Local Government and Communities Committee

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

Submission from Shelter Scotland

Introduction

Shelter Scotland welcomes the opportunity to submit evidence to the Local Government and Communities Committee on the Council Tax (Substitution of Proportion) (Scotland) Order 2016.

The proposals under consideration have been made in response to the conclusions of the Commission on Local Tax Reform which reported in December 2015. The Commission concluded that “the present Council Tax system must end” and that to replace the current system, any new tax had to be based on property and contain an improved rebate scheme to help people on low incomes.

Shelter Scotland submitted evidence to the Commission and set out a number of principles on which a reformed system of local taxation should be based. In this submission we draw upon the response we gave to the Commission.

The proposal from the Scottish Government is to retain the Council Tax and to reform it by increasing the “band multipliers” on properties in the top four bands. The Scottish Government has not responded to calls for a general revaluation of properties and so the Council Tax will continue to be based on property values as assessed in 1991. It has been estimated that revenue will increase by £100 million per year, and the additional revenue will be ring-fenced for schools.

Response to Questions

1. Overall, do you support the principles of the Government's plans to reform Council Tax?

As well as being fair (which we comment on in answer to the next question), any system of local taxation should be effective. It should be hard to avoid, easy to collect and easy to understand.

In general Shelter Scotland support the principles of the current Council Tax in that it is a property tax and property taxes are hard to avoid and easy to collect. Property taxes can also be easy to understand. However, the current arrangements for setting the Council Tax based on bands is not the most effective approach. In our response to the Commission on Local Taxation,
Shelter Scotland supported a rate of taxation based on a fixed percentage of a property’s value.

Importantly, any council tax reduction or rebate must also be easy to understand, along with any option to defer payment should the taxation become unaffordable for occupiers. We comment on this in response to question 3.

We are disappointed that the Scottish Government hasn’t taken the opportunity to conduct a general revaluation of all properties in Scotland. Regular revaluation is a necessary condition of an effective property tax system. Not least because, if designed correctly, property taxes can have a stabilising effect on property markets. House price volatility has been a feature of our housing market for some time, and we saw the deeply negative impact of this in the aftermath of the 2007-08 financial crisis.

The crisis has not, however, changed our collective approach to property markets, and prices continue to increase at a faster rate than incomes. In Scotland average house prices rose by 13.3% between January to March 2014 and January to March 2015 (Registers of Scotland, Quarterly House Price Statistics, January to March 2015). And between 2004 and 2014 average house prices rose by 36.9% (Registers of Scotland, Ten year property market report, 2004-14). Over the same period median earnings in Scotland rose by 24% (Office for National Statistics, Annual Survey of Hours and Earnings, Provisional Results, 2014. Now, the average house price in Scotland currently stands at £173,830 which is 6.4 times the median salary in Scotland. In 2004 the average house price was 5.6 times the median salary in Scotland.

Property revaluation should be a much simpler and more accurate process than it was in 1991, not least because of the widespread availability of online data and information about market values Shelter Scotland believe that regular, even annual revaluation would be a positive move.

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

In our response to the Commission, Shelter Scotland argued that a new form of local taxation should be fair and that low income households should not be asked to pay a disproportionate amount of their income on a local tax when compared with high income households. Households should also not be asked to pay more than they can afford.
In its current form the council tax is regressive in that lower value properties pay a larger percentage of the value of the property in tax than high value properties. Therefore, using property as a basis to gauge the wealth of households across Scotland the current council tax would appear to be an unfair way of structuring a tax.

The proposal to increase the band multipliers for the top four bands will go a small way to reducing the regressive nature of the Council Tax, but this proposal does not go far enough and will leave a Council Tax system which is far from proportionate. We would therefore hope that the proposal represents a first step in relating tax liability more closely to property values.

Shelter Scotland would like to see a local property tax, based on property value, which steps away from the current banded structure of council tax. This could take the form of a fixed percentage of the property's value.

Importantly this must be accompanied by a commitment to regularly review property valuations. Regular revaluations of property would play a key role in the fairness aspect of any new system of local taxation, as housing is a relatively good proxy for wealth. The Commission established that a majority of properties would be moved to different bands if a revaluation were to be undertaken. It is difficult to see how the system can be judged to be fair without a revaluation.

To ensure fairness the income-based relief for households for whom payment of the tax is unaffordable must work effectively.

3. To what extent will the changes be straightforward for local authorities to implement?

The proposals to change the band multipliers appear to be easy to implement, however we have greater concerns about the proposal for exempting people on below median incomes on the basis of means testing. Local Authorities and the Scottish Government will have a limited window of opportunity between these proposals being enacted and the point at which the new tax rate is charged to ensure that everyone who is eligible for means tested relief receives it. Proactive efforts must be made to ensure that every household eligible for the reduction receives it.

4. Do you support the Government's planned changes to Council Tax reductions?

The proposal includes exemptions to help people on low incomes who live in more expensive houses. People living in Band E-H properties would be able
to claim exemption from the increases if their net income is below £25,000 and below the median for their household type. The Scottish Government estimates that 54,000 households would be protected in this way. In addition, the child allowance within the rebate scheme will increase by 25%. The Scottish Government estimates that 77,000 households (containing almost 140,000 children) would benefit by an average of £173 per year.

The relationship between tax liability being related to property values and to the “ability to pay” is a key tension that must be addressed. We agree with the assessment made in the submission by STPR, that the proposal to protect people on below median incomes who live in more expensive properties cannot be justified as anything more than a transitional measure. Assistance that goes half way up the income distribution and is estimated to include 54,000 households is “targeted” only in the loosest sense. We agree that the increase the child premium is a far more clearly targeted and progressive measure.

5. Please add any other comments on any aspect of the proposed reforms.

Shelter Scotland is pleased that the Council Tax freeze has been ended. The Government proposes to end the Council Tax freeze in 2017/18, and thereafter to allow local authorities to increase the tax by a maximum of 3% per year. The Scottish Government estimates that this would raise an additional £70 million a year.

Local authorities currently have little control over what taxes they raise locally. Against this backdrop Scottish Government funding for councils decreased by 8.5 per cent in real terms between 2010-11 and 2013-14 (allowing for inflation) to £10.3 billion at a time demand for council services has increased (Accounts Commission, An overview of local government in Scotland, 2015). Shelter Scotland argue that Local authorities should be able to react to, and plan for, increased demands for local services through a locally raised tax. This includes homelessness services, many of which have seen cuts in funding since the financial crisis of 2007-08 and subsequent squeeze on public finances.

Alongside these proposals for Council Tax, although not directly being consulted on here, are proposals to permitting local authorities to remove the Council Tax discount on second homes. Shelter Scotland support this move which would make it harder for people to hide empty homes by calling them second homes for council tax purposes. A majority of Councils in Scotland now have a focus on bringing empty homes back into use and we believe that being able to charge the full rate of Council Tax will support them in bringing empty homes back into use.
Under the current council tax system local authorities have the power to remove discounts and charge up to 200% council tax on long term vacant dwellings to encourage owners to bring properties back into use. There is also an opportunity for councils using the vacant dwelling council tax powers to recycle some of this additional revenue for empty homes work, including help, advice, negotiation, incentives and enforcement. Importantly, local authorities can adopt a flexible approach to this. For example, for properties not already subject to set exemptions councils choosing to use these new powers have discretion under the legislation to exempt owners/properties from the charge. New guidance was issued by the Scottish Government in March 2015 giving further clarity to this discretion and highlighting a number of areas where councils might considering using this flexibility including: any other circumstances where the owner has agreed with an Empty Homes Officer to take positive steps to re-occupy their property and it is in the view of the Empty Homes Officer that a time-limited council tax increase “holiday” would encourage the property to be brought back into use sooner. We know that several councils have implemented such council tax "holidays" to good effect, enabling them to engage with owners and bring more empty homes back into use quicker. We hope that moves to reform local taxation will reflect the need to retain this financial incentive for empty home owners to work to bring their homes back into use.