Local Government and Communities Committee

Consideration of the Council Tax (Substitution of Proportion) (Scotland) Order 2016

Submission from COSLA

Introduction

1. COSLA welcomes the opportunity to provide evidence to the Local Government Committee on the draft Statutory Instruments (SSIs) for the Scottish Government’s proposed Council Tax Reforms. The Committee is asked to note that COSLA’s response covers both the call for evidence on the Council Tax (Substitution of Proportion) (Scotland) Order 2016, as well as the Council Tax Reduction (Scotland) Amendment (No. 2) Regulations 2016 (SSI 2016/253) which will be considered by the Social Security Committee. Hereafter we refer to the SSIs as “the Council tax reforms (multiplier changes) and the Council Tax Reduction Scheme changes.”

2. It is worth saying upfront that COSLA strongly believes that the Commission for Local Tax Reform’s findings presented an opportunity to develop a truly modernised system of local taxation. COSLA’s response to the Commission was ambitious about what such a modernised tax could look like and how this could re-establish the relationship between local taxation and local democracy. It is therefore disappointing that the Scottish Government’s proposed changes fall short of this ambition and that the draft SSIs being considered by the Committee only serve to enact limited changes to the current Council Tax system. More is said about this in the body of COSLA’s evidence submission.

3. The Committee should also be aware that, irrespective of COSLA’s view on the proposals, we have worked closely with the Scottish Government in developing an approach for implementing the changes in practice. This reflects COSLA’s willingness to work in partnership with the Government even where there may be fundamental disagreement on the policy direction.
Summary of COSLA’s Key messages to the Committee

- COSLA believes that there was a genuine opportunity to truly modernise local taxation in light of the Commission for Local Tax Reform’s findings. Disappointingly the Scottish Government’s proposals for Council Tax Reform fall short of an ambitious reform of local taxation.
- COSLA believes that using Council Tax to fund national policy fundamentally breaks the notion of a local taxation which relates to the communities who pay for and benefit from the services provided to them.
- COSLA believes that a Council Tax cap removes local democratic accountability for setting levels of Council Tax.
- To ensure there is no confusion between national policy decisions and local decisions over setting levels of Council Tax, there should be a national publicity and awareness campaign, prior to Councils communicating to householders locally about changes to Council Tax.

COSLA’s response to the Scottish Government’s Council Tax Reforms

Local Democracy

4. The Scottish Government’s proposed Council Tax reforms are, as the Committee will be aware, in response to the Commission for Local Taxation’s recommendations. COSLA’s President, who jointly chaired the Commission, commented at the time that what the Government is proposing is an affront to local democracy and fails to draw more substantially on the work of both the Commission for Local Tax Reform and the Commission for Strengthening Local Democracy. We cannot stress our concerns strongly enough to the Committee that these proposals do not enhance local democracy and accountability for local taxation, and instead fundamentally undermine these aspirations.

5. Before going into the detail of our response there are two key concerns which illustrate the depth of the challenge to local democracy. With the Committee’s interest in local government and the local democratic process, we would hope very much that Members will wish to make comment to the Scottish Government around these two concerns:

Central Policy Direction of Local Taxation

6. Fundamentally COSLA is deeply concerned about the intention to use local taxation to pay for centrally determined policies. This is not the role or indeed the purpose of local taxation. The decision to re-direct £100m of revenues raised by the changes to the Council Tax multiplier for Band E – H properties, to fund educational attainment, breaks the link between local democracy, local taxation and accountability to local communities for spending in their local area. For the first time in its history and, indeed, the history of local taxation in Scotland, Council Tax is to be used to fund expenditure by central government.
7. The Government had a range of options at its disposal, including its own substantial tax raising powers, and could have drawn on these in order to raise funds for raising educational attainment instead of using local taxation.

### Breaking the Link to Local Spending

8. The link between raising revenue and expenditure in the same locality is the cornerstone of local taxation and the Government’s proposed changes breaks this link. For the first time ever, Council Tax revenues from one Council could be diverted elsewhere through central policy direction.

9. It may be best to clarify this with an example. The table below compares the Band E – H increase with Councils’ share of the attainment funding. (Note that this is a hypothetical example of what, in principle, could potentially arise and does not pre-suppose any actual distribution agreed for the attainment funding.) As demonstrated in the table, the Councils which raise additional funding from the Government’s core proposal to make changes to the Band E – H multiplier changes, due to the higher incidence of these properties in their Council area, will not necessarily see that funding coming back to them, to meet educational attainment in their area.

**Example 1 comparison of Band E- H increase compared with Councils’ share of attainment funding**

<table>
<thead>
<tr>
<th></th>
<th>Band E – H increase</th>
<th>Share of £100m attainment fund</th>
<th>Amount paid/ received from one Council’s householders to another Council’s householders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council A</td>
<td>£2m</td>
<td>£0.25m</td>
<td>£-1.75m</td>
</tr>
<tr>
<td>Council B</td>
<td>£0.5m</td>
<td>£1.5m</td>
<td>£+1m</td>
</tr>
<tr>
<td>Council C</td>
<td>£0.25m</td>
<td>£1m</td>
<td>£+0.75m</td>
</tr>
</tbody>
</table>

10. In the example above Council A has raised £2m from its Band E – H increase. However it has only received £0.25m as its share of the attainment funding. Councils B and C raise smaller sums from Band E – H increase, but receive far more from the attainment fund as their attainment need is greater. In this example Council A’s householders have paid £1.75m for services to be provided to Council B and C’s householders.

11. It is COSLA’s strong view that to use local taxation revenues in this way contravenes the entire notion of reforming local taxation and threatens local democracy.

12. COSLA is equally concerned over local communities’ perception of the Scottish Government’s proposals. As was set out in the proposals, Band E householders are set to see a 7.5% increase in Council Tax in April 2017 and a Band H
household will see a 22.5% increase. Whilst not in the power of local decision making, these increases will be applied prior to any local decisions on increasing Council Tax, up to the 3% cap applied by the Government. This is likely to further confuse householders as to who has made the decisions to increase their Council Tax.

Review of the Proposals

13. COSLA, in our submission to the Commission for Local Taxation, had called for a far more radical reform of Council Tax which could have seen a fully modernised Council Tax, which we believed was worthy of being considered to be a local taxation of the future. In the rest of our submission, we seek to explain the extent to which the Scottish Government’s proposals, in our view, fall short. We also say something about the draft SSIs given that will be the Committee’s focus, however we do see the issue as being more widely about the implications of the proposals for local the future of local democracy.

Council Tax Revaluation

14. In our submission to the Commission we put forward a principled approach whereby we argued that a modernised Council Tax would meet our principals of fairness, ease of understanding, stability, efficiency and collectability. At the core of our recommendations was that a wholesale revaluation of Council Tax was needed to bring long out of date property valuations up to date. With the revalued properties we argued that a fair system of banding and band widths be developed which would build around the revised property values.

15. The Government’s proposals ignore revaluation altogether. Coupled with a review of bandings we believe this could have ensured continued stability and fairness in the Tax, without the need for significant disruption to individual households. More significantly we argued that you cannot consider revising bandings without a revaluation first, as this would not meet the principle of fairness and ensuring stability.

Local Government’s Fiscal Deficit

16. What we were arguing for with a modernised Council Tax was to address the current fiscal deficit whereby 80% of Council funding is provided centrally. We have an aspiration to ensure that at least 50% is raised locally, as the Commission for Strengthening Local Democracy argued in its report. Whilst the Government has proposed to assign a proportion of income tax to local government, there is nothing yet to suggest that this would give local government greater control over its funding. Strengthening Council Tax in our view was a key means to secure local revenue raising for local spending decisions and, coupled with a return of business rates to local control, would achieve the 50% aspiration.

17. As the Committee will be aware there has been a Council Tax freeze in place for the last seven years, as a requirement of the local government settlement. Whilst the proposals will enable Councils once again to raise Council Tax, a cap is to be applied such that increases are capped at a maximum of 3%. It is COSLA’s
strongly held view that such a cap retains central direction of Council Tax and goes against local democratic decision making and local control of Council Tax.

Changes to the Council Tax Multiplier

18. In our submission to the Commission for Local Tax Reform, we argued that a fair system of banding is a pivotal component for a modernised progressive Council Tax. We highlighted that whilst the core banding has strong merit, the current approach to banding compromises COSLA’s principles for an effective local taxation, especially as those in the highest Bands only pay 3 times those in the lowest. Nonetheless we concluded that, with a review of the number of bands and the ratios between the Bands (the multiplier), then a fairer and more progressive Council Tax could be developed.

19. Critically, as mentioned above, this must go hand in hand with a wholesale revaluation which would inform the best mix of bands and multiplier. At each subsequent revaluation we argued that the bands and multiplier should be looked at again.

20. The Scottish Government is proposing only to make changes to the multiplier for Bands E – H, with no consideration of households in lower bands or to look at the number of bands. This has the consequence of limiting the inequity between Band A from 3 times to 3.5 times and, as has been pointed out in the Scottish Parliament’s own SPICe Briefing, this is far from bringing about a more proportionate taxation. As pointed out the Commission for Local Tax Reform itself modelled a ratio of 15 times the highest Band to the lowest, as being the level required to achieve proportionality.

21. Notwithstanding the disagreements with the policy direction, COSLA officers have done work with the Government on the practical implementation and this work is ongoing, with a view to Councils being able to bill householders on time for 2017/18. Scottish Government officers’ initial outline of the content of the draft SSIs indicate that they are in line with our understanding of how the changes will come about. COSLA must however offer a caveat to this conclusion, as officers are still to understand the further detail of the draft SSIs once they are introduced.

22. Importantly we know from speaking with Councils that there will be significant cost implications for them for implementing and administering the changes. We would expect any additional costs incurred by Councils to be met by the Scottish Government.

Council Tax Reduction Scheme

23. In putting forward our recommendations to the Commission for Local Tax Reform, we presented a case for a review of all the reductions and discounts which are available to householders within the Council Tax system. Whilst the Council Tax Reduction Scheme is the biggest of these, there are other discounts available such as the Single Person Discount, reductions for disabilities and for long term empty homes. It is worth noting with regard to the latter that the
Scottish Government is considering legislation around Council Tax discounts for second homes, reinforcing again the central direction of policy on a local taxation.

24. Our argument was that, given Council Tax is a personal as well as property tax, an effective scheme of reductions is appropriate but that, driven by a reform agenda, the opportunity should not be lost as to how the reductions available can best support those most in need and with the lowest incomes, regardless of what property banding.

25. The Scottish Government has proposed only to offer support to those in low incomes whose property sits within Bands E – H, in order to mitigate the increases from the multiplier changes. A proposal to beef up the child premium within the current Council Tax Reduction scheme, is the sole proposal around reforming the scheme itself. Again COSLA believes that this is a missed opportunity to look more fundamentally at what reductions should support a modernised and more progressive Council Tax.

26. As with the multiplier changes, COSLA is working with the Scottish Government to implement the changes to Council Tax Reduction in practice and, as with the multiplier changes, initial understanding of the content of the SSIs suggest that these are in line with our understanding of the CTR changes.

27. As with the changes to the multiplier, we know from speaking to Councils that there will be significant cost implications for them for implementing and administering the changes. Again we would expect any additional costs incurred by Councils to be met by the Scottish Government.

National Communication on the Reforms

28. COSLA would welcome support from the Committee in pressing the Government to ensure that they communicate the changes to householders fully and that there is substantive national publicity and awareness raising around this. For their part Councils locally will ensure that good communication is in place both for the changes, the potential for householders to apply for relief and any local increases in Council Tax. But this must be preceded by a national publicity campaign by the Government.

Assignation of Income Tax Proposals

29. While COSLA recognises that the assignation of Income tax is not within scope of the Committee’s review, we would like to highlight that we are interested to hear the government’s proposals regarding assignation of income tax. It is clear that this is not in a position to happen in 2017/18, however we urge government to progress joint working with COSLA on the options around the assignation of income tax to local government.

In Conclusion

30. COSLA welcomes the Local Government Committee’s scrutiny of the draft SSIs for the Scottish Government’s proposed Council Tax reforms. COSLA is
committed to working with the Scottish Government to ensure successful implementation of the proposals in practice. However COSLA trusts that the Committee, with its interest in local government and the local democratic process, will recognise and will wish to make comment to the Scottish Government that, far from reforming local taxation, the Government is simply moving ever further toward removal of local taxation altogether with these proposals.