Local Government and Communities Committee

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

Submission from Shetland Islands Council

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

In general the reform of Council Tax is long overdue, the cross-party Commission on Local Tax Reform concluding such in its final report in December 2015.

Using the principles, such as those set out by Adam Smith, to which reference was made by Government and opposition MSP’s in the debate on the subject (22 September 2016) would require the tax to apply to all taxpayers to the same extent – the application of this being open to interpretation - provide certainty, be collected at a time and in a manner that is appropriate and be cost effective to collect, thereby enabling as much of the value of tax to be used for society.

In addition reforming the tax to be fairer is clearly an aspiration that can be supported by all.

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

The SNP 2015 Manifesto refers to the “unfair Council Tax”. The proposed changes are limited, if fairness is simply defined as those who are perceived to have more (i.e. a larger / more valuable house) should pay more, then extending the upper Council Tax band multipliers is fair, as those people will pay more.

If however fairness is defined in terms of ability to pay, that changes in circumstances are taken account of and in the use of services then it is not certain that this provides a fairer system. Changes in local circumstances – property extension/alterations as an example – are not addressed therefore a continuing sense of unfairness is inbuilt. The issue of those who are asset rich, cash poor does not get addressed as it requires further reform and amendment to the Council Tax Reduction Scheme to provide some protection.

The current system bases everything on 1991 property values, has been in existence since 1993 and has remained unchanged, resulting in less fairness, continuing confusion and a lack of transparency. It is a tax that should enable taxpayers to understand what they pay for and that the tax they pay is comparable and consistent with their neighbours, family and friends.
It does not address the transparency of the tax, particularly in relation to house extensions and redevelopments that are not taken account of until the property is sold. Additionally the tax does not address the fluctuations in local market conditions, although the result of this is a council tax base upon which the local authority can rely year on year. Local comparisons and improving the understanding of the way in which the tax is implemented does not get easier as a result of the proposed reform.

The report from the Commission included commentary on analysis and extrapolation carried out by Herriot Watt University which suggested that 57% of properties would have changed Council Tax Bands if a revaluation had been carried out in 2014. This implies that there are substantial numbers of households in Scotland paying too much or too little based on current Bandings. The impact of not addressing these inconsistencies means that they remain a constant in the proposed Council Tax and are carried forward into this new regime. As there will be winners and losers in this situation then there is unfairness in the system for the taxpayer.

Other taxes take account to changing circumstances, whether they are direct taxes such as Income Tax which are responsive to the actual income of an individual on an annual basis or indirect taxes such as VAT where a person can choose higher cost goods and services that will result in a higher value of tax being paid. By remaining secured to the historical position, the Council Tax reforms do not respond to this.

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

Application of the new multipliers would be straightforward for the Council. Applying increased income to education, and specifically explaining this to the Shetland population in terms of the potential impact that this might have will not be so straightforward, especially since there is an anticipated gap between the amount Council might receive of the £100m collected across Scotland (see Q5 for more details). Having made the connection that this is to be directed towards Education and schools it will be extremely challenging to defend the position that tax raised in Shetland is not being distributed to other Council’s for the benefit of the their children. It is unlikely that simply explaining that Council Tax will remain a tax collected and retained by the Council while our General Revenue Grant will be reduced is not sufficiently mature an explanation to be accepted by taxpayers.

Applying a cap on the increase that can apply to Council Tax might at first seem to be welcomed and easily adopted as it provides certainty, is clear and is specific that make it simple to understand and implement for all. Where this may be more challenging is in convincing the taxpayers that with other resources reducing and as a result services changing and stopping then to remove the flexibility whereby a higher increase in Council Tax would prevent some of those changes.
4. Do you support the Government's planned changes to Council Tax reductions?

In order to provide a degree of balance and fairness it is essential that reductions are included in the reform to ensure that those with low incomes are not adversely and disproportionately affected by the reforms. Understanding the application of the reformed Council Tax Reduction Scheme will be crucial. As this remains unclear at this time it requires to be effective and easily operated to ensure that those who should benefit from the reductions actually receive them and so that there is no additional cost placed on councils in administering the Scheme.

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

The Scottish Government intends to set a cap on increases to Council Tax of 3%, which not only means that the current value of Council Tax, proportionate to other Council’s, will likely remain the same or similar in the future, it does not enable the Council to apply the tax flexibly based on local needs and local democratic decision making. The former point means that Shetland, that has a historically low Council Tax level compared to other Council’s will continue to be so and as such are unlikely to be able to generate as much income locally as others. Similarly high Council Tax Council’s will remain at the upper end of the scale.

Locking in a cap for Council Tax increases through the proposed reform is illogical, for a tax that is based on applying local decision making and income generation for local outcomes and objectives, and makes the implementation of the tax more confusing for taxpayers. Undermining the principle of local decision making and tax raising powers locks in the current differentials in the value of Council Tax applied, it does not provide the opportunity for future decision making and future needs to be appropriately addressed.

In an environment where central government funding is reducing to then have limitations placed on the application of a local tax, which may offer the opportunity to assist in funding vital Council services then this is unhelpful.

The proposed use of the extra funding that is generated by the reforms (£100m across Scotland) is to be invested in schools using eligibility for free school meals to underpin the distribution of those resources.

The basis for specifically funding a national priority with local funding opposes the principle of local democracy. Other options remain available to the Government, in the form of tax raising powers to fund national priorities, the funding raised locally should be directed based on local decision making, where the whole range of local outcomes are considered together, rather than one or two being separately identified and pulled out for special treatment.
Putting aside whether or not the directing the funding towards education is appropriate, it is not clear to the Council that using the eligibility for free school meals, as a distribution indicator, is a suitable indicator of need for investment in schools to tackle inequalities and deprivation. A better proxy for this could be to use the minimum income standards data as this would better reflect the impact of higher costs of living in Shetland in comparison with other parts of Scotland.

Using the free school meal distributions in the last two years there is a likelihood that Shetland would receive between £26k and £55k, having collected £155k in additional council tax. This is unfair on the taxpayers of Shetland.

Councillor Gary Robinson
Political Leader of Shetland Islands Council