



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 21 September 2016

Session 5



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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE
5th Meeting 2016, Session 5

CONVENER

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)

DEPUTY CONVENER

*Elaine Smith (Central Scotland) (Lab)

COMMITTEE MEMBERS

*Kenneth Gibson (Cunninghame North) (SNP)

*Ruth Maguire (Cunninghame South) (SNP)

*Graham Simpson (Central Scotland) (Con)

*Alexander Stewart (Mid Scotland and Fife) (Con)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (University of Stirling)

Professor Kenneth Gibb (University of Glasgow)

Joan Hewton (Institute of Revenues, Rating and Valuation)

Professor Richard Kerley (Queen Margaret University)

David Melhuish (Scottish Property Federation)

Don Peebles (Chartered Institute of Public Finance and Accountancy Scotland)

Les Robertson (Institute of Revenues, Rating and Valuation)

David Thomson (Scottish Assessors Association)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Local Government and Communities Committee

Wednesday 21 September 2016

[The Convener opened the meeting at 10:02]

Subordinate Legislation

Council Tax (Substitution of Proportion) (Scotland) Order 2016 [Draft]

The Convener (Bob Doris): Good morning and welcome to the fifth meeting of the Local Government and Communities Committee in this parliamentary session. I remind everyone to turn off mobile phones. Because the meeting papers are provided in digital format, tablets may be used by members during the meeting. We have full attendance—no apologies have been received from members.

Under item 1, the committee will hear evidence on the draft Council Tax (Substitution of Proportion) (Scotland) Order 2016 from two panels. I welcome our first panel: Professor Kenneth Gibb, the director of policy Scotland at the University of Glasgow; Professor David Bell, professor of economics at the University of Stirling; and Professor Richard Kerley, professor of management at Queen Margaret University. Good morning to you all. As I indicated before the meeting, there is an opportunity for all three of you to make opening statements if you wish to do so. Given that our time is a bit truncated—we have about an hour and 15 minutes—I ask you to be relatively brief. We will then move to questions from members.

Professor Kenneth Gibb (University of Glasgow): I just want to reiterate some of the points that I made in my written evidence. Although we are here to talk about the statutory instrument, all three of us would probably want to look at the broader picture and some of the things that are happening, or which could happen, with local taxation in Scotland. It is clear that the proposed reweightings of the higher bands will make the council tax less regressive, but it will still be far from a proportionate or neutral system. One of the most important things is the fact that there is no proposal for a general revaluation—I am sure that we will talk about that quite a lot. I am concerned that some of us might find ourselves back here in four or five years' time, discussing the matter again because we have not grasped how to set the tax base.

The proposal to compensate lower-income households that will pay more council tax as a result of the reweighting should take account of the fact that the system is means tested and there are questions about take-up, particularly regarding the group of people who will be directly affected by it.

Those were the points that I wanted to start with; I am sure that most of my other points will come up in discussion.

Professor David Bell (University of Stirling): I will be brief. I agree with Professor Gibb that we probably want to look at the broader implications of the statutory instrument. It is a limited reform, given the aspirations of last year's commission on local tax reform.

The way that the new ratios will work will inevitably mean some redistribution across local authorities, and it is important to get a broader understanding of what that means. I agree with Professor Gibb about the potential implications of the new addition to the council tax reduction scheme, in that it is quite complex. I worry a bit about the correct population of potential recipients of the additional reduction being properly identified.

I am a little concerned about where we are in terms of redirecting solely to schools the moneys raised by the increase in the ratios. It sounds as though it is a hypothecated tax.

Picking up on another of Professor Gibb's points, I think that we probably want to understand a bit more clearly the distinction between taxing wealth and taxing income, and how those things might be considered together when we are thinking about the progressivity or regressivity of a tax.

Professor Richard Kerley (Queen Margaret University): I will try to be as brief as my colleagues have been. The committee should turn its attention to two or three issues. The first, which has a bearing on fairness and relates to the described value on which a tax level will be struck, is the evasion of revaluation. It is simply quite negligent to assume that we should stick with 1991 valuations. The fairness or unfairness that arises from that is quite simple. If in this year you paid income tax on your current income but I was allowed to pay income tax on my 1991 income, you would think that that was a fairly rough deal for you—I, of course, would be delighted. In terms of the principle of fairness, we should be considering the overall valuation level and the fairness that arises from that.

I favour a property tax, or a form of taxation of property, that is mediated in some way by elements of income. The commission on local tax reform was working towards that, but it then

becomes a matter for Government and how it introduces such a change.

I share the view that the council tax reduction scheme seems quite problematic. We extend the level of income at which the reduction will operate some way beyond many other means-tested schemes. We know that the take-up of means-tested schemes is often poor. There is a variation in take-up across different benefits that has not been fully established, although I think that the confident projection is that the cost has been £7 million. That may be impacted by the proportion of households that take up the reduction, so that also turns on fairness.

I remain in favour of discrete valuation by property. The system of property banding introduces an element of unfairness, in that people who are just over the floor of a particular band pay significantly more than those who are just under the ceiling of the band immediately below them. We have moved on a long way in our ability to value properties at any one point. In 1991, we simply did not have available to us the technologies that assessors and valuers now have.

The final point is about the extent to which the change will impact on local authorities in terms of how they might implement a scheme. In my very short statement of evidence, I ask exactly what scheme they are implementing. At one point, we were presented with a proposition that the additional revenues that are generated by the changed multipliers would be put into some schools in Scotland. I think that that was initially to be done on a mechanism based on particular local authorities. However, the current signalling or discussion implies a transfer of education funds directly to schools across the piece.

I can only assume that the way in which the Government intends to operate that is to reduce the central grant and assume that local authorities will generate additional revenues through changes in the multiplier and the probable increase in council tax that we will see next year. That leaves a pretty big gap, considering that we are now only a few months away from introducing the arrangements. It is unsatisfactory that we do not yet have a clear indication of how that transfer of moneys will take place. Of course, as has been suggested, I object to that transfer in principle, as I think that local taxation should be allocated to local decisions rather than appropriated by central Government.

The Convener: Thank you, gentlemen. Before we move to the first question, I want to say that all three of you are right to mention that there is an opportunity to raise wider issues rather than just talk about the statutory instrument that is before us. However, for the record, the two aspects that

we are looking at specifically, as well as those wider issues, are whether the Government's current proposed reforms make the system of council tax fairer and the extent to which the changes will be straightforward for local authorities to implement. I should note that, although we will not report on the council tax reduction scheme for the estimated 54,000 families who are on net incomes of below £25,000, we can take evidence on that and we will give that evidence to the Social Security Committee, which will report in relation to that matter. I just wanted to put that on the record before we go any further.

The first question is from Andy Wightman.

Andy Wightman (Lothian) (Green): Just for the record, I say that I was a member of the commission on local tax reform.

I want to ask about progressivity. The tax commission cited a quote from the Mirrlees review, which said:

"There is a strict economic definition of progressivity. A tax is said to be progressive when the average tax rate rises as the tax base rises. So an income tax is progressive when the average tax rate rises as income rises."

Professor Bell, in your written evidence, you say

"Those on higher incomes will contribute a larger share of their income in council tax after the change in ratios is introduced. Hence the policy can reasonably be described as progressive".

Given that there are charts and data in the commission's report showing that the council tax overall is regressive with respect to its tax base and to equalised net household incomes, can you provide any clarity on that? Words are being bandied about and they are politically loaded. However, you are economists and various other kinds of academics, so I am sure that you have the answer.

The Convener: Okay—we are sure that you have the answer, so who would like to give us it first?

Professor Bell: What I was saying there was that, in relation to the previous situation, which was admittedly regressive, we have moved a fraction upwards. That was the sole point that I was trying to make; I was not trying to say that the tax is now progressive. In response to the question whether it is fairer, I suppose that one could say that it is marginally so but not universally so. That is all that I was trying to say.

Professor Gibb: Obviously, the commission had a much broader debate regarding whether, when we think about progressivity, that relates simply to current income, as important as that is and as important as it was in the public responses that the commission received.

I think that both Professor Bell and I have said in our written evidence that one also has to think about taxation in terms of wealth, its impacts on wealth and the fairness of that. I think that we were both, in different ways, making the point that housing taxation, as a whole and in terms of wealth, is flawed in relation to its impacts.

There are arguably important consequences from that for the productivity of the economy and around making choices to tax income as opposed to property and things of that nature. Those can have quite significant consequences on an efficiency basis in the longer term, let alone on the fairness agenda, which is so important.

10:15

Professor Kerley: The committee has specifically asked for information on whether the new system is fairer, but that is very hard to define. You have a technical definition of progressive; I said in my short evidence note that I think that the new system is slightly less unfair, which is a guarded way of arguing about it.

I agree with my colleagues that when we talk about wealth and income, what is striking is that when we look across the larger developed economies—those that are within the Organisation for Economic Co-operation and Development, for example—we find considerable variation between per capita wealth and income. It depends on a whole variety of factors, including property tenure, how pension benefits and pension savings are ascribed and so on. The new system is better, but it is still not marvellous.

Elaine Smith (Central Scotland) (Lab): Good morning. Thank you for coming to give evidence.

Professor Gibb, in your submission you say:

“The weighting may be more fair but the values that place properties in bands will be in most cases wrong and increasingly illegitimate.”

You then go on to talk about the proposal as

“a political fudge which does not resolve the underlying problems indicated above.”

If a revaluation were to take place, would that make it less regressive—more progressive? Would it make a difference in respect of the fairness question that we asked?

Professor Gibb: That is a good, fair question. Revaluation is about having the necessary conditions for an adequate system of property taxation. I would argue that where around the world we have property tax systems that are deemed to be relatively effective, they all have regular revaluations—often they revalue every year; it is an automatic part of the process.

Locating individual properties in bands based on 1991 property values with, according to the evidence to the commission from a very large sample of local authorities, perhaps 57 per cent of those properties in the wrong bands—some too low and some too high—really undermines the credibility of the system. It is about the underlying credibility.

There is then a second question about what tax rates are applied and what fundamental fairness is, but revaluation is a necessary condition. Those of us who, generally, would support the idea of property taxation recognise that that necessary condition has to be met. That is what the revaluation issue is about—to me at least.

Professor Bell: House-price inflation affects different localities across the United Kingdom—or across Scotland—differentially. A city such as Dundee has not seen its property values increase all that much since 1992, whereas Edinburgh has seen big increases. In a sense, those are arbitrary increases in people’s wealth—they have not done anything; they just happen to live in the right place. They will be able to transfer that arbitrary increase in wealth to succeeding generations and, especially if they move away, they will be able to realise some of that increase in wealth. However, the increase has not come through economic activity; it comes by dint of the fact that they live in the right place.

There is a strong case for trying to tax—proportionately—that arbitrary increase in wealth, and we will be able to do that only if we can accurately value the housing stock in different places. I took two minutes the other night to go on Zoopla and get an immediate valuation for the house that I live in—it cost me nothing; Zoopla knew what the house cost when we bought it. Therefore, I find it difficult to believe that it would be such a difficult problem to revalue Scotland’s housing stock.

The Convener: Do you want to add anything, Professor Kerley?

Professor Kerley: Let me stress a couple of elements. The first is the technical issue, to which Ken Gibb referred. Surely if we are carrying out a census—which is, in effect, what a property revaluation is—we want it to be as accurate as it can be and to be refreshed regularly. If a legislature proposed that we should have revaluation of properties at 30-year intervals, people would laugh it out of whatever international body it was represented in. That is a significant concern.

Would regular refreshing improve fairness? Yes, it would. It might upset some people who found their property revalued up, and it might please

some people who saw their property revalued down, but it would indisputably be fairer.

There are sub-elements of that, which are clearly of concern to many citizens. I think that the Scottish Assessors Association referred to the issue in its submission, which is that any revaluation that arises from house improvement is not taken account of until the onward sale of the property. Since at least around 2007—so we are talking about nearly 10 years—there has been significant investment in house improvement rather than house movement. We can observe that as we walk round the streets of any city, although I do not know whether we have the figures for that or whether such figures are available. People are sitting on a wall of potential revaluation, without that coming through into the system.

Graham Simpson (Central Scotland) (Con): You are absolutely right. It has always struck me as ridiculous that someone can ask for their house to be revalued only within six months of moving into it. A lot of houses have the wrong value, but the time limit is such that the value cannot be challenged, which seems ludicrous.

Professor Gibb, you mentioned countries that do a revaluation every year. I would be interested to know which countries do that and what their experience has been. Also, I think that Wales has carried out a revaluation. Can anyone give us evidence about that?

Professor Gibb: I am struggling to remember the countries that I think carry out annual revaluation—I am not absolutely positive about them. I did a report for the commission on local tax reform, which I think has that detail—it is on the commission's website. There are certainly states in the United States that revalue on that regular basis, but I am not absolutely sure which states do it, so I will not name any.

The point is that technically, with automated valuation systems, revaluation is a statistical exercise and is not difficult in the great scheme of things. I have mentioned Chris Leishman's work, which involved a sample of 700,000 properties. It was relatively straightforward to use data in Scotland to work out pretty quickly which bands the properties would be in if they were updated to contemporary values. It is really not technically demanding; the issue is all about the politics of doing that.

The Convener: Mr Simpson asked about the Welsh experience.

Professor Gibb: There is some evidence on the Welsh experience. For example, there was an attempt at transition for people who were affected by the revaluation. Undoubtedly, there was some political unpopularity around the revaluation.

Ultimately, the exercise was successful, because it was achieved, but there was quite a lot of white noise around it.

Graham Simpson: Have people in Wales said that they will do it regularly from now on?

Professor Gibb: I do not know.

Ruth Maguire (Cunninghame South) (SNP): I am interested in the notion of discrete valuation and would like to hear more about the practicalities of that. I would also like to hear panel members' opinions on whether we should build something into the system that means that revaluation is part of it, so that we do not end up in this position again.

Professor Kerley: As the word implies, "discrete" valuation involves attributing a particular value to each property. Currently, the only occasion on which we attribute some form of value to a single property is at the point of transaction.

I use the phrase "some form of value" because we know that there are market pressures. At particular times in the cycle, someone will say, "I think my house is worth £150,000 but nobody will buy it, so I will sell it for £140,000." A month, two months or three months later, it might be worth £155,000. The value can go up or down, and the majority of people would understand that, even if they were slightly galled—or, indeed, angered—by it. You can see that in the number of people who sit on an attempted sale for months, because they think that their house is worth a certain amount and they must get that for it.

If there is a mass valuation of certain assets in a given street in a particular form, it will be for valuers to take a view on whether that value is attributable to every property. That would probably be slightly easier to do with very homogeneous types of property, but in some parts of cities and towns it would be a matter of working it out—although, as David Bell said, people can look up such information and get at least an approximate valuation of their property. At the moment, the bands within which people's properties sit provide a measure of safety for decision makers and valuers in saying that a property is worth about £180,000, or whatever it might be.

There are analogies with university education. Many of us used to mark people's work with the grades A, B, C, D and E, but we no longer get away with that. We now have to say that a piece of work merits 68 per cent, even if we know that that could mean 70 per cent or 66 per cent.

Professor Bell: I suppose that one disadvantage of regular revaluation is that local authorities will be more open to revenue risk, because house prices can go down as well as up. If they base their forecast council tax income on

1992 values, they know that those values are not going to change. There is the possibility that volatility in house prices will get transferred into volatility in council tax revenues.

Professor Gibb: I was going to make the same point: the housing market is volatile, which is a problem from a revenue risk point of view. However, not revaluing is also a problem given the strange dispersions that take place. The issue is not just that the value of an individual property, given its location and the value distribution, is now 26 years out of date; it is that neighbourhoods and the relative values of types of property within local authorities change. Nobody would imagine that the relative values of properties in the city of Glasgow have remained the same—it would be crazy to think that. There is a sense that regular revaluation allows one at least to signal and evidence what is going on.

With the exception of Ireland, Britain remains the only country that has a banded system of property tax. There were arguments for having property bands in the 1990s, when the system was being established—it is perhaps less likely that a property will be misvalued and, if it is, it is less likely to be taxed at the wrong rate. You can see why people would use such a system. For other taxation reasons, there are attractions and advantages to using individual property values—you might want to use that information for the buying and selling of homes, for instance. Therefore, it remained a convenient way of sorting out the issue.

Revaluation—valuation generally—is about the tax base, but the other side of the coin is the ability to set the tax rate. If tax rates are fixed, that will amplify the volatility of changing house prices. There are two parts to the bill that people face.

The Convener: Do you want to pursue any of that, Ruth?

Ruth Maguire: No, thank you.

The Convener: The evidence that we are hearing seems slightly contradictory. Everyone says that we need to revalue because the bands are so out of date that it has to happen at some point, but Professor Bell says that there are dangers in regular revaluation, which could undermine the stability of the tax base at a local level. We are hearing that we should revalue but that there are dangers in revaluing. A bit of clarity around that would be helpful.

The Scottish Government has been clear that it is not going to revalue, and what is before us is what the Government proposes. What message can you give the committee on revaluation? It is not going to happen in the short term, but should not the Scottish Government be planning for the long term for what revaluation would look like?

Should the Government, as Ruth Maguire suggested, build in robustness so that, when it revisits valuation, there is a structure and process in place that means that we do not have to return to talking about the mechanisms of revaluation going forward?

10:30

Professor Bell: I would certainly go along with that. On the house price volatility that I talked about, once we have the information, it is always possible to put a brake on that. We could average the previous five years, for example—we could make the case for taking that kind of action. However, if we do not have the information, we do not know what kind of volatility there might be in the local tax base. Therefore, the first step is to collect the information, which I hope would mean your not having to come back regularly to discuss council tax bands, as I have done for decades.

The Convener: Indeed, Professor Bell.

Professor Kerley: There are parallels that are more germane than the academic one. Regular revaluation and reassessment is now a feature of many different aspects of life. For example, we would not have our current concerns about defined benefit pension schemes if it were not now possible, virtually daily, to revalue defined benefit pension schemes and their probable deficit. It used to be the case that the people who ran superannuation and pension schemes revalued every year or so, or every couple of years; they did not have access to information that would show, for example, that a deficit had suddenly gone up by £85 million. The more we know, the more we are aware of variation and change. However, it is better to know than not to know.

The Convener: Thank you. Do you want to add anything Professor Gibb?

Professor Gibb: Yes—just a couple of brief points. A point that David Bell made and that I made in my submission is that one of the arguments in favour of property taxation is that it might be a corrective tool to smooth volatility in house prices. That is one of the reasons why many people support a property tax, if we get the design right.

In the past in the UK, under rates, we had a statutory basis for regular revaluation of our property taxes. However, we had a terrible record of implementing that, both in Scotland and in England—it was particularly the case in England, but we were not much better here. That is a problem that exists all over the world, but Britain was particularly bad at it. We would therefore need a belt-and-braces statutory approach to regular revaluation, although problems might still occur.

The Convener: Thank you. Alexander Stewart wants to come in.

Alexander Stewart (Mid Scotland and Fife) (Con): Thank you, gentlemen. You have touched on many aspects of revaluation, which is a major problem for us as we go forward. If we do not have the short-term and long-term financial planning that is required, because of the revaluation situation that we find ourselves in, that makes it virtually impossible for some local authorities to manage the process of trying to assess where they will be in five or 10 years' time, as they do not have the flexibility to look at what could, or might, be achieved as they go forward. I would like your views on that.

The Convener: Who would like to take that one? No one is making eye contact with me, Mr Stewart. Oh, I think that Professor Bell might have done so.

Professor Bell: For any public body, long-term planning is a major benefit. In the UK in general, we suffer from a short-term view of the world that does not help public bodies to plan. The root cause of that is probably our annual UK-level budgets, which then cascade down to the Scottish Government, down to local authorities in Scotland and so on. That is on the grant side, which is the more important side of local authority income. Therefore, local authorities cannot be sure about that element of their money over the medium and long term. As I said, that is a function of the somewhat peculiar way in which we approach budgeting in the UK.

As far as planning tax revenues is concerned, there are three things to consider: the housing stock, which is probably predictable; the valuation of that housing, which is open to some kind of volatility, but should be mainly stable; and the decisions that the council or the Government might make about whether the council tax rate will go up or down.

I suspect that, on the council tax revenue side, a key issue over the medium to longer term is local government being clear about where the division of responsibility between local and central Government will lie. That has been a bit of a moving target in recent years and, with direct intervention in school funding, it now appears to be moving again.

Professor Gibb: That leads to another source of volatility and to the question—that I must admit I am still slightly confused about—of the possible localisation of income tax receipts to local government. David Bell mentioned the volatility of house prices affecting the tax base, but that is probably less important than the volatility of income tax receipts.

There are a range of other questions about localising income tax receipts in relation to competition, displacement across local authorities and the approach being of particular benefit to richer local authorities. Those are other sources of volatility that would impinge on the ability to plan and would create a much more defensive approach.

The Convener: We will have to move on from revaluation as we have spent quite a lot of time on it. Mr Simpson, do you have something to add?

Graham Simpson: Yes, it was just a follow-up to Professor Gibb, who said that Britain is almost alone in the world in having property bands. What do other countries do?

Professor Gibb: They have a schedule of rates, but they tend to set a given rate at a local level or combine it with some other rating level. In a broad sense, a given local authority would set a tax rate each year and apply that to properties. They would then have a whole series of ways of discounting, supporting and assisting people, so it does not follow that everybody would pay the same tax rate—there would be discounts and so on. It is more like the notion of a discrete tax on a discrete property that Richard Kerley talked about.

In essence, that is how the domestic rate system worked: there was a valuation and a tax rate set by the local authority or combined local authorities—the region and the district. That is what is in my mind, but it can be done in a range of ways. Apart from the Irish, I do not think that anyone would set a whole schedule of bands and locate properties into those wide bands.

The Convener: I want to move on from revaluation but does anyone else want to speak about it?

Kenneth Gibson (Cunninghame North) (SNP): I just have a wee point on that. A rolling average of valuations over five years would surely help to smooth out volatility and, at the same time, introduce greater fairness to the system.

The Convener: Not an average as such but a rolling average.

Professor Bell: It would give more predictability of tax revenue for local authorities as well.

The Convener: That is helpful.

We started by asking whether the proposals that are before us are fairer than those that we are moving away from. Each of you said that they are a bit fairer but that everything is relative in life and that this is not where you would like to see fairness moving. I think that that is a reasonable summation.

On fairness, do you take into account the council tax reduction scheme? I get the fact that

we have to look at the practicalities of how that will work, but is that fairer and—given how the moneys are to be used—more redistributive? If the £100 million that is raised across Scotland is to be redistributed to areas of particular deprivation across Scotland, some would argue that that is a fair approach to take.

From the Scottish Government's website, it appears that the distribution is likely to be based on free school meal entitlement. Taking that £100 million by and large from wealthier households and targeting it at some of Scotland's most deprived communities would seem to be fairer, too.

I am trying to tease out the bigger picture with regard to the proposals that are before us, the council tax reduction scheme proposals and potentially—we are, of course, waiting for more details from the Government—the redistributive aspect. In that context, I would appreciate some comments on how fair or otherwise the approach is.

Professor Kerley: I will kick off. I am not entirely clear about how what was proposed has been amended and about what is now proposed. The fundamental that we need to take account of is that although we can—and do—categorise some areas as being more deprived than others, and although we can go right down to the 6,000-odd small data zones, an awful lot of people who are poor or are on low incomes live in areas that are not defined as being deprived data zones, and vice versa. There are poor people who live in more privileged areas and more privileged people who live in areas that are characterised as being poor.

If free school meals are used as a mechanism for redistributing to, say, a particular school, unless the support is channelled to the children in that school who receive free school meals and are by definition from a low-income household, it is not clear how targeted fairness will be achieved. The scheme might generally favour a particular school. I know Edinburgh best, because I live here, and I recollect that recent data from the City of Edinburgh Council suggested that the proportion of children who live in poverty in the area of Morningside and Merchiston, which by any account is relatively prosperous overall, is still about 15 per cent, compared with the 30 per cent of children in some of the far more deprived areas.

A complicated chain of causality takes us from the question, "What do we do with that money?" Personally, I think that redistribution to more deprived areas has a lot to be said for it, but it is not easily done, and I am not clear about how what I think is being proposed will achieve that.

Professor Gibb: I will make two points. First, there is a problem with criteria. Given what

Richard Kerley just said, targeting and using the free school meals measurement as a means of redistributing and allocating funds might be fairer, but there is the other criterion of local autonomy, which is clearly being reduced if the money is being allocated by central Government directly to schools. It could therefore be argued that an alternative means of redistribution is to give local people the power to make such decisions. That is a different way of thinking about the issue.

As for the council tax reduction scheme, for people in higher-band properties who already receive the reduction, that money will simply pay the extra that they need to find. There is a group up to median income level that does not qualify for council tax reduction; as David Bell has said, that is quite an extension of means testing. I admit that we are talking about a low threshold—the 20 per cent taper is much lower than many of the other tapers that apply in means testing—but it brings in many more people, which I guess many people will be concerned about.

I mentioned take-up, which is already low for the scheme. There are concerns about whether people will take up the support, and the question therefore is whether the proposal is as progressive as it might be or whether there is a more direct means of addressing the issue.

10:45

Professor Bell: The council tax is a mixture of a tax on place and a tax on households—or, I should say, it relates to both place and households. As Richard Kerley pointed out, if we go down to the lowest-level data zones, there are zones that might be classified as poor but which have households that do not necessarily meet the council tax reduction criteria.

In relation to where the decisions are being made, I guess that if we continue to redistribute there will come a point at which incentives for richer areas to increase their tax revenues will decline, so there is a question about how the approach might affect the richer local authorities' willingness to strive for more income.

Ultimately, we are not very good at measuring the effectiveness of the money that is redistributed to schools that have a high proportion of pupils who get free school meals. That has been a long-running problem. Our information on Scottish education is not great, and it is pretty difficult to track down the evidence that such spending really works.

The Convener: The approach appears to have the potential to be redistributive. However, Professor Kerley said that 15 per cent of kids in Morningside would be deemed to be in poverty—

Professor Kerley: Approximately 15 per cent.

The Convener: Approximately. If the figure is 13 per cent, we will not haul you over the coals.

The issue is how we realise the potential to redistribute to support the most vulnerable young people. That is about having a mechanism whereby a school, a community or a local authority has a say in how the money is directed. I understand that discussions are going on with the Convention of Scottish Local Authorities on how that might happen. Do the witnesses have thoughts on how it should happen?

It looks as if we have no takers, so I will bring in Mr Wightman—[*Interruption.*] I am sorry; Professor Kerley has something to say on how that mechanism should happen.

Professor Kerley: I do not have thoughts on that. I am not being facetious when I ask exactly what local authorities will be implementing from April next year. Will they be redistributing something in the order of £100 million to particular schools? I still think—I might be wrong—that the only way in which the Government can effect that change in short order is by simply reducing central grant and assuming that local authorities will generate additional revenue, with the Government then redistributing the money to particular schools in a particular manner. However, I am not at all sure that Victoria Quay has the capability to do such an exercise.

Andy Wightman: Non-domestic rates are, by statute, collected by local authorities but pooled nationally and redistributed. Everyone knows that, and a city such as Aberdeen complains because it has a relatively high tax base but never sees all the money coming back. I understand that the council tax reduction scheme is funded from Scottish Government funds, so its redistributive effects are generated by the Government, Scotland wide.

The problem with redistributing council tax income is that we are redistributing someone else's income. It is one thing to have a redistributive scheme that uses one's own resources or indeed resources that, by statute, have been called in—that is, non-domestic rates. However, it is another, more problematic thing to do that by—for argument's sake—stealth because there is no statutory proposal to do it. Is it fair to say that?

The Convener: Our witnesses are nodding their heads, rather than commenting.

Professor Kerley: This is a bit like a police interrogation. I will say yes.

The Convener: I will not shine a light at you.

Elaine Smith: I will ask Professor Gibb about something that is in his submission—I am not picking on you, Professor Gibb; I will come to Professor Bell in a second. You said:

“while ending the freeze and giving councils back the power to charge full council tax on second homes provides more discretion locally, this is offset by the implementation of ring-fencing the extra £100 million to a national government priority.”

Professor Bell pointed out in his submission that “local authorities have lost control of fire and police services in recent years”

and that

“Direct intervention by the Scottish government in education funding would seem to further erode local authority policy options.”

I will explore ring fencing a wee bit further. As Professor Kerley said, I do not think that we are clear on how the distribution might work because it seems that, if the authorities raise the tax, the Government cannot take it, although the Government could perhaps lower the grant to offset that rise and so have funding to redistribute. I certainly would not argue with redistribution.

My understanding is that ring fencing is used for a Government policy and involves extra money. For example, in the past, the Government wanted respite care to be provided, so it identified and provided extra funding and the local authorities were the agent of providing that. The current approach seems like reverse ring fencing in a way. Can I have comments on that?

Professor Gibb: The way that I would put it is that local authorities will not have the power to use as they see fit the extra £100 million that they raise as a result of the higher weightings on the bands. That is the bottom line. In that sense, the money will be ring fenced and taken out of their control. Maybe “ring fenced” is the wrong phrase, but the point that we are making is that it seems that councils will not have control over that extra resource, which goes against the spirit of the relaxation of the freeze. It is only a partial or capped relaxation of the freeze, which seems inconsistent with the idea of giving back to councils the power to set full council tax on second homes. The Government seems to be pulling one way and the other.

Professor Bell: I agree that that seems to be pulling back. As I said, it seems at odds with the consultation about localising income tax collection.

The Convener: Can I check something? I remember that, back in the day when I sat on a predecessor local government committee, we looked at what was called the fairer Scotland fund. That was ring-fenced money that local authorities had for a suite of priorities that had been agreed with the Government. The money was then

mainstreamed into the core local authority settlement so that authorities could in theory spend it on what they decided to spend it on. I hope that I have the name of that fund correct.

Are there other examples of the Government directing funds, whether that is ring fencing or otherwise, so that local authorities must spend the money on something? Has there been a relaxing of ring fencing in some respects elsewhere? I want to get a balance, so I gave one example, although it might be the only one. Are there other examples of a withdrawal or rolling back of ring fencing in local authority funding?

Professor Bell: I am delving right back into my memory, but I recollect that, historically, there was more ring fencing than there is now and that COSLA and local authorities objected to the reduction in councils' freedom to act as a result of ring fencing. The Government agreed with that and there was a roll-back on ring fencing.

Professor Kerley: I can give a couple of relatively small examples that illustrate the difficulty of ring fencing and the question whether it is desirable. First, a number of locations in Scotland were given money from what I think was called the cities fund. In general, that was spent on rebranding exercises for various cities. Members who know Aberdeen will recall the phrase "Aberdeen City and Shire". Edinburgh substituted the strapline "The Festival City" with an expensively designed set of lines that were meant to represent bridges. I am not good on design, but they did not say bridges to me. That money was washed out the door. I forget of what order it was, although it was not a great deal, but by its nature ring fencing is indiscriminate about the value. It is just about saying, "Here's a chunk of money—spend it this way."

More seriously, as part of the recognition of poor health conditions throughout Scotland, local authorities were at one point required to appoint health liaison or health promotion staff—I do not recall what the title was. The authorities were given ring-fenced money to do that and they all did it. However, the money ran out at the end of three years and most of them quietly terminated the appointments.

The last time that I spoke to anybody in NHS Health Scotland, only about four or five such posts or units were surviving, because the local authorities thought that they were not a particularly effective means of spending money to achieve an objective that we all agree on—they thought that there were better ways of achieving it.

The Convener: That point is quite important for balance. We can raise concerns about the direction of additional funds nationally for local authority funding and ring fencing. Over the past

10 to 15 years, there has been a move away from ring fencing in some circumstances.

Kenneth Gibson: As I recall, the historic concordat of November 2007 abolished 60 ring-fenced funds.

I want to look at where the £100 million is going to come from and by what mechanisms. The figures from SPICe say that, for example, the City of Edinburgh Council will raise £15.6 million of that money whereas Dundee City Council will be able to raise only £1.4 million. The Scottish Government has said that the £100 million will be hypothecated for education. If we assume that the mechanism for redistributing that money—because the council tax revenues are not going to be shifted around—would be the grant formula, we can assume that City of Edinburgh Council will get significantly less than £15.6 million and Dundee City Council will get significantly more than that.

At the same time, however, the Scottish Government appears to have said that no local authorities will be any worse off. That seems to be a rather strange statement. One would assume that, if the City of Edinburgh Council were able to keep most of its £15.6 million in another format but in Dundee the additional money was going to schools—less would be going to schools in Edinburgh—the City of Edinburgh Council would have additional moneys for the non-hypothecated funds and Dundee City Council would have less. What is your understanding of that?

Professor Kerley: David Bell will answer for us.

Professor Bell: I understand the point, but I am not sure that I have a clear solution. Might it be that, in respect of Aberdeen, although income is being gained overall as a result of this—the council will get its £10 million or whatever—much of that money will be taken away through the grant. However, not all of it will be taken away, so it might be argued that Aberdeen will be no worse off—does that seem plausible? Dundee will get considerably more than the additional money that it raised domestically because its grant will be increased. It seems to me that there will be a complicated set of steps to be taken to ensure that no local authority is worse off. Councils will get a stand-still budget at least, which is what they would have got had the ratios not increased.

Kenneth Gibson: I am making the point that, although local authorities may not be worse off in total, if one local authority gets significantly more in its education budget, it will have to make significant reductions in other areas of its budget, whereas if another local authority does not get all the additional money that it has raised in its education budget, it will see a significant increase in the money that it can spend in other areas. Is

that not a concern and something that the policy should try to avoid?

Professor Kerley: I think that I hear what you are saying, Mr Gibson. A local authority does not have an education budget. If you think of this as ring fencing, which it is, this will be the only element of an education budget that is predetermined before anybody starts working through it—nobody does zero-based budgeting, although they pretend to—and the only element that somebody will have to write into the budget. Compared with the total education spend in every local authority, the suggested figure is a relatively small amount of money, and a local authority can make choices about what it puts into its budget and identify this as a part of what it is doing for onward redistribution to some schools. We would need to work our way through what proportion of the children in each school and across the authority as a whole were entitled to free school meals before we would see any kind of correlation. Different aspects of local authority data often do not correlate well.

11:00

Kenneth Gibson: I think that you are making very complicated something that is straightforward. Edinburgh is going to raise £15.6 million.

Professor Kerley: It is not going to get £15.6 million.

Kenneth Gibson: It is not going to get £15.6 million for the education budget, but it is going to have the same amount of money overall that it has raised. Surely that puts additional pressure on other local authority services in local authorities that get more than they are raising in funds to spend on education through this hypothecation.

Professor Kerley: Yes.

Kenneth Gibson: Is that something that you think should be done or should not be done? That is what I am trying to get clarified. In other words, do you think that that money should be additional and hypothecated to education but recirculated across Scotland, or should it be that no local authority is worse off? That would mean that the non-schools budgets would indeed be worse off in poorer areas.

Professor Kerley: I do not think that I can answer that, other than to say that the general principle is that it should be a matter of choice for respective local authorities to determine what they spend their money on, which is conditioned by legacy and by the circumstances within the local authority and surrounding authorities. For example, Edinburgh spends significantly more on

culture than do the surrounding Lothians authorities.

Kenneth Gibson: Indeed, and Edinburgh gets more income from that as well. However, if there was no change in what is proposed, it would mean that the local authorities that are already more prosperous would become even more prosperous and the gulf between them and poorer authorities would widen rather than diminish, which would of course be the reverse of what the policy is trying to achieve.

The Convener: Can I just check something for clarity, Mr Gibson? My understanding is that it has been intimated that the reason why local authorities will keep all the cash that they raise from the £100 million is that there is no mechanism to take council tax revenues off local authorities in the first place. Therefore, by definition, if it is £100 million of additional money, no local authority can be any worse off and it is the distribution formula for money coming from the centre and going either into revenue budgets or directly to schools that we need more information on.

Kenneth Gibson: Yes, that is the thing that would have to change.

Professor Kerley: That is a good point, convener.

The Convener: I was just making sure that I understand matters fully.

Alexander Stewart: Following on from what you just said, Professor Kerley, the individuals who are going to receive the bill that tells them that they are going to pay more tax might well assume that it will go to services and facilities in their area. However, that might not be the case under the circumstances that we have discussed. With regard to the council's control and management of that situation, there will potentially be a tension in the whole process. There is also the situation that Mr Gibson was talking about, whereby there will potentially be winners and losers among local authorities. The timescale that we have for addressing all that is quite tight. How do we square that circle?

Professor Kerley: Um—

The Convener: Professor Kerley—you broke ranks first.

Professor Kerley: That is not my problem.

I think that there is more than one circle to square. First, there is the proposed reform of redistribution and relieving that is in the order. As you know, there are local authority elections occurring in May next year. There will not even be a three-month period between that time and when the decision will be taken on council tax levels,

which will have an impact on households and will have to take account of the re-proportioning. I think that there will be an enormously frantic rush during that period and there will also be a lot of extremely heated, angry meetings in church halls and school halls the length and breadth of Scotland. Given the distribution of property assets, which I referred to, it might be less frantic in some areas than in others, but even in areas that might otherwise appear to benefit, it is going to be problematic. I am not technically able to know whether all the necessary different decisions can be made and implemented in time.

The Convener: Does anybody want to add to that?

Professor Bell: I suspect that Professor Gibb may make the same point as this: how will we contact all the people who may be eligible for additional council tax reduction between now and the date when the council tax bills go out? I am not clear how those people will be identified.

The Convener: That has been a recurring theme in the evidence this morning. Professor Gibb, you have been namechecked. Do you want to add anything?

Professor Gibb: I would just say what he said.

Graham Simpson: All that we have in front of us is a Scottish statutory instrument to increase council tax across the country in four bands, which is being imposed by the Government. We have talked about a whole set of assumptions, but we do not know what will happen to that money, because nobody has spelled it out. We assume that it will go to education and that free school meals might be a factor in its distribution, but we do not know how it will be distributed or how the Government will get the money from councils. Should the Government have got its act together and got its story straight before it introduced the SSI?

The Convener: There are a lot of things that apparently we do not know. Do we know some of that? If we do, could you be clear about that and about what the unknowns are? We will ask the Scottish Government about the things that we are unclear about during our consideration of evidence.

Professor Bell: Clarity on the mechanism for distribution is important, and I must say that I was not entirely clear how it would be directed. Following on from the discussions that we have had, I guess that we want to know how the grant from the Scottish Government to the local authorities will be adjusted. As we know, the Scottish Government has no power to take away the additional council tax revenue from local authorities; it will all come through the adjustment. What is the exact mechanism for that adjustment?

Professor Gibb: There is a question as to whether this is the end of the story. Is further local tax reform in the offing, or are we stopping at this point? There has been some discussion in political circles that this may not be the end of the process. That is a real uncertainty. Ceasing the reform process now would seem fairly disappointing in some respects, after the work that has been done and because of the things that we have been saying about the SSI. That is an important issue to consider and put to the Government.

The Convener: That is helpful. To clarify, you think that the two aspects on which we need more information are the distribution mechanism for the moneys raised and the impact of grant adjustments. It would be good to have more information on those two things.

On whether the reform is being imposed, the Scottish Government was pretty clear that it was going to happen: it was in its manifesto. I do not think that there was a lack of awareness among the public that it would happen. In addition, it is pretty clear that the money will be spent on education. Am I right in saying that that is all public information?

Professor Kerley: That was why I chose not to answer Graham Simpson's question in the way in which he couched it. Governments make decisions because they have the votes to make them—that is life. The other factor of which we are unaware is the extent to which different local authorities will themselves propose to use their reintroduced freedom to set a higher rate of council tax across the piece. If you look at the overall figures, you see that, next year, the highest-banded properties could be looking at an increase of 25 per cent, which is a direct consequence of a freeze over several years. In every setting in every country, when an otherwise rising price level is frozen for a number of years, there is a huge jump upwards when a change is made.

The Convener: That is helpful and it leads us to our next topic, which is the 3 per cent cap on the increase in council tax. First, however, I will bring in Andy Wightman, who has a supplementary question.

Andy Wightman: I want to follow up on public information and awareness. Notwithstanding what the convener said about the words in the Scottish National Party manifesto, I am not sure that 2.4 million households appreciated them or indeed appreciate what the changes are. I am getting constituents in band D properties that are worth less than band B properties writing to me, and of course they will not have any success in appealing.

What is your sense of what we need to do about—or indeed how the public might respond to—the fact that the multiplier will be in place by February or March next year and a new rate will possibly have been applied but the public will not be terribly clear about why their bills are rising?

Also, we have evidence from Les Robertson, who will be on the next panel this morning, that states:

“Local Government will not be in a position to accept applications to reduce the charge until after the annual billing process”.

In other words, new council tax reduction eligibility will have to be applied for retrospectively. There is potential for quite a bit of muddle among a significant number of people. How can we mitigate that?

The Convener: There is a lot of wringing of hands going on among our witnesses this morning.

Professor Bell: I think that it is between social media and a TV advertising campaign. It is a serious point. People will get a shock because they have been used to getting flat bills for almost 10 years, and all of a sudden bills will hike up quite a bit. The Government needs to put its mind to getting the information out. I am not the best person to advise on that, but it needs to work both on the straight increase in council tax bills and on council tax reduction. Applications for that will be made retrospectively, but the Government has to get the information out there so that people can gear themselves up and think, “My income is a bit higher than the level for the old council tax reduction, but it qualifies under the new scheme.”

Professor Gibb: I suppose that the short time horizon creates an opportunity to get out a lot more information about the reduction scheme than would probably have gone out otherwise. Perhaps things such as ready reckoners could be provided as an easily accessible way for people to get a sense of what their gross income for benefit purposes actually is. A lot of useful work has been done in that regard on housing benefit over many years, so I am sure that the Department for Work and Pensions will have information on such things, which can help to get people over the first hurdle of thinking about whether they should be applying.

Professor Kerley: The introduction of an enhanced form of mitigation for some households—it is not a large number—raises a lot of questions about how people will be made aware of that. It strikes me that, unless we are incredibly intrusive into individual households, there has to be a sheep-dip model of awareness—that is, press and television advertising, and possibly social media advertising. However, I am not at all sure where the payment for that will come from, or

about its form. I assume that it will rest with the Government because it is a countrywide arrangement and we want a common, similar message to go out countrywide in various forms. That cannot be a cheap exercise. I do not mean “cannot” as in “should not be”; I am questioning the cost, which is going to be a few million.

The Convener: A recurring theme throughout your evidence has been how we get the message out there about the council tax reduction scheme and how we ensure that those who are not already in the system and getting it can apply for it.

It was said in answer to the previous question that households across Scotland have been used to static council tax bills for many years and that that is going to change. The Scottish Government has said that there will be a 3 per cent cap on councils’ ability to set the council tax at a higher level. Do you have any thoughts on how that will work?

Professor Kerley: I think that each local authority will start from the presumption that they will try to hit the 3 per cent figure, or 2.99 per cent—whatever is achievable. That must be the modelling that is going on, at least from the conversations that I have had. There will of course be political decisions to be made in councils about whether to do that or whether to try to get the lowest increase of any council in Scotland; that is how budgetary decisions and processes emerge in different councils, whether majority—of which there are a few—or shared administrations. It is a trade-off; I reckon that most of them will go for the near 3 per cent figure.

11:15

The Convener: I suppose that I mean to ask how the Scottish Government stops a council setting an increase of 4 per cent—how is a cap enforced? My apologies for not making that clear.

Professor Kerley: The Government can reduce grant by individual council. We have discussed ring fencing being abolished in the historic 2007 concordat; we forget that the so-called freeze of council tax was ring fencing of Government money; it was an incentive to not increase the council tax, because the Government has no statutory powers to freeze council tax across Scotland. It can, however, act against individual authorities.

The Convener: This is, therefore, the reinvention of the £70 million that local authorities got each year in their revenue grant to encourage them to set a zero per cent tax increase each year. Some mechanism around that is what you anticipate.

Professor Bell: I would just add that, given the state of the economy at the moment, that will probably mean an increase in the real burden of council tax, as not many households are seeing their income increase faster than 3 per cent—or even as fast as 3 per cent.

The Convener: A couple of bids have been made for supplementaries.

Elaine Smith: My supplementary is slightly wider.

The Convener: In that case, I will call Andy Wightman first.

Andy Wightman: The last time there was rate capping was in the 1980s; it was statutory under the Rates Act 1984. Is there any merit in considering a statutory rate cap if that is what the Government wants to achieve?

Professor Kerley: The legacy of the rate-capping legislation, which I was subjected to as a councillor, is at the root of the incentive payment to hold council tax steady. The amount of council tax substitution money—about £70 million—was in my calculation, back in 2007, roughly in the order of what a court would have considered to be a reasonable increase of roughly 3 per cent. I do not favour a statutory cap; it can be achieved in other ways. I would personally not seek to do it, as think it can and will be achieved in other ways. It is an extremely messy exercise. Last time around, 20 or more years ago, it was hard work for everybody involved.

Professor Gibb: On the other side of the coin, if there are not open transparent mechanisms, there are negotiations between the likes of COSLA and the Government that go on for a long time. We do not necessarily know what is going on in those negotiations; there is a lack of transparent formality. I am not saying that either outcome is the desirable one, but a more open way of dealing with this would be better than a less open one.

Elaine Smith: We are looking at statutory instruments, as my colleagues pointed out, to tweak the bands, and that is what this committee has to report on. It would be hard to argue against doing that; I think that everyone has said, including your evidence today, that it is a slightly fairer way to do things. However, my final question would be this: given that, as Professor Bell mentions in his submission,

“The Scottish Government’s proposals for changes to council tax do not significantly address the concerns with Scotland’s local property taxes raised by the commission on local tax reform”,

why has the Government decided not to implement the commission’s approach and decided instead to tweak? Obviously, I understand that I am asking for your opinion about that.

Professor Kerley: I have my views, but I do not have an opinion on that.

Professor Bell: I do not think that I will pick that one up either.

The Convener: Professor Gibb, do you have a view or an opinion?

Professor Gibb: Only what I said in the written evidence—I do not think I need to repeat that.

The Convener: As we draw the session to a close, it might be worth noting that there is a debate tomorrow afternoon by the Scottish Parliament about local authority funding, so I suspect this will run and run—this is not the end point—and all three of our witnesses will be back in front of us before too long to give us their valued views in the next round of changes.

11:20

Meeting suspended.

11:25

On resuming—

The Convener: We continue with agenda item 1, which is evidence on the draft Council Tax (Substitution of Proportion) (Scotland) Order 2016. I welcome our second panel of witnesses: Joan Hewton, Scottish association president and assessor for the Lothian valuation joint board, and Les Robertson, chair of the Scottish revenues and benefits forum and service manager (revenues) for Fife Council, both representing the Institute of Revenues, Rating and Valuation; David Thomson, Scottish Assessors Association; David Melhuish, director of the Scottish Property Federation; and Don Peebles, head of the Chartered Institute of Public Finance and Accountancy Scotland. I thank all of you for coming along this morning. I understand that three of you wish to make short opening statements to set the scene before we move to questions. Joan Hewton will make the first opening statement.

Joan Hewton (Institute of Revenues, Rating and Valuation): Good morning, all. The IRRV welcomes the opportunity to attend this evidence session. The institute is the only professional body in the UK that specialises in the law and practice of local authority revenues and local taxation, together with the appeals, reliefs and benefits that support the process.

The institute has members in the public and private sectors, including ratepayers and their agents. Institute members are engaged in property valuation, local taxation collection, the appeals process, advising and representing ratepayers, and financial management within local government.

The institute represents the professional interests of our members who work in that very broad church. We have a well-supported and dynamic Scottish association of the institute, which seeks to effect development and change in the institute's professional sphere of interest through dialogue with key stakeholders.

The institute acts as a consultative body for Government and takes an active part in consultations, evidence sessions and dialogue as required and as appropriate. The IRRV Scotland notes that the majority of respondents to the 2015 commission on local tax reform considered that the current council tax system was not fit for purpose in its present state.

The main recommendation from the commission was that the present council tax system must end, and the predominant view was that a wholesale revaluation of the council tax was required, ideally based on regular and frequent updated valuations. It further concluded that any system should be seen as fair and acceptable to the public and more progressive than the existing council tax.

It is with that clear view in mind that we have considered our answers to the questions that were raised in the current consultation. Thank you.

David Melhuish (Scottish Property Federation): Good morning and thank you for inviting the Scottish Property Federation to give evidence. As an industry body, we have a wide range of corporate members, including developers, investors, professional advisers and so forth. Some of our members were involved in the commission on local tax reform—along with some members of the committee.

We are interested in council tax reform for two reasons. First, our members are involved across the range of property product—residential, commercial and so forth—and people ultimately occupy the properties and pay the tax. Secondly, the issue begs a wider question about local authority funding. A lot of our members work closely with local authorities in the pursuit of economic development or on planning or building standards issues and so forth, and, from our perspective, there is a general feeling that there is a resource issue in the local authority sector.

We have outlined our main points regarding council tax reform. We were for reform that is not too dissimilar to what the Government has proposed, but we agree with some of the comments that Joan Hewton has just made. We think that if you want a fair tax base, wholesale revaluation is appropriate—especially given that we are a quarter of a century on from the last one—in order to reflect the modern residential market.

11:30

Don Peebles (Chartered Institute of Public Finance and Accountancy Scotland): Good morning and thank you for the opportunity to come along and talk about local taxation. Some of us—perhaps many of us—have been here before to discuss local taxation, and I look forward to continuing that discussion with the committee this morning.

In the absence of a written submission from me, I will pick up on something that was said in the previous evidence session. It is probably important to appreciate that this is the first phase of reform. In its announcement earlier this year, the Scottish Government made it clear that the council tax would be modified, but that that would be supplemented by an initiative to link the new income tax powers to local government funding in the form of an assignation of income tax. We still await the details of that.

That wider context is important because the commission on local tax reform, which has been mentioned and which I had the pleasure of serving on, concluded that no single tax instrument could actually deliver fairness. It is therefore crucial that, in considering the statutory instrument that is before the committee this morning, we think about the wider possibilities and the issues that will be coming down the line.

In order to commence the discussion, I thought that it might be useful to set out what the Chartered Institute of Public Finance and Accountability Scotland has said previously. Its paper to the commission on local tax reform can be distilled into what I think are three fundamental points. First—and this is a significant point of principle that we have adhered to—local tax should be set and raised locally without any interference from central Government.

Secondly, we thought that the tax base should be current. What that means in practice for a property-based taxation is that there should be ongoing revaluation. I know that the issue has already been mentioned, and no doubt we, too, will come on to discuss it.

Thirdly, we thought that there was scope to enhance accountability. Two issues are associated with that. On a practical level, we thought that there was an opportunity to disengage the council tax bill from the Scottish Water bill. We are not saying that councils should stop collecting moneys on behalf of Scottish Water, but there was and continues to be confusion in the eyes of the public about the bill that they receive. Moreover—and perhaps more fundamentally—there was an opportunity, which I like to think can still be taken, to think about a wider range of discretionary tax powers for local

government rather than the one that is usually referred to and which is perhaps easiest to identify: the tourist tax. It would be useful to consider that matter, too.

Comparing those three points with what has been set out in the statutory instrument, I note that the freeze has been removed, which I think everyone will welcome. However, the instrument introduces a limit of 3 per cent, and we are already hearing the word “cap” being mentioned—indeed, I have heard it mentioned this morning. There is also no indication of revaluation, which suggests to me that the current 1991 base will be retained. Finally, on the mechanism for using local resources for national policy purposes, the proposal feels different to me, and my understanding is that this is an area where we have never been before.

As a final comment, I point out that the commission on local tax reform concluded that local tax should be a contribution to the general funding of local authorities. However, this instrument, perhaps inadvertently, assigns specific moneys in a way that is almost characteristic of a charge for services—in this case, education.

The key point that I want to get across is that a wider set of reforms is coming down the line. We do not have sight of them at the moment, and although it is right to focus on what is, at this stage, a modest set of reforms, the risk in focusing only on the statutory instrument is that we end up having a modest discussion when there are wider and bigger issues to consider.

The Convener: I thank the witnesses for their opening statements. I will invite questions from members in a second—I am sure that they will want to ask about many of the things that you have said—but I will start with a very straightforward question: are the proposals set out by the Scottish Government fairer than the current situation and, if so, in what ways?

David Melhuish: In our submission, we say that the 3:1 proportions cap, which had been imposed since the 1990s, was way past its sell-by date and needed to go. In that sense, the proposed approach is a step towards a fairer spread of the burden.

We also say in our submission that we thought that the bandings could be added to, with another couple of bands at the higher end, to better reflect the market.

What is proposed is a step in the direction of making a fairer and more proportionate system. We would not go much further than that at this stage.

Les Robertson (Institute of Revenues, Rating and Valuation): The answer is yes, it is fairer,

notwithstanding the issue of not having a revaluation, which is the crux of the matter. If we want taxation to be fair, it should reflect a property’s value now, not 25 years ago. However, overall we accept the thesis that people in the higher-band properties should pay more. That is fairer.

The Convener: Okay. The witnesses should not feel that they must answer every question—we could be here all day if that happened—but if anyone else wants to answer the question, they may do so.

Joan Hewton: I think that we probably all concur that the approach is less regressive. Whether it is much fairer is debatable, but we cannot get away from the fact that people in the highest-band houses will pay more, which is appropriate.

The Convener: While we are talking about fairness, does anyone want to comment on the council tax reduction scheme as proposed, or on how the money is intended to be spent? Let us clear that up before committee members ask about revaluation.

Les Robertson: I should comment, as a sort of expert on council tax reduction. The first thing to make clear is that everyone who currently receives council tax reduction will be protected from the changes to the ratios because of the way in which the scheme works. All the lowest-income households will receive protection. Everything else being equal, if their council tax goes up, their council tax reduction will also go up.

As I say in my submission, the estimate for the Scottish Government is that a rebilling exercise will be required for 54,000 households. We could probably accept applications in advance, but the question is how to get the details out there. The easiest approach would be to put them in with the council tax bill. It would not cost much to put an extra sheet of paper in to enable people to apply for the CTR and set out their circumstances.

As the professors told the committee, it is easy to produce a ready reckoner that says, “If your income is at this level you will qualify and not get the ratio. If you want to apply, please tick this box, sign the form and send it to us, and we will take the necessary steps and contact you.”

The Convener: I am sorry to show my ignorance. Will you say more about what a ready reckoner is?

Les Robertson: It relates to whether someone will be affected by the increased charge. I think that we have the technology to target properties in bands E to H. We can identify those properties in advance and put an insert in with the annual bill with a ready reckoner that says, “If your income is

at this level, you could be exempt if you complete the form." It is quite a straightforward way of doing it.

The Convener: Would there have to be 32 versions of the form in Scotland, or can there be a single pro forma in with every council tax bill in Scotland? The former approach seems pretty bureaucratic. Is that how things have to work, because council tax is organised locally?

Les Robertson: My view is that the Scottish Government should produce the insert and give it to councils to put in with their bills. As you are aware, council tax bills currently go out in 32 areas, and each has a different format, which is perhaps not ideal.

The Convener: Okay. We will move on.

Graham Simpson: Most of the witnesses favour a national revaluation, and we have talked a lot about that this morning. Based on your professional expertise, how difficult would it be to carry out a national revaluation, and how long would it take?

David Thomson (Scottish Assessors Association): I can speak about that on behalf of the Scottish Assessors Association, as the assessors would do the job. To some extent it is a chicken-and-egg question, so you will excuse what might appear to be a fudged answer—

Graham Simpson: Do not give us a fudged answer, Mr Thomson.

David Thomson: The length of time and the degree of difficulty would very much depend on the form. We heard the discussion in the earlier session about banded revaluations and discrete valuation revaluations. We might come to this later, but I do not necessarily see those as distinct. However, if assessors were required to value individual properties to a more or less exact value, that would be a far more difficult task than doing a banded exercise. It is quite clear that a banded exercise would take less time and resource.

In our experience, it would take two to three years to do a complete national revaluation. Exercises were undertaken during the commission's considerations. As we heard this morning, statistical elements might be introduced in the system. We have not used such statistical models, but there is scope to consider those either for implementation within assessors' offices or perhaps in partnership with the academic bodies that have been involved in property analyses to date.

The Convener: Does Graham Simpson want to come back in on that?

Graham Simpson: Does anyone else want to answer my question?

David Thomson: You asked me how long—

Graham Simpson: Yes, and you said two to three years.

David Thomson: Yes, but it could probably be done in less time with additional mass-appraisal type of resource. Obviously, that would have funding or partnership implications.

Graham Simpson: Will you explain what you mean by "mass appraisal"?

David Thomson: Mass appraisal is the general term used in the industry to describe a whole batch of data—physical attributes and sales data—being entered into a system in relation to which a series of algorithms are derived and then applied to get at least an initial valuation of properties that perhaps do not have sales evidence. If the data is captured and used properly, that should speed up the valuation process for a significant proportion of the property portfolio across the country.

As things stand, assessors have elements of mass appraisal in most of their internal systems. However, as we have heard this morning, there are advances in the appraisal systems, with new algorithms and, indeed, new systems, and those could be investigated to see how much use they could be in assisting with a national revaluation.

The Convener: Do other witnesses want to comment? Does Don Peebles have anything to add?

Don Peebles: The other element is cost. To revert to the evidence that was taken by the commission on local tax reform, the costs that witnesses indicated to the commission ranged from £5.5 million to about £8.5 million—that was the upper figure that was cited. Most witnesses to the commission indicated that the technology existed to enable the revaluation. To supplement what David Thomson said, there was no question that it could not be done.

At the moment, all local authorities are required to value their social housing stock, and that valuation sits on councils' balance sheets. Therefore, to a large extent, we are talking about private dwellings.

I again refer the committee to the commission's work on revaluation, which was based on a sample of eight local authorities. The figures that emerged make for interesting reading. The commission concluded that, politically, there would be a significant challenge in going forward with the revaluation, but as far as technology and costs are concerned, it would certainly be achievable.

Joan Hewton: Obviously, we would dearly love to see revaluation. As I said in my submission, altering the amount that we pay per band would be

a good option to start with. It would be best if we had a planned timetable. There are things that we could do in the interim. Another submission mentioned picking up alterations to properties. We have properties that have been grossly extended over a 23-year period but which are still in the band that was applied to the value of the original house. That matter could be brought in one year, with a revaluation the following year. All the while, we would be building the data.

There are various sources of evidence on discrete values. Northern Ireland valued property using discrete values—it did that in a greatly increasing property market. Between the tone date, when the valuation took effect, and the notices going out two years later, property values increased by 50 per cent. Therefore, there were very few appeals, because people all thought that their property was undervalued and so did not appeal. People do not realise that the valuation is based on the value two years earlier.

As Don Peebles said, if we are going down a revaluation route, you should look at the submissions to the commission's consultation, because there was a lot of evidence on that.

11:45

David Melhuish: The evidence is there and it can be done quickly. Registers of Scotland produces monthly mass sales data across the country, broken down by local authority; it can also do that for different bands. That kind of data could greatly assist with the mass appraisal techniques that David Thomson referred to. There are certainly possibilities. If nearly 60 per cent of properties are in the wrong band, either upwards or downwards, that should not be allowed to continue.

Les Robertson: I am not an expert in the field, but I know that some countries use self-assessment. People just fill in a form with the value of their property, and that is used. Obviously, if people are self-assessing, they can set the value too low, but that is the value that is then displayed when they come to sell the property. The committee might want to consider that.

The Convener: We have a couple of supplementaries on that point.

Elaine Smith: My question goes back to what David Thomson said at the beginning, which Mr Melhuish took us back to. If I heard Mr Thomson correctly, he said that it would be more difficult to do a full assessment of each property and easier to do a banding assessment. Will you explain how properties can be put into bands without a full property assessment?

David Thomson: We did that in 1992 and 1993. In most cases, almost a first-pass valuation is sufficient for bands. For instance, a house that is worth broadly between £140,000 and £180,000 would fit nicely into a band, so we would not need to spend any more time on that, whereas pinning down whether it was worth £150,000 or £155,000 would take extra effort. The information that is provided to the taxpayer might also have to take a different form, because we might have to provide more justification for such an exact valuation.

Elaine Smith: Mr Melhuish seemed to say that a lot of that information is already there, so it might not be too difficult to evaluate houses.

David Thomson: I treat with some caution external people who are not necessarily administrators exaggerating the ease of valuing property. As was alluded to in the earlier evidence session, what someone sees as having a value of £140,000 might be valued by someone else at £150,000 and by someone else at £155,000. The market is not a science.

To return to the evidence that was presented to the commission, statistical and mass-appraisal systems were identified as useful in a lot of instances, but they do not address large chunks of the property market or large geographical areas. There is still very much a need for intelligence to be overlaid on such apparently simple statistical modelling.

Kenneth Gibson: Given what the academics said, your response was diplomatic. I was shocked when you said that it would take two to three years to do a complete revaluation. Is that basically because of a lack of resources and staff? Were you talking about individual house values or bandings? With bandings, how long would it take to do a complete revaluation?

My next question is on a distinct issue. I asked it of the previous panel, so that saves me having to ask it in full again. It was about whether a five-year rolling average of valuations would reduce volatility. The academics seem to think so, but what is your professional view?

David Thomson: Could you remind me what the first question was?

Kenneth Gibson: Basically, you said that it would take two to three years to complete a revaluation. Was that for a system with bandings or one with individual property values?

David Thomson: Oh, yes—the question was on the timescale. The association has always taken the view that a conventional revaluation for a banded system would take approximately two years. That would depend on the breadth of the bands and so on, but two years is a reasonable estimate for how long it would take, if we

remember that a valuation has to be completed in advance of billing and that the current legislation requires draft values to be laid approximately six months before the bills go out.

Some time is inherently built into the process. We have always suggested that, for a banded system, we could complete the process in two years. A discrete approach might take us longer. As we have never done that and we are not sure how useful other tools would be, I would be reluctant to put a hard and fast figure on the period, but I suggest that it would take in excess of two years.

Kenneth Gibson: Is that because of staffing resources or is there more to it than that?

David Thomson: The issue is partly staffing, but there is also finite time in which to complete the process. There are only a certain number of skilled valuers in Scotland, no matter whether they are employed in assessors' offices or not.

Kenneth Gibson: I appreciate that.

David Thomson: I presume that a fixed number of surveyors would be wanted to sign off values.

As I said, there are time lags in the system. For instance, a house sale that is completed today will not be made public for two to three months, and that has to be transferred to the assessors for their analysis to start. If an assessor is trying to value for one point in time, they want to see a breadth of sales evidence for a period both sides of that. It is helpful to have a time lag after the point of valuation in which to arrive at values.

Kenneth Gibson: If we bring in a revaluation at some point, would it help in terms of cost to build rolling averages into the system or would that be impractical?

David Thomson: That is a completely separate question. I return to the point that the academics made: a revaluation—which is what assessors do—establishes only the base. How to charge on that base is a matter for politics or finance officers.

To do a rolling annual revaluation would not be as simple as was suggested earlier. That said, if the systems were put in place and experience was gained, the process might be implemented over a period. A charging mechanism that uses valuations over five years is a completely different structural model that I have no expertise in.

The Convener: Do the witnesses who are not assessors want to comment?

David Melhuish: I am happy to accept what David Thomson said about a revaluation not being straightforward but, if we never start, we will never redress the situation that nearly two thirds of properties are being charged on the wrong basis.

The Registers of Scotland data would get us somewhere down the line and provide a start. I was not thinking of anything other than a banded system, to be honest. Five-yearly and rolling revaluations were suggested, but I am not sure that residential revaluations would need to be done as frequently as the equivalent for commercial business rates. Every 10 years would be fine.

The problem is that, if we do not start, we have a recurring issue. Most political parties that are represented in the room have been in government somewhere in Britain at some stage, but to my knowledge—apart from the distinctive Northern Irish situation—only Wales has done a revaluation. It seems to be a nettle that there is an unwillingness to grasp, and the problem will only get worse the longer we put it off.

Les Robertson: Joan Hewton's suggestion about revaluing only the properties that have been altered is worthy of further consideration, as those records could be easily identified from planning permission and building warrants. That would involve a large proportion of the cases for which there was a significant change of, for example, one, two or even three bands. That was sort of helpful when the revaluation was done in Wales in 2006 or 2007 and is worthy of consideration.

The Convener: Joan Hewton was namechecked there—does she want to add anything?

Joan Hewton: I am always a bit surprised when Les Robertson comes in with something to do with valuation—he shocks me all the time.

For revaluation, we already have all the information from Registers of Scotland, so sale prices are married up to houses. We have all the building warrants and planning permission information, but we do not go inside the houses, because we do not have a statutory duty to survey properties in order to alter their banding. All that we can do is look at a house once it has been sold.

We have all that information and we could do such work. If, as I have suggested, we implemented the alterations first, that would help us to get our records correct at that point and would mean that people could use the appeals system to give us their reaction as to whether the records were correct. After that, we could move forward to a full revaluation.

Don Peebles: I will build on David Melhuish's point, which was absolutely right. What we are trying to do is identify the tax base. It is easy to get bogged down in the complexities of valuation and revaluation; indeed, I have seen that happen in discussions. It is not that they are unimportant, but we want to ascertain the tax base as easily and as

cost effectively as we can to enable us to levy a local tax. That is why we are undertaking the task; it is no more than that.

On Mr Gibson's question whether volatility would be smoothed out, the answer is that it absolutely would be. That can be seen from where we are; after about 25 years of no movement whatever, we would be looking at huge volatility if we were to move instantly to revalued properties.

That brings me to a report that a previous version of the committee issued in 2002. The report, which was one of the many reviews of council tax that I referred to earlier, clearly set out the legislative position on revaluation and pointed out that two options were open to Scottish ministers: they had the power to change the ratio between bands, which is what we are looking at, and they had the power to substitute other valuation bands. That committee's report made it clear that introducing or substituting valuation bands would automatically trigger a full revaluation. The modification that we are looking at today relates to the first of those powers, which raises the question whether there automatically has to be a full revaluation.

Kenneth Gibson: Les Robertson and Joan Hewton seemed to suggest that additional council tax could be levied on house improvements. I thought that the whole point of not bringing that in when the system was introduced was to ensure that people were not disincentivised from improving their properties. I do not think that it is helpful to tell people that, if they improve their house, they will have to pay an extra few hundred quid a year in council tax. Surely that would, per se, have a negative effect on improving the quality of our housing.

Joan Hewton: I have actually answered that question in my submission—

Kenneth Gibson: I know that, but this is for the public record.

Joan Hewton: I totally agree that when the legislation was brought in we wanted to encourage people to improve their houses. Under the old domestic rating system, putting central heating into a house increased its rateable value. Although it was a good decision that we fully supported, it was made in the full expectation that revaluations would continue. A five-yearly revaluation had been the norm since 1956. I accept David Melhuish's comment that housing could be revalued every 10 years, but it was expected that revaluations would be undertaken regularly. People were not supposed to be put in the wrong band for 23 years.

The Convener: I know that Mr Thomson wants to come in, but I wonder whether Les Robertson, who was namechecked, has anything to add.

Les Robertson: As someone who is not a valuer, I think that the issue comes down to fairness. If someone is paying a local tax that is based on their property's value and that value goes up, they should make a greater proportional contribution.

Kenneth Gibson: I have not done anything to my house but, if I did, I would be pretty miffed if I had to pay additional tax as a result.

The Convener: Revaluation involves political dangers on both sides of the fence. It is not a cost-free option either way.

David Thomson: To pick up on that point, I have to say that my house has been extended and I would fully expect its value to be adjusted accordingly. That said, I reiterate Joan Hewton's point, and perhaps I can illustrate it with the simple example of a small but and ben in rural Argyllshire. In 1991, such a property might have had next to no value, but by 2016, it could have been massively extended with a swimming pool, solar panels and so on. That could be taken to ridiculous lengths.

Kenneth Gibson: Perhaps that would be a rebuild.

12:00

David Thomson: The example illustrates the absurdity of the current situation, in that not insignificant numbers of houses have changed substantially. In those circumstances, it seems only reasonable to have some redress.

The Scottish Assessors Association has always understood the incentive element of not taxing improvements, which is why we have suggested that there could be a five-year delay or a delay until the next revaluation or even the start of the next financial year to allow people to plan. There are myriad ways of implementing a system whereby someone might move to the correct band in due course without it being deemed to be an immediate penalty for property improvement.

The Convener: At some point, we have to move away from revaluation and on to another topic, but Mr Peebles wants to add something.

Don Peebles: The exchange that we have heard is not untypical of those about council tax. I am sure that all of us have been involved in such exchanges at some point or another.

It is important to remind ourselves—I apologise to those who have already done so—that the council tax is not a perfect system, so we cannot have a perfect discussion about it. History tells us that it was a rapid solution to a political issue. It was hastily designed at a certain point. It has worked for more than 20 years, but it was a

compromise between a property-based system and the maintenance of a partly personal-based system. That has been compounded over the years by the type of issue about which we have just heard as well as by the lack of revaluation.

The Convener: The order that is before us does not refer to revaluation but, for many people, that is the elephant in the room in relation to developing the local taxation base in the fairest possible way. Although the Scottish Government is not considering revaluation, is there a case for it working with its various partners on what a revaluation system would look like and considering potential structures for it? There would then be a political decision about when to implement revaluation.

Most important, as we said to the previous panel of witnesses, whatever that new structure looks like, should it be designed in such a way that, in five or 10 years' time, we are not having exactly the same arguments? Should we future proof it so that, as long as the council tax exists—for the next 10, 20 or 30 years—the structured statutory system of revaluation is in place and we move on?

Although we are not scrutinising revaluation under the order, we can still draw things to the Government's attention, so what would you like us to draw to its attention in relation to revaluation? Should it include that suggestion?

Joan Hewton: The key thing that we would probably all ask the committee to do is to examine the report of the commission on local tax reform, which was a cross-party body. Like the committee, the commission managed to steer a course through difficult waters and to come up with a reasoned report and proposals for what should be done.

Revaluation must be in statute, whether it is to happen every five, seven or 10 years. If it is in statute, it can be delayed, as was done with the commercial revaluation but, if it is not in statute, no Government will ever take the fated step of implementing a revaluation because, by the time the revaluation came into play, the party could have moved out of government. It can cause a lot of angst, which is why good cross-party support is needed to go forward.

David Thomson: I reiterate that. As Joan Hewton commented earlier, revaluation would help us as administrators, as it would be a step on a scheduled path to something new. An opportunity would be missed if there was not a greater reaction to the commission's report, and it might even be more publicly acceptable to make steps towards what the public might perceive as a more progressive and fairer tax. A clear timetable for the way forward to a more robust system would be welcome.

David Melhuish: I agree with that suggestion and with the comments that David Thomson and Joan Hewton just made. There are examples from other countries of a not-too-dissimilar size of some of the techniques that David Thomson outlined, which it might be worth the Scottish Government looking at.

Don Peebles: Many professional groups, bodies and individuals gave evidence to the commission on local tax reform and, almost to an individual and to a body, they were clear that there is a theoretical argument for revaluation. It is unarguable, and I think that everyone who is on the panel would agree with that. Although there was some debate about the technicalities and the technology that would be required, the ability to undertake a revaluation was not in doubt—it was clear that we could do that. The barriers to revaluation are clearly political—the simple element that there would be a significant tax rise for individuals who have not seen a tax rise for a considerable period is not attractive to any political party, notwithstanding the cross-party consensus that was referred to.

I will make one technical point. The report that I mentioned earlier—the previous committee's 2002 report—said that Scottish ministers have relevant powers to trigger revaluation by using secondary, not primary, legislation, through making an order under section 74(3)(b) of the Local Government Finance Act 1992. I am sorry to be technical, but it is important to get that information across.

Les Robertson: I will be just as technical. If there were to be a revaluation, a transitional relief scheme could be introduced under section 80 of the 1992 act to smooth out any anomalies, as happened in Wales. There was a two or three-year scheme there that was based on how many bands properties went up by.

The Convener: Given that an additional £100 million a year will be raised through the higher council tax bands and given that the council tax freeze is ending and it looks as though most local authorities will introduce a 3 per cent increase on top of that, is it understandable that we are not considering a revaluation? Would moving to revaluation now be too much all at one time? Although that is not a reason not to do a revaluation, is it reasonable, on reflection, to hold back slightly? Perhaps that is a politician talking, rather than a professional. Do we just have to make it happen?

David Thomson: That approach would be reasonable if there were a road map into the future. If we knew that a revaluation was coming, we would be more prepared, it could happen more quickly and it would require less additional resource. It is not unreasonable for Governments

to take steps to make progress towards something that is probably more palatable all round.

The Convener: You want to see a road map and to see a revaluation coming.

David Thomson: Yes. Earlier this morning, there was concern about the confusion of adding a 3 per cent increase to the proportion changes. If a revaluation were added on top of that, there would certainly be a lack of clarity.

Most international property federations and experts would say that a revaluation should always be considered to be a finance-neutral step. Most revaluations redistribute and do not increase or decrease the tax take.

The Convener: Mr Wightman has been very patient.

Andy Wightman: As has become clear, the order and its accompanying order will introduce changes such as we have not seen since 1993, when the council tax was introduced. The multiplier is being increased for 2017-18, new council tax reduction eligibility criteria are being introduced and councils are being given more latitude in relation to the council tax rate. All that is going to happen in a fairly short space of time between now and April. To what extent do the public need to be engaged, informed and made aware of the changes? Constituents are already writing to me, telling me that they have properties in band E that are worth less than properties in band B. Everyone is going on Zoopla, where they can find that kind of stuff, and they are lodging appeals that will get nowhere. What public information and awareness raising do we need to do? Do you expect any problems or issues to arise as a result of people appealing their banding when they see that they are going to face higher bills?

Joan Hewton: That is one of our concerns. Although there have been media reports about the fact that this is happening, the public will not realise it until the bills hit the floor. We expect to get a lot of appeals in then. It was the same when Martin Lewis made his tranche of media attacks on the council tax system; we had literally tens of thousands of appeals coming through the door, virtually all of which—99 per cent—were invalid. Dealing with that takes up an awful lot of public resource time, but it also takes time to go to the valuation appeal committees. There are legal costs involved in that, and it takes up the time of the lay people who sit on those panels.

I urge the Scottish Government to put out good-quality communications through the press and television, and to do whatever it can to say that there is no right of appeal and that what is happening is purely a payment measure. People will see their payments going up quite considerably. This brings us back to the point

about the house next door that has not been extended; it is just going to aggravate the differential between two houses that are quite different but are in the same band, and there will be a lot of discontent from the rates payers out there.

David Melhuish: I entirely agree; it will be a shock. I have been surprised—and local authority officials around the country have been saying that they have been surprised—by how few people have been coming forward. There is probably a lack of realisation about the changes to bills that are going to happen. If we go right to the top of the banding system, the changes of more than 20 per cent will inevitably lead to a fair amount of public feedback. The Government has a critical role in communications, as do individual local authorities. However, that is another facet of having left the system alone for quite so long.

Andy Wightman: I am attracted to the notion of a road map. The commission identified lots of flaws with the council tax, such that it recommended that it be ended. It is not being ended and the flaws still exist. One that you identified and that we talked about earlier relates to redevelopments. My understanding is that an order could be laid under section 87 of the 1992 act to deal with that and to have valuations done more promptly.

A constituent wrote to me saying that they have just bought a property in band B or C. They looked at it, but they did not realise that it had been substantially altered in the 1980s. They were then lumped with a much higher than expected council tax bill, which they felt was unfair because they did not know that that was going to happen. The previous owners ended up with a windfall because they sold a property that appears to be liable for a band B or C payment and they therefore got a higher capital payment. Is sorting that out through an order one of the things that we could do in a road map?

Joan Hewton: We definitely could. On the increase in bands for properties that have been altered, I totally accept that we should not hamper people who want to alter their houses, but some alterations are substantial, so we need to address the matter as soon as possible.

I have lost what I was going to say.

David Thomson: Doing that as one step on the way to a revaluation could take some time out of the revaluation process. Joan Hewton alluded to the fact that we do not necessarily have the powers to capture the change information at present, but if we were given the power to amend bands accordingly, we would, as a precursor to a revaluation, capture the information. Dealing with extended properties—as part of a road map—

might be one step along the way to full revaluation.

Joan Hewton: I have remembered what I was going to say. We increase the band only when a property is subsequently sold, and there is even a slight delay in that. By the time we get the information about the sale from Registers of Scotland, it is two or three months later, so the new owner has probably been in the house for four months before they are hit with the information. We lobbied the Government to say that the notification should be included in the home report, but that was not taken on board.

12:15

The Convener: People who stay in houses in bands E to H will see significant increases in their council tax bills. Many of those people will be owner occupiers in the private commercial housing market. Will the increases have implications for the market for houses in bands E to H?

David Melhuish: I would have thought that land and buildings transaction tax has a slightly bigger influence. We should remember that the council tax has been frozen for a long time—I think about nine years. I think that in the most extreme cases the difference will be about £500 on a band charge that is very high. I am not saying that on-going annual occupancy costs will not be a factor for potential home buyers, but I doubt that the reforms that we are considering will lead to a material change.

The Convener: We have a little time left. Members may take the opportunity to ask another question.

Graham Simpson: Do the witnesses think that the appeals system should be reformed? As you know, people cannot appeal after six months have passed since they moved into their property. A lot of people are in the wrong bands but when they try to appeal they are told that they cannot do so. Should the system be changed?

David Thomson: There are two aspects to that. First, it is common policy even when an invalid appeal is submitted for assessors to check the banding. The assessor has power to reduce the banding if he believes that an error has been made. People have had their bands amended despite having submitted invalid appeals, when the band has clearly been wrong.

Secondly, a new occupier has six months in which to make an appeal; some people might regard that as a perfectly reasonable timeframe for someone to get an understanding of what is a significant outlay and make an appeal. All bands are publicly available, and new occupiers are notified of their band. There is a national website

that people can use to check all the bandings. Six months might be deemed to be a reasonable period for someone to appeal.

Graham Simpson: The period is reasonable if people are aware of it, but very often they are not. It might be years down the line that the banding becomes an issue for them.

David Thomson: I understand that the council tax bill includes a brief outline of people's appeal rights. Les Robertson might be able to answer better.

Les Robertson: Yes—there are statutory requirements on the content of council tax demand notices, and the right to appeal against the valuation is stated. Again, the issue is whether people read the demand notice, because the back of council tax bills are full of notes and information about discounts, exemptions, CTR, appeals, office opening times and so on. All that has to go on the bill, so I accept Graham Simpson's point.

However, in relation to what David Thomson said, it might be worth considering a technical adjustment that would prevent an assessor's having to go back to 1993 when he makes a mistake. There is an impact of rebanding on councils' income, because if an assessor finds one property in a street that has been banded wrongly, and that is identified as an error, the whole street will be rebanded. The assessor will go back to 1993, which means that councils will have to keep records from 1993. We then have all the administration to recalculate council tax benefit and council tax reduction, and then we have to try to find people who might be due money back, but have gone away. It is an administrative problem that was never picked up in the regulations.

The Convener: I must apologise, Mr Robertson, because I have identified areas in my constituency where houses were in the wrong band. As Mr Thomson said, once the assessors are aware of the inaccuracy in the banding, they look at it, even after the six-month period has passed. Of course, the health warning in that regard is that sometimes that leads to everyone's band going up rather than down, so politicians have to be careful to know their stuff before they get involved.

Kenneth Gibson: Some people who are trying to sell a property might not like to have a lower band because they might think that that would reduce the value of their property. I think that Graham Simpson was referring to an occasion when somebody finds out after a year that everyone else in their street is paying less than them. It is not that they do not acknowledge what is in the demand notice; it is that they find out that everyone else is paying less than they are for what they perceive as the same type of house. Obviously, that would be because of how the

system changes with people moving in and buying houses, and so on. However, some people might say “That person across the road has exactly the same house as me, but they’re paying in band D and I’m paying in E”, or whatever. That is really when we get the kind of issues to which Graham Simpson was referring.

David Thomson: We spend not insignificant amounts of time addressing those very issues, despite the lack of appeal rights of the person who brings such an issue to our attention. There are remedies for when there has been an error. However, we have a problem if it is about a difference of opinion.

Kenneth Gibson: Indeed.

The Convener: I thought that we were almost finished, but Andy Wightman wants to come in.

Andy Wightman: I have a brief follow-up. I will go back to my question about the volume of appeals and so on, to which Joan Hewton responded. It is my understanding that the public have a statutory right to an appeal and that there is nothing that we can do to limit the number of people who are entitled to appeal; all that we can do is try to persuade them that it is not worth their while appealing. However, because it is easy for them to appeal, although it is not easy for you to deal with, it might not be that effective. Is it correct that people have a statutory right to appeal?

Joan Hewton: Yes—people have a right to appeal. In council tax language, it is called submitting a proposal, and anybody can do it. We then deem whether the proposal is validly made or invalidly made. If it has been invalidly made, it will slide to the appeal committee if we cannot convince the person who is appealing that it is invalid. We cannot say to someone that they cannot take an appeal to the committee, because everybody has a right to appeal in a fair appeals system. All we can do is say that an appeal was invalidly made, for example because it was outwith the time limit or it did not meet the regulations. However, if an appeal meets all the regulations, it will be heard by the valuation appeal committee. For an invalid appeal, it is a long, drawn-out process and the person appealing will go before the committee and expect to have their voice heard. However, many committees will just close them down very quickly because the committee can do nothing with an invalid appeal. If an appeal is invalid, it just has to be closed off.

The Convener: Okay. I think that we are almost there now. We have a few minutes left, so do any of the witnesses want to put anything more on the public record before we close this evidence session?

Les Robertson: I think that this was alluded to earlier. There has been no mention of the fact that

we still do not have any detail on what the Scottish Government and Scottish Water are going to do with water charges. Obviously, whether people will get one bill or not, it is still unclear whether the water charges will be increased in proportion. I say in my submission that that needs to be clarified very shortly.

The Convener: That is helpful; thank you for putting that on the public record.

I thank you all for your time helping the committee to consider the Scottish statutory instrument that has been laid by the Government. We will hear more evidence on the issue in the weeks ahead.

12:23

Meeting continued in private until 12:58.

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