclusions and recommendations

There have been progressive cuts to the core budgets for local authorities for over a decade with detrimental effects for the provision of public services. Facing more years of uncertainty and austerity, the demand for local government services and employment will become more pressing but with continuing severe pressures on budgets and priorities. Within the constraints of the powers available to the Scottish Parliament, there is a need to identify possible new sources of funding and finance to meet these needs.

While there has been some divergence in Scotland from the UK approach to tax and spend policies in the most recent budgets, further room for making the tax system more progressive is limited. In that context, and given the time and planning needed to make any radical changes to fiscal measures and instruments, three stages of changes can be suggested.

First, in the short term, the Scottish Government, COSLA, local government and professional bodies can work together to identify where loopholes, avoidance and coverage has allowed some to escape making their fair contribution to the collection of tax revenues. This would suggest recruitment of additional staff to ensure that registration, regulation and collection of revenues is undertaken, this could be achieved cost effectively so adding to total funds in net terms.

Second, with adoption of the recommendations from the Budget Process Review Group[53] for the Committees of Parliament to adopt longer horizons in the scrutiny and planning of Scottish Government and Parliament strategies and policies, there should be an expectation that all involved will seek to identify where current practices and priorities are not fit for purpose. The critiques of such instruments as the Small Business Bonus Scheme and other Non-Domestic Rate reliefs suggest there are areas of public subsidy that may not be the optimal approach to supporting new and small enterprises and so an inclusive and competitive economy. Some of these deliberations may lead to changes in the following budget.

[53] Budget Process Review Group (2017) *Final Report*, https://www.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf

Such initiatives for local government funding as the Work Place Levy, Tourism taxes, Charges for Disposable Cups and other packaging require legislation to be passed by the Scottish Parliament and so their introduction will be in the medium term. More significantly, moves to replace the Council Tax with a progressive Property Tax will require a more extensive period of design and planning, valuations of properties, establishment of processes and appeals mechanisms before implementation.

Improving the degree of subsidiarity and local accountability which lies at the heart of successful economies and societies has ongoing and long-term horizons. Promoting the empowerment of local communities and workforces, building a foundational economy[54] and reducing the historical and globally high levels of inequality and poverty cannot be separated from the need for alternative sources for funding local public services and government; they will be addressed more effectively and efficiently in an integrated manner.

Third, some of the changes required to make the tax system progressive and inclusive require further constitutional changes. To capture all those who have the opportunities to gain from their income, wealth and spending in Scotland will mean devolution of new fiscal and other powers to the Scottish Parliament. Ability to tax fairly should be facilitated equitably across all groups so that the wealthy cannot escape contributing to public services by uneven treatment of earned and unearned incomes, wealth in different forms. Having the means to levy taxes on all equally will require transfer of powers and this may take further time. Some resource-based taxes require such devolution while others, for example on land values, should be explored but time to subsequent implementation appreciated.

Fourth, UNISON and associates such as the STUC and other trade unions, should consider pursuing collaborative research with academic networks, including through a KTP, to identify and build firmer plans and strategies to implement some of the proposals made here.

[54] STUC (2018) *Briefing: 2018/19 Scottish Budget*, http://www.stuc.org.uk/files/budget%20final.pdf

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