Local Government and Communities Committee

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

Submission from Les Robertson, Institute of Revenue, Ratings and Valuation (IRRV) and Service Manager (Revenues), Fife Council

Introduction

I welcome the opportunity to submit my thoughts as evidence for the above committee and in doing so would state these are my professional opinions as representative of the IRRV Revenues and Benefits Practitioner Forum. The IRRV via Joan Hewton has made a full submission to the committee.

THE CHANGES

There are two proposed changes within the remit that I will be commenting on in this paper:

a) Change to the Council Tax band ratio’s for dwellings in bands E to H;

b) Additional CTR scheme designed to alleviate (a) for households with low income.

My evidence considers these in conjunction with the previous evidence given for the Government’s Commission on Local Taxation Review.

CHANGES TO THE BAND RATIO’s

From an operational perspective this changes seems like a simple change to the amount to be paid for all dwellings in Bands E to H with increases ranging from 7.5% in Band E to 22.5% in Band H.

However, this is complicated for the following reasons:

Councils will also have the power to raise Council Tax by up to 3% for all bands and there appears a clear issue regarding what increase is for the changes to the ratio’s and what is the increase committed by Council’s who choose to use the new power to raise Council Tax by 3%.

It is also not clear why a cap of 3% is needed. If Council Tax is a local tax, then the rates should be set locally. It is quite clear from earlier submissions that the balance of funding for Local Government is being centrally controlled with over 80% of all income being either allocated directly from Scottish Government or by limits placed by Scottish Government on how much each individual Council can raise from Council Tax (or for that matter Non Domestic Rates).

Communications:
It seems clear that a national communication strategy is required to communicate the proposed changes and in my view this should be done centrally by the Scottish Government explaining why larger dwellings should pay more Council Tax and what the proposed use of the additional revenue is for.

Central Control:

What is also clear is that the Scottish Government has stated that the additional revenue will be reduced from the General Revenue Grant and be paid directly to schools for use to increase attainment in education.

This raises serious questions, in my view, on the purpose for Council Tax and wrongly claiming this is a local tax. I cannot remember another situation where central government has changed a local tax levied by Local Government and then stated the revenue generated will be used to fund a Scottish Government policy. The question I would pose to the committee is where does this leave Local Government in the grand scheme of democracy? Is local government just a delivery arm of central government (Scottish and UK)?

Water Charges:

Councils also collect Water Service Charges on behalf of Scottish Water along with the Council Tax. It is still unclear on what tactic the Scottish Government and Scottish Water will take on either applying new ratios to water charges or not and if they choose to do so – what will they do with the additional revenue. In my view, any additional revenue should be used to fund a proper water affordability scheme for poorer households in Scotland who struggle to pay their water charges whilst receiving full remission of Council Tax based on their low incomes.

Revaluations:

This will be fully covered by the full IRRV submission but I would state in my view this is a clear missed opportunity to properly bring the Council Tax Base up to date as suggested by the Commission for Local Tax Reform and previous studies.

ADDITIONAL COUNCIL TAX REDUCTION SCHEME

The Scottish Government has developed a “better buy” scheme to protect the estimated 54,000 households who are believed to live in higher banded dwellings with limited income to meet the additional charge due to the increase in ratios.

All existing recipients of Council Tax Reduction will see their level of protection maintained. Put simply any increase in Council Tax will see a corresponding increase in CTR so the poorest Households will see no detrimental effect on the level of charge (albeit – I am still unclear on the position of water charges).

The remaining 54,000 households will need to apply for the CTR to protect them from the increase in charge and the Regulations have been laid to do so. A few issues require to be addressed:
Communication:

Local Government will not be in a position to accept applications to reduce the charge until after the annual billing process for 2017-18. This is due to the lateness of the regulations and the need to have software updated to allow for this new type of reduction. I would respectfully suggest that communication regarding the new scheme is developed by the Scottish Government and details issued with the annual bills in Feb/Mar 2017.

This will facilitate the need for customers to apply for the new CTR and for Councils to carry out a review and rebilling for affected households. Whilst this is not ideal, it seems like the only option available, given the particular tight time scales.

I sense no technical barrier to achieving the government’s objectives to protect the poorest households from the increase in charges.

Funding:

The Scottish Government will need to fund the new scheme in terms of Council Tax foregone (i.e. program funding), for the additional set up costs and ongoing costs (once applied these cases will require to be reviewed at least annually). I am aware COSLA and Scottish Government are in negotiations regarding this but would stress that the scheme has to be fully funded in all three aspect and no costs should be borne by Local Government (unlike a lot of initiatives developed such as the Welfare Fund etc. where administration funding is woefully short of required level).

Administration:

As stated Local Government is well placed to administer this scheme and will be the delivery partner. Time Scales are very tight but in reality as long as the software for the increase in ratio’s is in place for annual billing (early February 2017), the software to allow remission will be required for April 2017 onwards so gives a little reassurance that our software suppliers can deliver the scheme as designed.

We will ensure all our staff are well versed in the new scheme to enable a proper customer interface to ensure we maximise take-up. This may also have the added benefit of better take-up of CTR generally which studies show only has a 70% to 80% take up, with the greatest proportion of non-claimers being pensioners.

My Conclusions:

The scheme for increasing ratios is easily implemented and easy to explain to customers despite the confusion over two rises in one year.

The CTR scheme will add to the overall administrative burden but I can understand why the government would want to protect the asset rich/income poor households from such an increase. However is it really needed as we already have a CTR scheme and all existing customers will see no detriment as CTR will be increased to compensate for any rise in charges to cover such increases?
In my view it is wholly inappropriate to have a “local tax” used by central government to fund one of their policy decisions. This leads to the idea of more central control over a local tax with the resulting diminishment of local democracy.

The Scottish Government needs to consider the main recommendations from its own Commission for Local Taxation Review and implement the key recommendations.

Les Robertson IRRV.
1. The following parameters are useful for assessing whether a Local taxation system is fair and effective:
   
   - It must fit and meet local needs;
   - The yield from taxes must be adequate;
   - Where possible local taxation should be policy-linked;
   - It should provide for certainty in the yield;
   - It should be broadly acceptable to the public; and
   - It should be simple to collect and difficult to evade and avoid.

2. No system is going to meet each of these parameters entirely in each and every aspect. The council tax system performs reasonably well in relation to most of these elements. There is wide acceptance of the tax however a lack of acceptability by some of the Scottish public is an area in which it falters. This is due in part to the amount of the tax that is levied and the perceived inequities in the distribution of the burden. It may also be due in part to the link between water charges and council tax and the fact that one bill coming from the local authority gives the impression to the taxpayer that the tax is some 40% higher than it actually is. The level of tax imposed is influenced by several factors, the most important being the amount of and distribution of grant funding made available to Scottish local government. As the Commission is not tasked with considering other issues around Local Government finance, presumably including grant funding, this response merely flags this as an issue. Our response can however examine the issue of perceived inequities.

3. Council tax banding has come under criticism as creating unfairness in the system. It could be argued that perceptions of unfairness in the banding system could be addressed to some degree by the following amendments:
   
   - **Altering bands to reflect current market values.** We note however the findings of the Burt Committee on this matter. Any revaluation undertaken to distribute the existing tax burden in line with current property values (rather than carried out to increase the overall tax yield), would not be sufficient a measure to counter the other inherent problems with the system
   - **Resetting the number of bands.** We note however the findings of the modelling work undertaken by the University of Stirling for the Burt report, which concluded that “introducing additional council tax bands has virtually no effect on the burden of council tax”; and that these results were consistent with the outcome of research by Heriot-Watt University for the Scottish Parliament’s former Local Government Committee. We
additionally note from that Report that Sir Michael Lyons was surprised to find that adding additional bands would not appear to have a significant impact in making council tax relate more closely to ability to pay. This was largely attributed to the fact that households with diverse levels of income can be found in every council tax band in the UK.

- **Changing the ratios of tax charged in respect of the bands.** The Burt Inquiry commissioned comprehensive modelling of the impact of changing the multiplier between bands. We note the following outcomes of that modelling:
  
  o Increasing the multiplier between bands makes council tax more progressive.
  o Single adult households would tend to gain from increasing the ratio of Band H to Band A council tax, because single adults are more concentrated among lower council tax bands.
  o The majority of households either gain from the change in the multiplier or are unaffected.
  o The more progressive the council tax structure, the larger the share of households that are at least as well off. But as the structure of council tax becomes more progressive, the losses of those who are made worse off by the changed structure increase. Thus, the more progressive the scheme, the greater the proportion of the population who gain, but those who lose do so more heavily.
  o A tension emerges about the optimum number of bands. As the council tax was made more progressive, so the variation of tax payable at adjoining bands would increase. This scenario, where a small increase in the value of a property can result in a substantial increase in council tax liability, is sometimes described as a “cliff-edge effect”. The effect of this is that a small difference in the 1991 value of a property can make a significant difference in the amount payable each year in council tax.
  o Increasing the multiplier between bands would widen the difference in the amount payable by adjoining bands and accentuate the “cliff-edge” effect. The larger the multiplier, the greater the “cliff-edge” between each of the bands.
  o Large number of bands would be required before the “cliff-edge” impact of increasing the multiplier was offset and the more bands that are created, the closer a banded system becomes to one where properties are valued individually.

4. The Institute sees some merit in moving to property valuations based on discrete capital values rather than amending the system of bands. Some commentators have suggested that changing the valuation banding aspect to a system of discrete valuations would be too difficult and costly to implement. Yet Northern Ireland undertook a full and successful, cost effective revaluation of properties for domestic rating in 2007. Their use of the latest valuation information technology together with significant professional overview and checking provided individual capital value assessments, with extremely low appeal rates arising. This suggests that such an exercise within a property-based tax system could be
achieved in Scotland if there is a will to do so. In order to provide a full picture it is important to note some essential differences exist between Northern Ireland in 2007 and Scotland as at the present time. As is the norm, the tax was introduced in 2007 based on value levels as at 1st April 2005. Between 2005 and 2007 domestic property values in many parts of Northern Ireland doubled in value therefore giving the impression that the property values on which the tax was based were significantly lower than could have been the case. It is almost certainly this fact that contributed to the acceptability of the values and the low appeal rates. It is highly unlikely that a similar market will occur again particularly in Scotland. The Institute has provided professional input to the revaluation exercise in Northern Ireland and would be pleased to discuss the concept and implementation aspects further with the Scottish Government.

5. In addition to the issues around the banding system, the IRRV has previously made representations to the United Kingdom Governments to overhaul other elements in the council tax system to make it more robust and more acceptable to the public. These relate to:

- Committing to undertaking regular revaluations. The unwillingness to have a council tax revaluation is itself a cause for the tax to fall into disrepute. It also misses the opportunity for changes in the levels of value in a locality to be reflected in the system.
- Introducing a rebate scheme which reflects a well-targeted system of relief. Amendments to the system of reliefs (balanced by overall yield) could more easily resolve issues of affordability than a wholesale change to the whole basis of taxation.
- Undertaking a comprehensive review of both status discounts and exemption categories.

1. REFORM OF LOCAL TAXATION

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

1. There are many benefits in maintaining a property-based tax. Such taxes generally:
   - Are cheap to administer, maintain and enforce and are predictable;
   - Are difficult to avoid. By contrast, under a local income tax system legal avoidance would be much easier, which would reduce tax yield and yield certainty; and contribute to funding gaps;
   - Do not add new compliance burdens on taxpayers. A considerable amount of property information is already in the public domain – hence inspections for council tax are very low as a proportion of total casework; and
   - Provide a compatible addition to the varied taxes paid across the country.

2. The IRRV advocates the retention of a reformed property-based system, based either
on discrete capital values or numerous bands. The Institute also believes that a reformed property tax should continue to be administered by Local Authorities, to ensure that the public continue to recognise the important links between what they pay, who they pay to, and what services they receive in return. The Institute believes that this is essential to ensure local accountability and to maintain the health of local democracy.

3. Councils should not, however, be restricted to the ability to raise a single tax and should have the discretionary power to raise supplementary taxes that are appropriate to their local area, for example environmental taxes, a Local Tourist Tax; and localisation of (or part thereof) the Scottish Lands & Buildings Transaction Tax (former stamp duty). Such an approach would provide a mix of stable and predictable sources such as property/land tax and alternative buoyant sources.

4. In addition to those options raised in the above paragraph, the Scottish Government could also consider easing the burden of local taxation by considering other significant sources of income. Such sources could, as examples, include an introduction of a levy on internet retailers; and a land tax. These are discussed further in the following paragraphs.