Local Government and Communities Committee

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

Submission from Derek Yule, Chair, CIPFA Directors of Finance and Director of Finance, Highland Council

Introduction

I welcome the opportunity to submit evidence to the Committee on behalf of the CIPFA Directors of Finance Section. The Section represents the Directors or Heads of Finance of all 32 councils in Scotland. CIPFA, is the Chartered Institute of Public Finance & Accountancy, and is the only Accountancy Institute worldwide that specialises in Public Sector finance.

The Section is strongly of the view that a review of Council Tax is long overdue. Whilst we would support the direction of travel, we do not believe that the proposals by the Scottish Government go far enough in terms of reform or the reinstatement of the long held tradition of funding local services aligned with local decision making.

The Section believes that a wholesale revaluation of Council Tax is required, and this should then be subject to regular updating. The failure to undertake a revaluation since the Council Tax system was introduced in 1993 means that the system has failed to address diverging values of house prices across Scotland since that date which contributes to the regressive nature of the Council Tax.

Answers to specific questions

(1) Overall, do you support the principles of the Government’s plans to reform Council Tax

The current proposals are a small step towards what is required in terms of a fundamental review of Council Tax. By changing the multiplier for the top four bandings, this does make some concession towards the tax becoming more progressive with Band H now being approximately 3 2/3 greater than Band A. However this needs to be seen in the context of the Commission on Local Tax Reform which identified that the top Band charge would need to be approximately 15 times greater than the lowest Band for the charges to be proportional.

The current differential between bandings, based on fractions of ninths, is difficult to understand. These new proposals equally fail to explain the logic
behind the multipliers proposed. No detail has been provided to support the proposals.

Our biggest concern is the core principle that Council Tax is a local tax, determined locally, to be spent on local priorities. This would support the principles behind community empowerment and engagement. The proposal to collect the additional element relating to the multiplier, and then redistribute, breaks this fundamental principle.

Allowing councils to increase tax by 3%, whilst at the same time applying the multiplier, may lead to significant confusion amongst local taxpayers as to who is responsible for their tax increase.

Whilst any tax system requires to be fair (or perceived to be fair), it also requires to be easily understood. The Scottish Government’s proposals have the capacity to confuse. Added to this confusion is the fact that local taxation will be re-distributed, and breaks the concept of local accountability. One unintended consequence of this may be increased challenges of collection if these proposals are not accepted by the public.

After a significant period of a tax freeze there can be no doubt that councils will face an increased challenge of collecting what, in some instances, will be a significant increase in the basic charge.

(2) To what extent will the Government's proposed reforms make the system of Council Tax fairer?

The proposed reforms go a small way towards a fairer system due to the fact that they are progressive in nature. However the proposals fail to address the wider concerns about the system. The Government could have introduced an immediate change to revalue properties where improvements are carried out which increase the property value. Again, to make the system “fair” we would advocate a complete and regular revaluation of properties.

The proposals make the strong link between property value and wealth. Whilst each factor is weighted 50:50 in the general scheme, single adult households are more concentrated in the lower bandings, so the proposals are progressive in nature.

The scale of the increase in multiplier, ranging from 7.5% to 22.5%, does however represent a significant increase, particularly after the lengthy period of a council tax freeze. Whilst this is progressive, it is questionable whether the general public will believe this to be fair, given that the changes will affect in the region of 25% of all council tax payers across Scotland. As stated
above any tax system requires the tax to be accepted to avoid significant challenges of non-payment. A local tax, being used to fund services in other council areas, may be considered unfair.

The Government needs to be clear in its explanation to the public why it is making this change. To date there has been no real publicity surrounding this, and the Government needs to take a lead in explaining the policy change and justifying why council tax collected is to be re-distributed.

The planned changes to Council Tax Reduction, covered in question 4 below, also help to make the system fairer.

(3) **To what extent will the changes be straightforward for local authorities to implement?**

Our general feeling is that the changes should be fairly easy to implement. There will be a longer lead in time, essential to allow software companies to rewrite the parameters to allow the various banding changes to be made. This should not be complex, but will incur additional cost, and require a greater level of testing than would otherwise have been the case with the present parameters.

Given the significant funding pressures on Councils it would be reasonable to expect that any one off and recurring costs associated with these changes are met by extra Government funding.

Councils may however face a greater challenge to collect the increased tax.

The Government needs to provide clarity on Water & Sewerage charges as soon as possible. No mention has yet been made, but these charges are collected by Council as part of Council Tax billing. Should the Government’s intentions not include Water & Sewerage then this will create significant complexity to the software changes.

(4) **Do you support the Government’s planned changes to Council Tax reductions?**

The Section is pleased to note that the Government recognises that there will be additional costs associated with the proposed amendments to Bands E-H.

At this stage there is considerable uncertainty as to the absolute cost of this but this additional cost needs to be fully funded.
What does not appear to be recognised is the increased costs of administering a higher caseload of CRTS claims. Most councils will acknowledge that they currently do not receive full funding for the administration costs associated with the CTRS, which has been frozen since 2013.

It is clear that the multiplier changes will bring more households into the CTRS, and acknowledgement should be made of this increased workload and cost.

Similar to Council Tax itself, the Scottish Government could have considered wider reaching changes to the CTRS. 50% of Council Tax relates to a personal element and other potential aspects of reform appear to have been ignored in considering changes to the overall system. The Child Premium changes proposed will be welcome as a help to those families not in receipt of maximum CTR and who receive either partial CTR or just miss out on CTR.

(5) Any other comments

Whilst a step in the right direction in terms of making Council Tax more progressive, greater attention could have been paid to the regressive nature of the tax linked to Bandings A-D. If the proposals were to represent a true reform of Council Tax then any proposals needed to consider all bandings.

Clarification needs to be given as to the Scottish Government’s proposals for local taxation. The end of the Council Tax freeze is welcomed, but a decision to place a “cap” of 3% is disappointing as it again removes local flexibility and choices available to councils. The “cap”, and a re-distribution of additional revenue through the multiplier changes, means that there is still a significant control exerted by the Scottish Government over the local tax raising powers and decision making of councils. There does appear therefore to be a contradiction of policy between central direction and local empowerment.