



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Local Government, Housing and Planning Committee

Tuesday 18 February 2025

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
5th Meeting 2025, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Meghan Gallacher (Central Scotland) (Con)

*Mark Griffin (Central Scotland) (Lab)

*Fulton MacGregor (Coatbridge and Chryston) (SNP)

Emma Roddick (Highlands and Islands) (SNP)

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Emma Congreve (Fraser of Allander Institute)

Sara Cowan (Scottish Women's Budget Group)

Professor Ken Gibb (University of Glasgow)

Professor David Heald (University of Glasgow)

David Phillips (Institute for Fiscal Studies)

Joanne Walker (Chartered Institute of Taxation)

CLERK TO THE COMMITTEE

Jenny Mouncer

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 18 February 2025

[The Convener opened the meeting at 09:33]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning and welcome to the fifth meeting in 2025 of the Local Government, Housing and Planning Committee. Mark Griffin MSP and Fulton MacGregor MSP are joining us online today, and we have received apologies from Emma Roddick MSP. I remind all members and witnesses to ensure that their devices are on silent.

The first item on our agenda is to decide whether to take items four and five in private. Do we agree to do so?

Members *indicated agreement.*

Council Tax

09:33

The Convener: The next item is to take evidence as part of our inquiry on the council tax system in Scotland. We will hear from two panels of witnesses this morning. I welcome our first group of witnesses. We have around 75 minutes for this discussion, and we have a lot to cover, so I would be grateful if we could keep questions and answers as succinct as possible.

We are joined in the room by Professor Ken Gibb, from the University of Glasgow, who is also the director of the United Kingdom Collaborative Centre for Housing Evidence; Professor David Heald, who is emeritus professor at the Adam Smith business school at the University of Glasgow; and Joanne Walker, who is a technical officer at the Chartered Institute of Taxation and works for the Low Incomes Tax Reform Group. We are joined online by Sara Cowan, who is the director of the Scottish Women's Budget Group.

The Convener: Hang on a minute—I am being passed a note. Colleagues, the first agenda item should have been to decide whether to take items three and four in private, not items four and five. Do we agree to do so?

Members *indicated agreement.*

The Convener: We turn to questions. We will try to direct our questions to specific witnesses in the first place, but if you would like to come in, please indicate that clearly to me or the clerks. That would be really helpful. Sara Cowan, please do that by typing an R in the chat function, and broadcasting will track that for us. There is no need for you to operate your microphones. We will do that for you.

We will cover a number of areas, including problems with the current system and the need for reform. We will go on to cover revaluation and the practicalities and politics of that. Finally, we will look at barriers to reform and how to address them. Other things might come up in the mix, as well.

I will kick off with a question about the problems—I was assigned that job. Despite all the commissions and the claims that council tax is unpopular, it has managed to survive for 32 years. From your perspective, what are the benefits, if any, of the current council tax system?

Professor David Heald (University of Glasgow): The first thing to say is that academics and think tanks do not have to stand for election. Generally, the problems of the council tax system have been well recognised for a long time, but there is political immobilism about it. I remember

very well what happened with the Burt committee, which was appointed by the Labour-Liberal Democrat coalition. When it reported in 2006, the then First Minister disowned the report on the day of publication.

The problems are not technical but political. The political problems have got worse because a system that is based on 1991 values is so out of date that there will be a significant number of losers with any change of policy. In essence, the policy options that have been discussed are what the Institute for Fiscal Studies call a pure revaluation, and making it more progressive by widening the amount that council tax payers with different valuations of properties pay.

Although what has to be done is clear, getting agreement to do it is incredibly difficult. That comes back to the paralysis in the UK system and in this Parliament. The constitutional issue of Scotland's future makes it very difficult for parties in Scotland to co-operate. There is no way that anything will get done about a system that is already more than 30 years out of date without cross-party collaboration. The question is whether that can be delivered in Scotland.

Joanne Walker (Chartered Institute of Taxation): From a more technical point of view, one of the benefits of having a tax such as council tax is that we are taxing a different tax base. We have a lot of taxes that tax income—they include not just income tax, but national insurance—and we have consumption taxes. Having a tax that taxes a different form of wealth and a different measure of ability to pay is worth while in relation to looking at the tax system as a whole. If you are looking for a benefit of having council tax or something of that ilk, that is what I would suggest.

The Convener: Great—thanks for coming up with a benefit.

Professor Ken Gibb (University of Glasgow): I completely agree with what Professor Heald says about politics being at the heart of the issue. One of the interesting things in this for me is that there is an onion-like set of layers of issues. There are well-trodden problems with the council tax and the weaknesses that are attached to it. There is also the fact that it is embedded in what is actually the poll tax grant and business rates system, which has its own problems and challenges and things that ought to be debated.

Sitting beneath that is the wider fundamental debate about centralism and localism, the structure of local government and who does what. In things that we have written, we have described that as a kind of Rubik's cube problem. There are a number of issues, and trying to fix one tends to mess up some of the other things. That is another reason for inertia. As I think most people would

see with council tax, over time that inertia leads to entropy and the system slowly getting worse and worse, and decaying because of that.

The Convener: The Fraser of Allander Institute has written:

"Although Council Tax is tied to property, it is income or savings that are required to pay the bill each year."

How would any future property tax get around that fundamental issue? Do you believe that it is appropriate to use property value as a measure of the ability to pay council tax?

Joanne Walker: My answer to the first question would suggest that I believe that it is reasonable to use that as a measure of the ability to pay. Obviously, there can be difficulties for some people who have a fairly high-value property that is in one of the higher property bands but who have a low income. However, I believe that, when the commission on local tax reform completed its work nearly 10 years ago, it discovered that the so-called issue of asset-rich and income-poor households was probably a lot less frequent than was imagined.

There are various ways in which the issue could be addressed. In some places, there is deferral to the point of sale of the property. Some kind of discount or reduction in the bill to take account of income is helpful, and in that regard we already have council tax reduction. However, I am not sure that council tax reduction always reaches everyone who should have it. That is an issue of awareness and of the ability to complete whatever forms need to be completed to apply for the council tax reduction. Also, there is a myriad of other exemptions and discounts available for council tax, which can be confusing. That whole area perhaps needs to be reformed and addressed to ensure that people who require the help can apply for it and receive it.

Professor Gibb: Clearly, property ownership is not a direct correlate with income, but it is an important correlate with wealth. We know that wealth is fairly lightly taxed in the UK—housing wealth certainly is. That is a separate issue, but that missing link, as it were, is one thing that makes a case for property taxation in general.

I completely agree that there are models around the world of deferral payments that work more or less well, and lots of learning from those is possible. Similarly, I agree that the reduction scheme in Scotland is imperfect and that there are issues of take-up, as there were under previous schemes. Going back to the rates system, there were issues of take-up for the benefits in that system. However, that is perfectly solvable, with effort.

We should thank our stars that we are not in England, where the national scheme was abolished and there is a patchwork of local schemes. Yesterday, the Resolution Foundation made great play of the regressive impact of council tax payments on low-income households. I am sure that part of the explanation for that is the lack of a national scheme, even if we think that it is not generous enough or whatever.

The Convener: Sara Cowan has indicated that she wants to come in.

Sara Cowan (Scottish Women's Budget Group): To give some background, the Scottish Women's Budget Group works to promote gender budgeting through the budget process and we look at how gender analysis supports decisions on revenue raising. We view the gendered impact of tax as twofold: as women are more likely to have lower incomes and to live in poverty, and regressive taxation is more likely to impact on them. Women also make greater use of public services, so we need to consider how we can raise more revenue to ensure that quality public services are available.

09:45

When thinking about alternatives to council tax, in any reforms to the current system or consideration of a new system, it is key to have a strong equality impact analysis and a strong gender analysis so that we can look at who is most likely to benefit from or to be impacted negatively by the proposed changes.

Other respondents have spoken about the council tax reduction scheme. When councils are looking to increase council tax, their equality impact assessments regularly comment that those on low incomes will not be affected because of the council tax reduction scheme but, as we have heard, the scheme is imperfect. The number of people who have received council tax reductions has reduced since the scheme was introduced. It is important that consideration be given to equality analysis in the decision-making process.

The Convener: Ken Gibb started to cover land value tax, which I am interested in. You also raised it in your communication with us. I have a broad question, as it seems to me that you have an interest in the committee going in that direction. Could you speak to that idea a bit more?

Professor Gibb: Land value tax is an option and many economists favour it in principle. It has to achieve certain thresholds: it has to be collectable and valuation issues need to be addressed. Revaluation of council tax would be greatly aided by recent technological and data improvements, and the same would apply to land value tax. Recently, I have been involved in some

research that has attempted to estimate land values for that purpose. It is not the challenge that it once was, even five or 10 years ago.

A number of economists, such as John Muellbauer, are writing about more radical reforms to council tax. They are interested in what they call a split tax, which would have an element of land value tax as well as a housing services element, that relates more directly to council services. To some extent, a land value tax would be a tax on housing wealth and the ownership of housing wealth, but the housing services tax would broadly relate to the consumption of local government services and the like. In principle, the idea has some attraction, but it seems to me to be the furthest away of all the credible alternatives. It is still quite challenging.

The Convener: Why do you think that it is the furthest away?

Professor Gibb: I think that it is politically difficult.

The Convener: Again.

Professor Gibb: Yes. Careful work needs to be done to leap forward to what might be the alternatives to council tax. There is always a series of credibility issues that need to be addressed, to do with regular, potentially annual, revaluation and to do with how people who are on a low income would be treated—what kind of deferral scheme and so on might be used. There is also a question of who the winners and losers would be and what could be done about that. Could a transitional damping scheme be feasible and credible? That was what was originally going to happen under the poll tax. The Government then turned away from the idea of double running, which would mean that one scheme would be phased out and one would be phased in, and it plunged in with an all-guns-blazing introduction of the poll tax. Deep down, I think that that is still an issue. The civil service would have to consider very carefully how such a transitional arrangement would be designed. To echo what David Heald said earlier, academics think a lot about the outcomes and what they want to achieve and not so much about the process or some of those design issues—

The Convener: Or the politics.

Professor Gibb: —let alone resource equalisation and all those technical issues.

The Convener: We will get into that in more detail in a moment, with questions from other colleagues.

I have a final question on the theme of problems. The Scottish Government recently announced the launch of a joint programme of

engagement on council tax. The Government says that

“it did not want to risk restating the work of the Commission on Local Tax Reform”.

Given the thoroughness of the 2015 commission’s work, what more research do you think is needed? Are the conclusions likely to be any different from those of 2015?

Professor Heald: To go back to something that was said before, there is a very strong argument for a local property tax—not just for the reasons that Joanne Walker gave about taxing a different base but because it would establish an accountability mechanism for local authorities to their electorates. Devolution has been accompanied by increasing centralisation in Scotland, so local authorities have been under significant pressure about their roles. According to the IFS, successive council tax freezes have led to council tax funding 19 per cent of local government expenditure. There needs to be much better public education about the role that council tax plays. A highly specific point is that people’s council tax bills include payment to Scottish Water, which is no longer a local government service. If you ask people how much council tax they pay, they will almost certainly give you the combined figure, not the figure that relates to councils. Although there are administrative costs involved, I cannot see any reason why Scottish Water should not be directly billing its customers.

My more general point is that it is very important not to let the perfect be the enemy of the good. It would be a massive achievement to get a council tax revaluation. Once one has got the revaluation and established a principle that uses up-to-date values, one can then think about further refinement. I very much commend the process that the Welsh Government has been going through. The Welsh Government consultation papers and the work that it has commissioned from the Institute for Fiscal Studies are highly impressive. They ought to create a model for what Scotland could do, because this is clearly an issue that affects all the nations of the United Kingdom. There is plenty of international experience as well; using property taxes to fund a lower level of government is common across the world, but Scotland and England are serious outliers in not getting a revaluation. I find it extremely depressing that it seems that Scotland cannot move if England will not move.

The Chancellor of the Exchequer was asked at the Treasury Committee about the prospects of council tax reform. Although her answer was very caveated, it is clear that it is not on the UK Government’s agenda for the present UK Parliament. Even if one went ahead with a revaluation now, by the time that the

implementation and transition processes were complete, the council tax base would be 40 years out of date.

The threat to local authorities is that, at some point, a Government might take council tax off local authorities and either abolish it completely or make it a national tax, further undermining the democratic accountability of local authorities.

The Convener: I want to pick up on a few things. The Welsh Local Government Association is coming to the committee next week, so it will be good to hear from it. Why is it that Scotland cannot move on this issue unless England moves? Why are we so joined, yet Wales is able to get out and do something?

Professor Heald: Essentially, it is the politics of it. The Scottish Parliament is divided on the constitutional issue. Parties compete for very much the same vote, and the constitutional issue is a dominant one. In Wales, Labour and Plaid Cymru have co-operated on this matter. The Welsh lesson is that you can set a policy process in motion, but it requires political buy-in from a large enough proportion of the members of the Parliament for it to go ahead.

The Convener: Okay. Thanks very much for that.

Joanne Walker: You asked about the engagement process that has been announced. As I think that most of our submissions agreed, the problems have been identified and they have not changed significantly over the past 10 or so years.

Engaging with and trying to get consensus from the rest of the public before you proceed is probably more about getting the political will to do something, communicating properly and being transparent with people about what it means for them, then taking them on the journey. There is a lot of misunderstanding about what council tax is and the basis on which it is charged. That is why you get complaints such as, “My bin service isn’t very good. I don’t know why I pay council tax.” Most people do not realise that council tax funds only about 19 per cent of local councils’ spending. People think that they are paying for everything with their council tax, whereas in fact they are not.

There is also an issue about talking about building the kind of society that we all want to live in and what society means. If we want a progressive tax system, that is not just about paying according to your means. If you want to live somewhere nice, it is about not just you paying for your bins, but ensuring that everybody in your local community is looked after.

Sara Cowan: I very much agree with Joanne Walker’s points—she covered some of what I was going to say. In principle, we advocate

participation in decision making—especially around decisions such as this—and in revenue raising. However, as has been highlighted, a lot of information exists and a lot has been done, especially by the commission on local tax reform, without much movement since.

In any engagement process with the public—if one is going ahead this year—there needs to be clarity around the timeframe for reform. An engagement process without genuine commitment that change will happen will waste people's time and further erode trust in the system. One of the issues raised by the local tax commission report was the need to build more trust within local government politics. If people are often consulted without any change happening, that will be part of the erosion of trust.

There was a consultation in 2023 and very little has happened since. A couple of things that stood out in the consultation responses should be considered if there is going to be an engagement. The vast majority of responses to that consultation were from people in the higher council tax bands, to which potential changes were suggested. However, there was no further information on the demographic data of who was engaging, so it is not known who was not engaging and not being heard from. There was greater support from those on lower bands for the proposed changes. The numbers were not necessarily huge, but they showed quite a marked difference. When engagement is undertaken, analysis of who is and who is not being heard from is vital, as is analysis of what other steps might be needed to hear from those who are not participating in the formal process, which Scottish Government consultations normally are.

The main point is that, without being clear about a road map for change, any consultation will be marching people up to the top of the hill with nowhere to go.

Professor Gibb: I go back to your question about a need for further research. We are talking about 10 years ago, and the housing market has moved on and changed in a great number of ways. That is meant to be captured in a general revaluation. Market structure has changed: the rental market has grown further and is very inflationary. All those things are important.

The IFS has done some really interesting work with Understanding Society about the consequences of a Scottish revaluation. The focus of that is at the aggregate level, whereas our work is much more disaggregate in the sense that it tries to look at individual properties across Scotland. However, it does not have the information on households, so you cannot do winner and loser distributional analysis at a disaggregate scale. That is one obvious bit of

research that needs to be done. If we are going to talk seriously about revaluation, we really need to understand what those disaggregated winner and loser numbers look like.

10:00

The Convener: It is good to have that made clear.

Professor Heald: There have been not only differences in the rate of property price inflation in that period, which will affect the vertical distribution, but big differences geographically between the west and the east of Scotland. Therefore, people in the east will, on average, lose out from the revaluation—that is, they will move up bands or, if it is not a banded system, their property value will go up—and people in the west will generally gain. There are very significant geographical factors and issues involved.

The IFS has not been able to replicate the geographical analysis in Scotland, because the data for Scotland is not available free of charge, but it is available in Wales and England. The Scottish Government ought to address that.

The Convener: We are hearing all kinds of good things for taking forward the issue.

We will move on to the next area of questions on the practicalities and the politics of council tax revaluation, which the witnesses have already touched on.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): My first question is for Joanne Walker. In your submission, you say that

“a property with a value at the lower end of the band generates the same tax charge as a property with a value at the higher end of the band.”

Everybody knows that, but are there any reforms that could overcome that? Would having more bands and smaller differences between bands help to address that?

Joanne Walker: In Wales, they have already added a couple of extra bands at the top end. I would caveat this by saying that I do not think that any changes such as this should be made before a revaluation is carried out, but it might be that, yes, there need to be more bands. That would not address the fundamental regression within a band as such. Also, if someone's house falls into band D rather than band C by £1 or so in value, their effective tax rate suddenly jumps quite a lot. However, for people higher up band D, it could then fall.

The obvious way of changing that would be to move away from the banding system that we have now. You could have a rate of tax rather than a charge—rather than having a specific amount that

each property within a band pays each year, a rate would apply to that property. That would make it more like the income tax scheme that we have in Scotland. For example, the band A rate could be 0.5 per cent and, for band B, it might go up to 0.55 per cent. Those are the kind of percentages that we are talking about.

There are various ways of doing reform. You could move away from a band system altogether and apply a specific percentage. You could have a flat percentage that everyone is charged. That would be based on the value, so you would have to know an exact value for each property, rather than banding them. At the moment, I know that my house is in a particular band, but no one says to me, "Your house has been valued at £X as of 1991, and that is why it falls within this band." I am just told, "Your house falls within this band."

Professor Heald: Can I come in in defence of the banding system? In 1991, I was sceptical of bands, but one advantage of the banding system was that, as experience showed, it actually reduced appeals. The revaluations of domestic rates produced increasing numbers of appeals, and sometimes those appeals were not resolved by the time of the next revaluation.

I would much prefer the issue to be resolved by having more bands and thinking about the band structure itself. If you have a straight proportional attack on capital values, it will lead to more appeals and put more strain on the valuation system. Ken Gibb has already made the point that there have been big technological improvements in data availability. Banding is a bit rough and ready, but people are much less likely to claim that their house is worth a lot less than the band to which it has been allocated, whereas they might well argue about a few thousand pounds. That is one of the practical administrative things that will have to be thought about.

Willie Coffey: Ken, do you want to enter this battle of the bands?

The Convener: Yes—ban the bands.

Professor Gibb: I have to say that I have always struggled with bands as a way of doing this. There are different levels of issue to take into account here. David Heald is absolutely right that there are issues with appeals and that, if there were a transition to a new system, it is quite hard to imagine almost any circumstances in which there would not be a large number of appeals. It is about getting there and getting started up.

My issue with the bands, though, is their arbitrary and incoherent nature. Why is most of our property in Scotland compressed into bands A to D? Why are the bands not proportional to the distribution of value as a whole? They are not, and that does not seem to make sense. Why do we

allow a system that greatly advantages people in higher-value properties when it comes to their bills relative to the increase in the distribution of value as a whole? It was just part of the political process of making the council tax acceptable to owner-occupiers voting in elections in the late 1980s and early 1990s, and it is no way to justify a tax structure.

For me, the argument in favour of taxing people according to the current value of their property is that it is the only way of doing this that is accurate and which is not opaque in some sense. There is a tremendous amount of obfuscation around the bands that we use, and I do not think that a lot of people understand the way in which value is distributed across them.

If we are talking about a revaluation that retained bands—which I would probably not be a great fan of—we will have to make all that stuff really clear. A first step would be proportionate value—in other words, if you had eight bands, an eighth of properties would be distributed in each.

Joanne Walker: I just want to come back in on that. With regard to the bands, I do not know whether the approach increases or reduces the number of appeals, but one thing that I think probably confuses a lot of people at the moment is that, although they know that they paid, say, £130,000 for their property, if they disagree with the particular band that they are sitting in, it will be very difficult for them to know what other band that might equate to. Because we have not had a revaluation since 1991, the scheme of bands bears no resemblance to current market prices. Therefore, it is very difficult for people to make a guesstimate of where their property might fall.

That might mean that some people appeal when they maybe do not have a case for appealing, but it might also mean that some people look at it, do not understand it and do not appeal. Maybe when things are more transparent, there might be more appeals regardless, because people have the information. Equally, if it is based on current values and you bought your house in the past six months, it will be a bit difficult to appeal on the basis of your property value if you can see that it vaguely resembles what you are being charged on.

Willie Coffey: Thanks. Sara, do you have any comments on the bands debate?

Sara Cowan: I have nothing further to add, really. For us, the key point is around the lack of transparency in the current system and looking to have a system that is more transparent so that people can look up the information, as Joanne Walker said.

Willie Coffey: I will move on to the issue of low-income households. How would that group of

people benefit from any revaluation scheme that might come into place? I am thinking about pensioner households in particular. If, for the sake of argument, their house is suddenly revalued at double the current value, their income will not change with respect to that, as we all know. Therefore, how would low-income and pensioner household groups benefit from a revaluation scheme, if at all?

Professor Gibb: I might be repeating something that I have already said, but having a credible council tax reduction scheme with high take-up that meets a wider set of stakeholders' sense of what is adequate and required to make it work is important to a great majority of lower-income people.

As I said earlier, there are deferral schemes. There might be mechanisms through which people could bank payments for the future when the property is sold. There are various ways in which that can be done. A number of academics who are talking about these issues just now are focusing on older households specifically, but in some systems around the world, deferral is much more widely available than that—people can defer if they want to, and they know that they are making a commitment that part of their capital value on sale will go back to local government. You can do things around that.

Sorry, I was going to say something else, but I have completely forgotten what it was. I will maybe come back in later.

Professor Heald: There are two specific points. I have already made the point about geographical shifts. One of the answers to your questions is that relatively low-income households in more prosperous places might find that their bands shift or their implied capital values have shifted. An issue that comes out in the Welsh consultation is about tourist and second-home hotspots. I can imagine that there will be parts of the Highlands, for example, where local property prices have been affected by second homes. There are specific issues that Wales has dealt with through consultation that Scotland would also have to deal with.

Willie Coffey: Professor Gibb, have you remembered what you wanted to say?

Professor Gibb: Yes. In its econometric work in Scotland, the IFS thought that 60 per cent of lower-income households would be better off in a revaluation, and only a small proportion—3 or 4 per cent—would be significantly worse off. The IFS implied—I think that it is right to say this—that it would make sense to target a system on extreme cases of people who will lose out in the system, at least in the transition phase.

Joanne Walker: As I said earlier, the suggested scenario is one that the commission on local tax reform found did not exist to a significant degree. The IFS research across Wales and Scotland has also suggested that the issue is manageable, whether through having a proper council tax reduction scheme that works, deferral schemes or targeting relief at specific groups.

Willie Coffey: Does revaluation mean that the system becomes more progressive, in your opinion?

10:15

Professor Heald: Not in and of itself. There are different senses of fairness. Taxing people through a local tax on the basis of valuations that are 30-odd years old is totally ridiculous and destroys the credibility of the system. There is a very strong fairness argument, as well as an argument in terms of the credibility of the system, for keeping valuations up to date. There is a separate dimension about how progressive the local property tax would be with regard to what, in council tax terms, are the multipliers between the different bands.

My personal view is that I would like the local property tax to be made more progressive, even if part of the deal would be to make parts of the income tax system less progressive. It is very important not to talk about the progressivity of just a particular tax; it is the tax system as a whole that matters. That is particularly difficult to manage when the UK Government controls part of the tax system, the Scottish Government controls part of the tax system and local authorities have some control over another part of the tax system. Putting together fairness judgments is a complicated matter.

Joanne Walker: As we put in our written submission, and as we have said a few times, a tax should tax the base that it is meant to tax—in this case, council tax is meant to tax the value of property—but that tax base has to be accurately assessed or valued so that, as David Heald said, the tax has credibility. I think that the Organisation for Economic Co-operation and Development has commented on that as well. For a property tax of this nature to be efficient and to be considered fair, the tax base has to be accurately assessed.

Then there is the question whether it is progressive. As David said, you need to look at the tax system holistically. Revaluation will not deal with the other issues that make the framework of council tax regressive, such as the fact that the effective rate decreases within a band or the fact that the effective rates decrease as you move up the bands. However, those are other matters to be discussed in considering how you

want council tax to work. There are different layers and issues that need addressing, but there is no point in addressing the progressivity if you do not address the fact that you are not accurately assessing the tax base.

Willie Coffey: Unless there are any other comments on the issue of revaluation and progressivity, I will stop there. Thank you.

The Convener: We will stay on the same theme, and I will bring in Mark Griffin, who joins us online.

Mark Griffin (Central Scotland) (Lab): Good morning. I had a question about how a revaluation exercise would impact on regional inequalities, but Professor Heald has covered that already. Before I take a deeper dive into some of the issues, does any of the other witnesses have comments on any regional inequalities that would be exacerbated by a revaluation exercise?

Professor Gibb: Briefly, there is plenty of evidence from England that there are major regional inequalities in terms of payments that are perverse, in the sense that areas with lower values relative to the average of property values seem to have people paying higher bills. Very crudely, people in the north-east of England pay more tax than people in leafy parts of London pay, which just does not make any sense. To echo what David Heald said, that is the kind of thing that we see in more deprived parts of Scotland relative to more affluent parts. If that is reflected in property values, we would expect to see similar things.

Professor Heald: Property revaluation would shift where council tax income comes from between local authorities, and that would mean that the grant system would have to be addressed.

Historically, Scotland had a grant system that tried to put poorer local authorities in the same position as richer local authorities through resources equalisation and needs equalisation. Wales has kept the full resources equalisation, but it has been eroded in Scotland. A revaluation that shifted taxable revenues geographically within Scotland would have to be accompanied by adjustments to the grant system.

Mark Griffin: Thank you for that. You have pre-empted my next question, which was about the impact of revaluation on general council resources.

Another area that I want to touch on is the link between wealth and council tax. As a group of people for whom the capital value of the property does not reflect their wealth, renters do not benefit from any rise in property value, but they could be hit with a much bigger bill in some of the hotspots that we have talked about. Professor Heald talked about high-demand tourist areas—the Highlands

and Islands and parts of Fife, for example—and there are high-demand areas in the city of Edinburgh. How would a revaluation exercise and a change to the system of local taxation support renters who do not necessarily benefit from any increase in capital value, whether on paper or anywhere else?

Professor Heald: Having read the papers for the meeting and the associated papers on Wales, it is not always clear to me whether people think that council tax is a tax on the occupation of property or a tax on property wealth. That is quite an important issue to think about. Do we think that people are paying a tax on the value of the property that they are using or occupying or on the property that they own? That is an important issue that people have to think about.

Professor Gibb: To add to that, I said in my contribution that there is a fundamental dichotomy between those people who view the issue as being one of local government finance and those who view it as being one of trying to change tax to right wrongs in the way that the housing market works. I am sure that the committee will be aware of the “Housing to 2040” proposals, which also say that we should carefully revisit council tax and land and buildings transaction tax because they are the devolved housing taxes, the assumption being that those taxes are intervention tools that could be used to promote a better housing system. That is a fundamental issue.

The papers that I have looked at recently, which are about reforming council tax in England, are essentially premised around revenue neutrality and local government finance as far as they can be, while seeking to make changes that will impact on how the housing system works. That is what it is really about. It is about housing wealth and the stabilisation of housing taxation.

I understand why England is doing that, but it is problematic, specifically because of what Mark Griffin is talking about. All those reform ideas are essentially about wanting to tax home ownership, private landlords and social landlords, not people who rent, but people who rent still consume local government services. There has to be a connection with how they vote and the fact that they are also taxpayers. That is a real problem that is just not discussed in several new papers by people who make a cogent case for reforming council tax, but who stop at the point of saying what we should do about those who rent.

The Convener: We are having the conversation today to bring those things to light. Mark, you have more to say.

Mark Griffin: Yes, I have a final question. A number of the witnesses have touched on lessons that we have learned from the Welsh revaluation.

Is there anything that has not been covered that anyone would like to add to the discussion?

Professor Gibb: In some ways, Northern Ireland is more interesting, because what it did was more radical. It followed the Burt review quite faithfully and, not having had the poll tax, it moved from a domestic rates system directly to a capital value tax, which it rather confusingly called the rates—it is a capital value tax.

It is interesting that that worked incredibly smoothly. Admittedly, between the period of revaluation and when the change was enacted, house prices rose a lot, so people felt like they had done okay out of the revaluation process. The system worked, but in Northern Ireland there has not been a revaluation since 2005, even though that has been discussed. Northern Ireland also capped the absolute maximum that people could pay through the rates.

There are some really good things about the Northern Irish system, which suggest that we can make radical change happen, but Northern Ireland has also experienced the same challenges as we have regarding not revaluing and tinkering with the system.

Professor Heald: If I remember it correctly, the implementation of those changes in Northern Ireland was done by the UK secretary of state during a suspension of the Assembly at Stormont.

Joanne Walker: Wales has put into legislation a commitment to revaluation every three years. It could be a good idea for Scotland to decide to go down the route of providing a statutory commitment.

I do not know whether it is something that it has done previously or whether it is part of the other reforms that it is doing, but in Wales a lot of public awareness-raising items have been published. There is a nice pie chart that explains where the council tax goes and what it is spent on. There is more information about how much money council tax raises for local councils. There may be things to learn from the public awareness aspect when we are thinking about the story that we want to tell to the public.

Sara Cowan: I also wanted to raise the point about putting revaluations on a statutory footing so that we do not come to this position again in 10 or 30 years' time.

We should see revaluations as part of the process of building trust, alongside the points that Joanne just made about communication and how to build more public trust in local taxation. It is key that they should be part of the process for further reform rather than an end in itself. Knowing when future revaluations are coming is part of the way to build trust.

The Convener: Thank you. Fulton MacGregor, who is joining us online, has a question. Before he asks it, I note that we are rapidly running out of time. We have not got many more questions, but it would be great if questions and responses can be succinct.

Fulton MacGregor (Coatbridge and Chryston) (SNP): I apologise that I am joining the meeting on my phone, which is why I am not using a camera. I apologise for the noise in the background, too—it is the school holidays here in North Lanarkshire this week.

I will keep my question succinct. It follows on from Sara Cowan's last line. The Low Incomes Tax Reform Group has stated:

“Once there has been a full revaluation, other reforms could be approached in the knowledge that the tax base is accurate”.

Do witnesses have any thoughts on that? What further reforms do you think might be necessary?

The Convener: Who wants to start? Joanne, I think that the question is yours, since your organisation was named.

Joanne Walker: Things that could be looked at, which we have already discussed to some extent, include whether, if we were to keep a banding system, there would be a need for additional bands, and whether there should be a different approach to charges within bands that might involve rates.

It is less of a change, but there is a lot to be done to make sure that people are communicated with well and that they receive good information.

David Heald mentioned water and sewerage charges. There is a question to be raised there about whether that should be included in the bill or be separate. There are different mechanisms for how the water charge is decided, and that differs from the council tax bill. Should everyone be on a meter, for example? I do not know.

10:30

Finally, on the approach to council tax reductions and discounts, we have certain discounts that, arguably, make council tax appear to be like a service charge. For something such as the single person discount, you get 25 per cent off, which is almost like saying, “You use less services than someone else, so we are charging you less.” You can almost see why some people get the impression that it is purely a service charge. Some discounts and exemptions are based on income level, and others take account of other circumstances. There are questions there about what kind of circumstances to take into account in relation to the household and how you structure those discounts. If you want to give a single

person discount, should it be 25 per cent or should it be a fixed amount for everybody?

Sara Cowan: I start off by saying that we ultimately need to move away from council tax. Reforms should be considered as a step on the path to new local taxation. I was going to again mention the key area of how council tax reduction is working, who benefits and where the thresholds sit. There might be a sharp cut-off for people who are not able to receive any support, so how the tapering works in different ways is important. There are people who are still on low incomes but have to pay full amounts, so how that can be reviewed is key. Some of that might need to be done at local authority level.

I talked about revaluations and the link to public trust in the reforms. I also want to say that other things could be happening now to build public trust in local budgets, which will be essential to the process of local taxation reform. We reviewed local authority budgets from last year, and we saw that there is a lack of transparency in local authority budgets as a whole, which I do not think benefits the case for local tax reform. There is a need to look at how local authorities are sharing information about their budgets, and how they are sharing what they are spending and where the money is coming from, in order to help build the on-going understanding that will be vital for local tax reform. At present, information can be quite inaccessible or shared in political language or densely worded reports, and there is a general lack of clear reporting on the final decisions that are made. Building trust in the tax system will come from a variety of spaces and could start very quickly.

Professor Heald: I will make two quick points. Wales made it very clear that it did not see revaluation as a revenue-raising measure. In terms of political messaging, the Government, Parliament and councils have to be clear that it is not a revenue-raising measure but about sharing the tax bill more fairly and efficiently across the population.

My second point is about the relation to land and buildings transaction tax. Like many transaction taxes, that tax is a pretty bad tax. One possibility would be to get the same amount of money in housing taxation by merging it with council tax, but one would have to think very carefully about the effect on social housing tenants, because they do not pay land and buildings transaction tax now but would be paying higher council tax, so there is an issue there. Land and buildings transaction tax discourages house moves and more efficient allocation of the housing stock.

Professor Gibb: I reinforce what David Heald has said. A lot of the literature on council tax

reform assumes that stamp duty in England or LBTT in Scotland would be rolled up into the tax, but it also assumes that only owners would pay it. One way of addressing the issue in Scotland might be to redistribute LBTT from purchasers to all owners of property, so that it would become a revenue tax rather than a one-off transactions tax. That would certainly greatly reduce the immobility transactions cost that the current system charges, but it would involve a major redistribution. There is a trade-off between one and the other.

Obviously, that is quite a radical measure to propose, but it is favoured by many of the people who write about the subject, who see the poor outcomes of a tax that greatly restricts mobility.

The Convener: You have used the word “radical” a few times, but we are discussing how to get to the root of the problem and move forward.

Professor Gibb: There is nothing wrong with that.

The Convener: Exactly. It is not a simple matter.

We move on to a new topic—barriers to reform and how to address them.

Meghan Gallacher (Central Scotland) (Con): Good morning. If we managed to reform council tax, find the political consensus that we have spoken about and overcome the hurdles that have been mentioned, significant administrative and financial investment would be required to make the new system work in practice. How much do you envisage that that might cost? Who, ultimately, should pay for it?

Professor Gibb: I think that there are ways to build consensus that are not initially directly to do with politicians. I am talking about things such as citizens assemblies. Last summer, we ran a small-scale citizens panel on council tax reform. We found that, over the two days, people moved from a position of being relatively in favour of the status quo to being quite committed to the idea of revaluation. In fact, a majority of people were in favour of more radical reforms, such as a proportionate property tax.

That was a group of only 20 people, so we do not know how representative it was, but it would be worth exploring whether we could move towards a citizens assembly of the kind that Ireland has so successfully used to make progress on constitutional issues. I am being optimistic about what politicians might say, but I think that that would help to change the mindset of politicians by enabling them to see that people are not as anxious and afraid as they might imagine about such a change, if it is well thought through and well argued for.

Professor Heald: Administrative costs will be incurred as a result of a revaluation or any kind of property tax reform. We should get evidence from Wales. There is substantial evidence—for example, through the OECD—on how other countries do it. England and Scotland are exceptional cases in letting the property tax base get out of date. We need to find out what other countries do and what their experience has been.

What I have seen of the Welsh process has been very impressive. I think that one of the documents for the meeting contains an estimate of what the Welsh revaluation costs would be. I presume that that could be pro-rated to work out what the costs for Scotland would be.

Joanne Walker: I add that although revaluation involves a cost, we are talking about more than an investment—there is an opportunity to create some jobs. If there was a commitment to revaluing every three years, that would involve a good amount of on-going work.

Meghan Gallacher: I have a quick follow-up question. Given the substantial financial pressures that councils up and down the country are experiencing in this financial year and the dramatic council tax increases to cover shortfalls, do you think that this is the right time to be looking at council tax reform?

Professor Heald: Yes, because having a tax base that is so out of date discredits the tax system.

As I said at the beginning of my comments, I suspect that there is a risk that, in the future, domestic property taxes will be taken off local authorities and far more services will be centralised. For example, we have had an issue with social care. Scotland is also different, in that education is still a local authority function; in England, a large proportion of schools have gone into academy trusts and out of local control. There is an issue about the future of local government and its being protected.

The Scottish budget is a big one—the numbers are very large. The costs of running revaluations and keeping them up to date are going to be considerable, but the damage being done to political trust and credibility and the operation of the housing market is, I think, a very good reason for going ahead with this.

Meghan Gallacher: Thank you.

The Convener: I call Alexander Stewart to ask our final few questions.

Alexander Stewart (Mid Scotland and Fife) (Con): Many issues have been touched on this morning, which is great. However, on the issue of finding consensus, which we have just been talking about, I note that the joint working group

stated that it was trying to do that very thing and that a single option for reform was perhaps the best way forward. How realistic is it to get such an option, though, given that there will be winners and losers in the whole process? I will start with Professor Gibb.

Professor Gibb: As I have said, whatever reform is proposed, be it revaluation or a more structural approach to the tax, there has to be due diligence. We need to sort out the winners and the losers and how we can try to alleviate the situation faced by those losing most egregiously. We know that losers shout loudly and that winners tend to keep quiet, so an objective, empirical bit of work needs to be done that everybody can support—say, the kind of thing that the Institute for Fiscal Studies has been doing. That will be very important.

I think that engaging with the public before that happens will be important, too, and we must ensure that this is not done in a way that allows lobbies and special interests to take over. That can be done; indeed, it has been done in plenty of other places.

Alexander Stewart: Professor Heald, you have talked about some of the other locations where that very thing has happened. The whole process of consultation and getting consensus will be vital in achieving that single reform, if that is what we are trying to find.

Professor Heald: Absolutely. One of the practical problems—this comes back to what the convener said when she opened the meeting—is that there are other political difficulties. We had the Westminster election in 2024, we have the Holyrood election in 2026 and we have local council elections in 2027, so there is very little time and very few opportunities for parties to collaborate on such matters.

I would think that, just in terms of the Parliament's credibility, having a tax that is presently more than 30 years out of date—and which will be 40 years out of date before an effective revaluation can be fully implemented—brings the Parliament and the devolved system into disrepute. I would expect parties to compromise on this; for example, it would not be too difficult, I would have thought, to get agreement that a 30-year-old system was ridiculous. On the other hand, there will be disagreements over how progressive it should be, so people will have to compromise on that. It means that those who want full proportionality will not get it, and that people who would rather keep the system as it is will not get that, either. Unless there is a meeting of the minds somewhere in the middle, the system will collapse in due course.

The Convener: Sara, you indicated that you want to come in.

Sara Cowan: I just want to emphasise a couple of points with regard to the winners and losers in all of this. As I stated at the start, we must ensure that strong equality analysis is part of the process, so that we can consider the losers in, and the impacts of, the current system. As has been mentioned, the losers in any change might well shout loudest, but it is also important to consider the benefits that change can bring to others, so we need that sort of analysis. We also need the participation of lots of different groups of people and hear from them as part of any reform.

We have been talking about revaluation being revenue neutral, but when we look at wider reforms, we should also look at how additional revenue can be generated and consider the winners in that respect. After all, we have been talking about local authorities' tight financial budgets and the decisions being made at the moment to cut services. Those kinds of winners have to be considered, too.

10:45

Joanne Walker: I second what David Heald and Sara Cowan have said, but I want to make another point, too. Once the direction of travel has been decided, it will be really important, perhaps in any conversations that you have, to take control of the media narrative. As His Majesty's Revenue and Customs has found in recent times, with the implementation of the OECD platform reporting rules, the media can get the wrong end of the stick, and it can lead to a lot of confusion in social media. Things can run riot, so it is really important that you take control of the narrative to ensure that your story gets out there.

Alexander Stewart: Following on from that, I note that the Low Incomes Tax Reform Group believes that

"interactions of council tax ... with local and national taxes, universal credit and other welfare benefits"

have to be considered in the process; indeed, you have already touched on how that would be perceived. Trying to manage that sort of thing will be challenging, so can you give us a flavour of what you think will be the best way of doing that? As you have said, the process will certainly lead to speculation and people making assumptions about what things will look like, depending on how the issue of the interaction of the tax with the universal credit system and other benefits is tackled.

Joanne Walker: Obviously, you should consult on any changes. You need to look at potential changes and give stakeholders a proper chance to look at draft legislation and so on, which means ensuring that you have a decent length of time for

consultation. That will be particularly the case with any draft legislation that might come out. You cannot pick everything up, but if people have several weeks to look over the documents, it will be easier for them to spot any interactions.

Alexander Stewart: Thank you.

The Convener: That concludes our questions, but I just want to thank Joanne Walker for making the point about taking control of the narrative. Indeed, a clear thread in your contributions has been the need for communication as we move forward with the process. I thank everyone for joining us and for a very helpful and illuminating discussion.

I suspend briefly to allow for a changeover of witnesses.

10:47

Meeting suspended.

10:54

On resuming—

The Convener: Welcome back. Again, we have around 75 minutes for this discussion, so I would be grateful if we could keep the questions and answers as succinct as possible.

We are joined in the room by Emma Congreve, who is the deputy director and principal knowledge exchange fellow at the Fraser of Allander Institute, and online by David Phillips, who is the associate director of the Institute for Fiscal Studies. We will try to direct our questions to one of you initially, but if you would like to come in, please indicate to me or the clerks. David, you can do that by typing an R in the chat box. There is no need for you to operate the microphones—we do all of that for you.

I direct the first question to Emma Congreve. It is the same question as I asked the previous panel. We have had commissions and we have had claims that council tax is unpopular. However, council tax has managed to survive for 32 years. Do you consider that there are any benefits to the current system of council tax?

Emma Congreve (Fraser of Allander Institute): Thanks, convener. Before I worked for the Fraser of Allander Institute, I was a civil servant working on council tax. I was also on the secretariat for the 2015 commission on local tax reform. Although I will draw on the published evidence from a decade ago, everything that I say here will be the view of the Fraser of Allander Institute.

I think that council tax has survived because of a lack of political will or ability to reform it. There is

no lack of consensus about the fact that a revaluation is critical and necessary. Council tax has survived because politicians have wanted it to survive; they have not wanted to touch it.

You asked what is good about the system as it is. There are many and varied elements that could be changed. Depending on what the Government's priority is, there are different ways to make council tax more progressive, protect more people on low incomes and ensure that there are no big shifts for those who are asset rich but cash poor. There are many technical solutions to make any changes that we would like to make to the system, and there are many things that there may be consensus on keeping. However, the critical element that is the prerequisite for any of those changes taking place is a revaluation.

The Convener: I am getting from your response that we are stuck in a situation in which there are no real benefits to the current system and we could be implementing a lot of technical solutions.

David Phillips (Institute for Fiscal Studies): One of the reasons why we are stuck is that, on some level, council tax works: it is relatively easy to administer and collect. There is a high collection rate overall and it is a stable revenue source for local government. It is, to an extent, an example of the tyranny of the status quo. Council tax is working. People grumble, but they accept its reality.

The lack of political will to push things forward is partly due to the need to tackle fear and misconception about what revaluation would mean. Many people think that, because property values have gone up so much since 1991, if we revalue, their bill will go up fourfold or fivefold, like their property value. However, that is a fundamental misunderstanding. It is not about the absolute increase in value since 1991 but about how values have changed relative to each other. If you were to revalue, you would not keep the thresholds to put properties into bands the same, but would increase them in line with average growth. Therefore, you would go up bands if your property value had gone up by more than average, or down bands if your property value had gone up by less than average. That takes a little bit of understanding. It is natural to think, "If they revalue, my bill will go up." There has been a lack of attention to tackling that misconception, but we are getting to the stage at which it is becoming patently more absurd to use relative values from 1991, which is more than a third of a century ago. As I like to point out, it is when the Soviet Union still existed.

If the Scottish Government wants a more progressive tax system, providing that through council tax would be less economically damaging than doing it through its current go-to choices of

LBTT and income tax. There is a lack of political will to reform council tax, but if we want to have a fairer tax system and to raise revenue, we have to start looking at council tax, otherwise revenue will be raised in a more damaging way than is necessary.

11:00

The Convener: We heard from Joanne Walker, who was on the previous panel, that communicating the revaluation process would be important.

Both of you might have the same answer to this question—I certainly think that that will be the case for Emma Congreve—but I do not want to make assumptions. The 2015 commission on local tax reform was a major piece of work that involved consultation, research and cross-party engagement. Why did it ultimately fail to lead to any significant changes? How could a similar scenario be avoided in the future?

Emma, I will start with you, given that you were involved in the commission.

Emma Congreve: When preparing my written submission to the committee, I went through all the published documents from the commission on local tax reform and answered the committee's questions with reference to that evidence, because it was so thorough. The cross-party commission—every party in the Parliament was involved apart from the Scottish Conservatives—gathered evidence from stakeholders and the public over nine months.

The question about why the commission did not lead to substantial changes is one for Scottish ministers, because they were the ones who decided what to take forward in their manifesto for the following election and, subsequently, in legislation.

From an external perspective, the only judgment that can be made following that process is that there was a lack of political will. That is still the fundamental reason why there has not been reform.

The Convener: What do we need to do to avoid that happening again? We are doing this work, and we hope that something might happen in session 7. What do we need to do?

Emma Congreve: We need to understand why politicians do not want to move forward with reform. We can all guess the answer to that. What would be required for the current Government or the next Government to move forward, particularly on revaluation? What needs to be unblocked for the Government to do that? Does it need to have full confidence that the public are behind it? Does it need to have full confidence that the Parliament

and all parties are behind it? Those were some of the prerequisites in other parts of the UK and Ireland when it came to the revaluations and reforms that took place.

We need to understand the fears and how they can be overcome. I do not think that going through another technical exercise, which would involve spending lots of money and resources, including people's time, on going through all the arguments to look for solutions will help us to make further progress. Technical solutions to pretty much every problem can be found. We need to understand what is required to make politicians move forward.

David Phillips: I agree with much of what Emma Congreve has said. Lack of political will has been the block.

It is fair to say that other events over the past eight or nine years have slowed down progress, but there was clear time between 2015 and 2019 in which to make real progress. Some small changes were made in 2017, but they were around the edges.

My answer might differ a bit in that part of the issue is knowing what you are trying to achieve with reforms. In the Welsh context, the revaluation and reforms are about making the system fairer and more progressive; they are not about raising revenue.

Explicitly, it was meant to be a revenue-neutral reform, in which bills would be redistributed to reflect up-to-date values to make the scheme more progressive—so, there would be higher bills for higher-value properties and lower bills for lower-value properties and the reforms would not raise more revenue overall. Previously, when there have been consultations or reforms in Scotland, including in 2017 and the aborted proposals in 2023, they were more explicitly about raising revenue. It was proposed that bills would be kept constant for those who are on lower council tax bands and bills would be increased for those on bands E and above. Reforms can be revenue neutral, or they can be designed to raise revenue or reduce it, if you think that having more winners than losers might ease the passage of reform.

That is one area for which a bit more analysis could be helpful. It does not have to involve a commission or a huge evidence-gathering exercise on fundamental issues and choices, but I think that the Scottish Government needs to work out what its objectives are. So far, that has been part of the blockage, as it has not been fully clear what the Scottish Government is trying to achieve: is it about fairness, revenue raising, or revenue reduction?

The Convener: Your comments are very helpful; we should think about what we are aiming for.

Willie Coffey: Good morning. My first question is probably for David Phillips. I was interested in your mention of 1991 and the Soviet Union in your opening remarks. I will take you back a few years before that to 1988 and 1989 when the poll tax was introduced in Scotland. As I remember—I campaigned against it—it was a single charge. We could argue that we are where we are because of those origins.

In your submission to the committee, you suggested that council tax discounts and exemptions have distorted the use of residential property and have contributed to overcrowding and underoccupation of property. Could you develop that idea a bit more for the committee and explain the thinking behind that?

David Phillips: Some of the exemptions and discounts are explicitly designed to distort the market from what it otherwise would be. For example, discounts for disabled people are designed to make it more affordable for them to have bigger homes that are easier to adapt. Higher council tax rates for properties that are owned as holiday homes are designed to increase their cost so that more homes are available for owner occupiers. We think that the way that the single person discount is designed creates an unintended consequence, because it allows for a 25 per cent reduction on the standard tax rate. That means that the single person discount for band D is one and a half times that for band A, and for band H it is well over three times that for band A.

The design of the single person discount means that there is a bigger subsidy for single adult households to live in high-value properties than there is for low-value properties. Effectively, that makes it relatively cheaper for single adults to live in bigger properties and relatively more expensive for multi-adult households to do so. That is why that we say that it contributes to overcrowding, because it is more expensive for a multi-adult household to get the house size that they need. It also contributes to underoccupation, because it is relatively more affordable for a single adult to live in a bigger house.

To address that, the single person discount would not need to be abolished—although it could be. Instead, it could be a flat amount. For example, it could be set at 40 per cent of band A, which would provide a bigger discount than is currently provided for a property in that band, it would be around the same for band D and less for a higher band. It would be more progressive, because people on a lower income tend to live in lower value, lower council tax band properties. It

would also not distort choices, because there would be the same cash discount no matter which property someone lives in, rather than there being a bigger cash discount for living in a bigger and more valuable property.

Willie Coffey: That is really helpful. Thank you for expanding on that for members of the committee.

Emma Congreve, when the joint working group consulted on the issue, the Fraser of Allander Institute was sceptical about proposed changes to the higher band multipliers. It said:

“to take forward reforms without a revaluation just rubs salt into the wounds.”

Will you develop that line of thinking for us, please?

Emma Congreve: The Fraser of Allander Institute previously wrote about the reforms that were recently proposed. It comes back to the fact that some people are paying too much and some people are not paying enough. If you are looking to reform higher bands, there will be people in those bands who should not be there, because there has not been a revaluation. Therefore, they are already paying more than they would if the tax was functioning properly and related to its tax base, but then you are asking them to pay even more because you are increasing the multipliers.

We often talk about the issue of winners and losers when making reforms, but there are a lot of people who are losing in the system in every year that it continues as it is because they are in the wrong council tax band for the relative value of their property. If there were to be more research on the issue, it would be quite useful to look at the amount of money that people who are losing under the current system are paying above and beyond what they should be paying each and every year. Maybe those losers will start shouting about some of the issues with the system as it is.

Fundamentally, the tax is invalid as it is currently levied, and a prerequisite for any changes, including to any of the multipliers or the discounts, must be revaluation. It is really important to separate the two issues in the debate—we should not mix up reform and revaluation. Revaluation must happen before any reform can happen, otherwise the changes that are made are totally invalid, given how the tax was created in the first place.

Willie Coffey: Thank you. The next question is for both of you. Should councils have some power to set the multipliers between the bands? Should that be a local decision that councils can take? What risks might be associated with that?

The Convener: I will bring in David Phillips first, because he might want to come in on the other question as well.

David Phillips: On the previous question, it is not in our published report, but our underlying analysis of the potential impacts of reforms shows that, of those currently in band E, well over a third would be in band D or below in a revalued system. That gives a flavour of the numbers who are in the wrong band and who will, if you just change the multipliers without revaluing, potentially see their taxes increase when they should not, which I think is what Emma was saying. About a third of those in band E should be in a lower band. Some should be in the current band and some should be in a higher band, but a third should be in the lower band.

On the second question, you could give the power to local authorities to set multipliers. You would still need to have a standard benchmark multiplier system across Scotland, because you need to account for councils' council tax bases when you are determining how much grant to allocate them. If you set that on the basis of the actual band relativities—the multipliers in each local authority—you would be offsetting the impacts if the local authorities decided to raise or to reduce their multipliers. You would need to use a common one across Scotland.

If we say that over the course of five or 10 years, everyone moves to having much higher tax rates on those higher-band properties, the question arises of what the benchmark system should become. Do you update the benchmark system that is used to assess revenue-raising capacity to account for the fact that council tax is now relatively higher on those high-value properties? If you do not do that, over time, councils will raise more from bands E, F, G and H than you assume that they would when you allocate the grant. Of course, some councils can raise much more through that than others.

If the system were not updated, places such as Edinburgh and perhaps Aberdeenshire would do relatively well, but others such as North Lanarkshire and Inverclyde would do relatively badly. You could give that power, but you would need to assess revenue-raising capacity across Scotland on a common basis and consider updating that over time if the choices that councils across Scotland actually make start to move away from the benchmark system.

11:15

Willie Coffey: Thank you, David. Emma, do you want councils to have such powers?

Emma Congreve: Yes. It is an area that could be looked at. It was one that the commission on

local tax reform said could be changed to give more local discretion and control. As David Phillips said, there would need to be a structure in place to make that fit with local government finance systems. There already is one, to an extent, because councils can change the band D rate, so a technical solution for all that does exist if it can be thought about properly.

The pros for having more local accountability control include that it helps to strengthen local democracy. It is important for people who are paying the tax to understand how it feeds into the decisions made in their local areas. That angle could be strengthened quite a lot, so that is another argument for giving more control to local authorities.

At the moment, people are very confused about what their council tax is for. That comes back to the point that was made in an earlier question, and David's response to it, on being clear about what any reforms are trying to achieve. At the moment, council tax is partly a service tax, partly a property tax, partly an income-related tax and partly a consumption tax. It is very difficult for people to understand that. If one priority were to be to strengthen people's links to their local areas and so raise the tax's credibility in the eyes of the public, there could be arguments for more local discretion within the system.

Willie Coffey: Thank you very much, both of you.

The Convener: We will move on to a new area, which is on the practicalities and politics of council tax revaluation.

Meghan Gallacher: Good morning. We have spoken a great deal about the impact of council tax reform on councils. Could you possibly expand on the impact that it could have on general resource grants? We have already covered a little about how certain local authorities could benefit from such reform, but could it impact on council finances elsewhere?

Emma Congreve: Again, we have to separate the two issues of revaluation and reform.

Taking revaluation first, if it were revenue neutral, and if the same systems that are currently in place were to operationalise equalisation across Scotland, which would then impact on the amount of grant that each council received, that would not, in itself, make a difference to the level of the grant; it would just move the numbers around the spreadsheet a little.

Moving on to reform, if its aim were to raise more money for certain parts of the country that have more higher-band properties, or if it were done explicitly as a revenue-raising process, it could have differential impacts in various parts of

the country. David Phillips has done a lot more work on that. If reform were revenue raising, it could be used to reduce the amount of Government grant, if that were the overall reason for doing it. However, there would need to be fixes in there for equalisation. I will hand over to David to give his views on that.

David Phillips: When we looked at that for both England and Wales, it became very clear that when you revalue, or go even further and reform council tax, it is important to consider the implications for the grant funding system.

Let us consider what would happen if, at the time of revaluation, we did not change councils' grant funding—there was no update to reflect the changes in tax bases. In that case, each council, to maintain its spending, would need to raise as much from council tax overall as it does now, so it would need to charge the same average bill. A revaluation would redistribute tax bills within a council area—people whose bills went up by more than the council area's average would pay more and those whose bills went up by less than that would pay less. However, the average bill in each council area would not change, because the council would need to raise just as much to maintain its spending.

You would need to reflect the fact that, as well as property values having changed within council areas, with some going up and some going down, across Scotland, some areas would see more properties go up bands than down and others would see more properties go down bands than up. The tax bases would have changed, so you would need to redistribute grant funding somewhat so that the average bills that were charged in the different local areas reflected what happened with the revaluation. Therefore, you would need to update not the total level of grant funding for local government, but its distribution across councils.

With a revaluation, that update would be pretty small. In Wales, some areas saw the revenue support grant—I think that it is called the general revenue grant in Scotland—going up by 1 or 2 per cent and for some it went down by 1 or 2 per cent. It was relatively minor. If you also make council tax less regressive—if, for example, you reduce the tax rates on low band properties or increase them on high band properties—that would have a bigger effect on the council tax bases than just revaluation. If you wanted to fully update for that change in tax base, you would need a bigger redistribution of grant. In the Welsh context, those were mostly changes of 3, 4 or 5 per cent, but one or two councils with very high or low tax bases were going to see a bigger change.

In my mind, that is not a reason to say that the reform is bad. It is just that, when you update the values to reflect the fact that, based on current

values, households' ability to pay differs compared to what it is under the current system, that will also mean that the ability to pay of the total population of each authority differs.

That update to local government finances is a really important part of the system, but it is one where the Government has choices. Traditionally, in Scotland the Government has decided to account for effectively 100 per cent of the difference in the local tax base when it allocates grant funding. That means that, if residents of Edinburgh can afford to pay more council tax, that is fully offset by lower grant funding. You could account for only 80 per cent of that if you think that those who are able to pay more should also keep a little bit more.

There are choices to be made. You would need to look at the local government grant system alongside council tax reform just to make sure that it is having the impact that you want, not just within each council area but across Scotland.

Meghan Gallacher: Thank you. That highlights some of the challenges that we are going to come across when talking about council tax reform.

The Convener: I will bring in Mark Griffin, who joins us online.

Mark Griffin: I have a question for David Phillips. In your written evidence, you said:

"If properties were revalued ... on a revenue-neutral basis ... we estimate that around 60% of households would see little change to their net bill."

How did you arrive at that figure? On the opposite side, what is the extent of the change for the other 40 per cent? What is the relative impact there?

David Phillips: Without going into too much technical detail, we arrived at that figure using a household survey in which people were asked about the value of their property if they own it. We also predicted values for people in rental properties, because such people are not asked about the value of the house and may not know it, if they are just renting it. From that model, we have been able to consider different reform options, depending on where the band thresholds are set, the tax rates for the different bands and so on.

We estimated that, if you were to revalue council tax on a revenue-neutral basis, with a band threshold set so that the same share of properties are in each band as now, around 43 per cent of properties would stay in the same band, around 28 per cent would fall down a band or more and around 28 per cent would move up a band or more.

If only 43 per cent stay in the same band, why are we saying that almost 60 per cent would see little change? Many people get part of or even

their full bill paid through the council tax reduction scheme, which is the means-tested support scheme to help people with their council tax payments.

When you look at net bills, you see that around 60 per cent would have little change—anything between a £50 decrease and a £50 increase a year—around 20 per cent would fall by more than £50 and 20 per cent would increase by more than £50. If we delve into that a bit more, we see that most of the decreases or increases are relatively small. On the reduction side, around 10 per cent would see a fall of between £50 and £200, 8 per cent would fall by between £200 and £500 and around 4 per cent would fall by more than £500. On the flipside, around 9 per cent would increase by between £50 and £200, 9 per cent would increase by between £200 and £500, and 3 per cent would increase by more than £500 a year.

People who would have increases or decreases of more than £500 would typically be in a fairly high band to start with and would be moving up or down a band. For the latter case, you can see the scales of bill changes for people moving from band G to H or from G to F. However, the vast majority of people would see either no change or a relatively modest change overall.

Mark Griffin: Okay. Thanks for that.

My other question, which is probably for both witnesses, is about people who are on the lowest incomes and already have a council tax reduction. If we were going through a revaluation exercise, would you envisage any change for them? If they continue to receive a council tax reduction, will things just stay the same for them regardless of what the revaluation exercise produces?

David Phillips: You are right that many of the lowest-income households that successfully claim the benefits to which they are entitled have their bills covered in full through the council tax reduction scheme. If there is a revaluation, or even if there is a wider reform that, say, makes the council tax less regressive and reduces the bills for the lowest-value properties, people on the lowest incomes would not see a change to their net bill because their current net bill is zero.

I will make two points in that regard. First, many households are entitled to draw on the council tax reduction scheme, but for one reason or another they do not make a claim. Therefore, there are low-income households that should get a bill change but would not.

Secondly, when we look at the impact of a pure revaluation, because the property values across the distribution of income have not changed that much, although you see winners and losers, there is no systematic pattern across income

distribution. There are some winners and losers among low-income and high-income households.

When you make council tax less regressive and you move to a system that is more proportional to value, you will see a more systematic pattern. In that case, bills, on average, would fall for low-to-middle-income households and rise for high-income households.

However, the biggest beneficiaries in terms of their net bill tend not to be not very poorest people, but the next rung up—that is, not the poorest 20 per cent, but the second-poorest 20 per cent, who are around or just above the poverty line. Those who are well below the poverty line tend to have their bills paid—or, at least, they are entitled to a council tax reduction, although they do not all claim it.

11:30

Emma Congreve: I would support that, especially David's second point that people on the very lowest incomes would be protected. However, in terms of people getting the full benefit, council tax reduction does not extend very far up the income distribution—certainly not as far as other benefits, such as universal credit—so there are a lot of people who we would typically think of as being low income who would be affected by revaluation. Whether council tax reduction should be extended or changed, and whether there should be transitional relief, are other decisions that could be made.

The people on low incomes are not the same people every year. There is a lot of churn from one year to the next in terms of which households become low income. If you and your partner are in full-time work and living in a band E property, you might become a low-income household in the next year due to divorce, bereavement or job loss. If your property should not be in band E but in band B, you will obviously be affected if a revaluation does not take place, so those low-income households also come into the mix, although they are not the same people every year. That churn is part of the reason why not everyone who is on a low income claims council tax reduction.

The Convener: Okay—thanks very much for that. Would you like to add anything, Mark?

Mark Griffin: No, thanks.

The Convener: We will move on to barriers to reform and how to address them.

Alexander Stewart: My initial questions are for David Phillips. The Institute for Fiscal Studies has said that advances in technology and computing make it cheaper, more relevant and easier for properties to potentially be revalued. It would be useful to hear your views on what the techniques

are and on whether and where they have been successful, as well as to get an idea of the potential cost of it all and of who would be likely to pay for it.

David Phillips: Without going into too much technical detail, the technique is effectively statistical valuation—that is, using the characteristics of a property together with information on properties that have similar characteristics, are in a similar area and have recently been transacted, in order to predict a value. It is similar to the methods that things such as Zoopla use to predict property values, but it uses more information, including that which is available to the Valuation Office Agency in England and Wales and the Scottish Assessors Association in Scotland. It is, basically, predicting the value of a property based on its characteristics and on property transaction values.

That is not an infallible technology. It does quite well for properties for which there are many other properties like them, such as three-bedroom semis, detached houses in leafy suburbs and tenements in the middle of Glasgow. It is less good if a property is unusual, particularly for its area—for example, a detached house in the middle of Edinburgh city centre, caravans or granny annexes, which can be hard to value. Therefore, an element of sense checking might be needed, and manual valuations might be needed for some very specific types of properties.

In my view, computer-based valuation arguably has the potential to be fairer than a manual valuation. Just watch one of those estate agent shows on television—you can have two estate agents and three different values being given for a property, whereas a computer model that can be applied consistently across the country would not have individual biases, or what economists call “valuer fixed effects”. One model could be applied across Scotland that takes account of the characteristics of properties in areas.

I do not know the actual cost of computer-based valuation, but it is a lot cheaper than sending people out to do proper valuations around the country. It is used, I think, successfully in Wales to produce a valuation list, which has not yet been implemented but is being comprehensively checked. It is used in many countries, including the US. Most countries use such statistical valuation methods to update their property values.

There is, however, a question about appeals. At one stage, there was a suggestion in England about moving to such a system for business rates rather than for council tax—something similar could be done for council tax—in which there is a professional margin of judgment. If a valuer thinks that the valuation is within 5 per cent of the value that it has been assessed as having, we would say

that it not is appealable because it is within that margin of judgment.

There is a question about whether you would want to do that in Scotland in the future. If there is a revaluation, there will be more appeals, and one of the issues is that it has been 33 years since the last one and property values have changed so much, so it will be more of a wrench now. If the plan is to do it now, as is happening in Wales, and to put in place legislation so that it happens every five years, or maybe every three years, as with business rates, the changes will become much smaller each time. The models will be better and there will be fewer big changes and, therefore, fewer appeals.

In terms of cost, I suggest speaking to the Welsh Government about what it paid the VOA. Fundamentally, it will be the Scottish Government that pays to make the tax system more progressive and fair, as it has been paying to administer the new system of land and buildings transactions tax, and as it pays HMRC a little bit of money to have a different income tax system in Scotland. If you want to do something different or fairer, there will be a cost, but there will also be a benefit in terms of fairness and getting the policy right.

Alexander Stewart: You have suggested that the Scottish Government could phase in any changes that it chooses to make, even if they were more radical, by using the transitional relief scheme that has been discussed as a potential way of doing it. Wales has said what it has achieved when it worked on that, and you have indicated how other parts of the world have been able to achieve it.

However, it all comes back to cost. Whether it is affordable, manageable and sustainable will be the crux of the matter. What would be the likely cost to Scotland of a possible transitional relief scheme and of potentially more radical changes?

David Phillips: That would depend upon how a transitional scheme was implemented. There are two ways of sharing the costs. One way is the way in which England has traditionally used transitional relief for business rates. When the increases to business rates are phased in, the decreases are also phased in, so rather than everyone's bill changing overnight to reflect the new values, they move up or down a band each year until they find their new position. In effect, the bill decreases are slowed down for those who should gain, in order to pay for those whose increases are being slowed down.

The alternative would be for those who should be gaining to gain immediately and to provide some top-sliced funding from the local government settlement to pay for the phasing in of bill

increases. There is a choice about who should bear the short-run costs if transitional relief is used. Should it be about slowing down bill cuts for some people or about paying everyone from a top slice of the local government grant?

There is also a question about what a transitional relief scheme looks like. If you are doing a pure revaluation, you could do what Wales did in 2005 and just phase it in so that properties move up or down a band each year until they reach the new band. If you are also reforming the system so that the multipliers are changing, you might want to do something a bit different and cap the cash change or the increase or decrease at, say, £300 a year, because even if a band does not change, the bill might change if the multipliers are changed. You might want to have a cash element in the transitional relief scheme.

As well as considering transitional relief schemes, it is worth thinking about mitigation schemes. Ireland and the Canadian province of British Columbia have deferral schemes. If people who are asset rich but cash poor—those who live in a high-value property and face a relatively high bill—do not have the cash to pay the bill up front, they can defer payment for, say, 10 years until they sell the property or pass away. The bill is basically a loan against the value of the house, but there needs to be interest on the loan so that people do not take advantage and the Government does not lose out through interest-free loans.

Such systems can work. In the UK, we do not have that system for council tax bills, but councils operate such schemes to help to pay the residential costs of care homes. In Scotland, personal care is covered, but residential costs are not, so some councils operate schemes whereby they basically give loans to cover the costs until the property is sold.

Alexander Stewart: Thank you.

The Convener: This issue has been touched on a bit, but I want to get to the bottom line. The IFS claims that

“Adding more bands would allow for a more fine-grained relationship between property value and tax liability”,

but it notes that the Welsh Government believes that having a relatively small number of

“wide bands makes valuation easier and reduces the number of appeals.”

I am interested in hearing a bit more about that from David Phillips, and whether Emma Congreve agrees with that.

David Phillips: We recommend having more bands, if possible, because the current eight council tax bands are quite wide, so properties that differ in value by many tens of thousands of

pounds, or even hundreds of thousands of pounds, might face the same tax rate. When a property moves to the next band, with the value differing by, say, £1,000, the tax bill can jump up by £500, which is close to the increase when properties move from band D to band E or from band E to band F. That is, in effect, horizontal inequity. People face very different bills just because they are either side of an arbitrary threshold.

If there were more bands, the size of the jumps and horizontal inequities would be reduced. Ideally, you would move to a continuous system, as operates in most countries including, within the UK, Northern Ireland—with the tax depending on the point value of the property rather than on a banded system. Such a system would be better from a design perspective.

The Welsh Government and the VOA have said that one of the issues with having lots of bands or a point value system is that everyone will think that there is more chance of an appeal leading to a change because values will not need to be updated too much for a property to move bands or for someone's bill to change. They say that having fewer bands reduces the probability of people appealing.

However, we are not fully sure that that is the case. If there are more bands, people are closer to a band threshold, but if people are successful in getting their property to drop down a band, the reduction in their bill might be smaller, so people need to trade off the likelihood of getting a reduction in their bill with the size of that reduction. If someone was told that an appeal would save them only £50 a year, they might not think that it would be worth the hassle, but if it would save them £500 a year, they might think that it would be. Therefore, it is still worth investigating the option of having more bands or a continuous system. There might be more appeals, but I am not sure, because people might not think that an appeal would be worth the hassle if they would save only a few pounds.

The Convener: Yes—by the time someone has put in that effort, they have lost that time.

Emma Congreve: To reiterate, all the points that we are hearing today are really important, but everything that we have covered was covered quite thoroughly by the commission on local tax reform in 2015. A problem with going back to that evidence is that the reports that were published as part of the commission are now extremely difficult to find—they are not published on the Scottish Government website. Two of the three volumes are available now because of a freedom of information request, but they are quite hard to find. One very helpful step forward would be to ensure that the reports are available for committees such

as this. I have hard copies with me now, but there are not that many of those, either.

11:45

There are pros and cons to all the things that we have discussed, including a banding system versus a discrete property value, such as we have for non-domestic rates, in which there is a value and you can appeal that value. There is a whole process for appeals in the NDR system. No question is raised about the cost of revaluation for business properties, because it is considered that businesses would not tolerate a 30-year-old valuation system being used for their business premises, and we just accept that that has to be done. There are things that can be done around bands.

Another important issue, which the previous panel also talked about, is that for any changes, whether it is going from a banded structure to a discrete system, or increasing the width of the bands, it is important to ensure that people understand what that means for them. People must have an informed opinion and be able to participate in an informed debate about changes that could be made. There will be things that work for some people and do not work for others, but at the moment, no one understands what changes would mean for their household, and politicians and civil servants have very little idea of what changes would mean for the population as a whole. If you do not have that evidence, it is really difficult to make any informed evidence-based decisions. The work that Dave Phillips has done at the IFS and the work that Ken Gibb has done for the Joseph Rowntree Foundation show the quasi-revaluations and reforms that can be done using publicly available data, but it is the Scottish Government and the public sector that have the data that we would need. I know that the committee will be talking to the Scottish Assessors Association. It could carry out that exercise—the assessors could do a revaluation and look at what the impacts would be. We really need that evidence before we can go forward with any proper, informed debates about the impacts.

The Convener: That is very helpful. I have a couple more questions, one of which I will ask in a minute—I think that you were coming to the answer there.

The IFS called for revaluation and reform of council tax to be

“combined with reforms to Scotland's other property taxes.”

We heard ideas from the previous panel about LBTT. I also brought in the idea of a land value tax, which Ken Gibb has spoken to. I would be interested to hear what you would like to see reformed alongside council tax.

David Phillips: Is that question aimed at me?

The Convener: It is aimed at both of you.

Emma Congreve: I will let you go first, David.

David Phillips: You are right that we have said that this is an opportunity to look not just at council tax but, as the Scottish Government's new tax strategy says, "tax in the round".

We need to recognise that people's views will differ on how much revenue should be raised and spent, and how progressive the tax system as a whole should be. However, I think that we can and should build a consensus that council tax should remain part of the tax system and that it should be revalued and reformed. There is scope to use council tax more effectively and hence to make some changes elsewhere. I will explain why.

At the moment, for example, council tax is highly regressive with respect to property value. The share of the tax bill is much lower for high-value properties than it is for low-value properties. However, one of Scotland's other taxes, LBTT, is exactly the opposite. LBTT, which people pay when they buy a house and move house, is much higher for high-value properties than it is for low-value properties. It is also much higher for those high-value properties than is the case anywhere else in the UK.

The problem with LBTT is that it is pretty economically damaging, because it is a tax that prevents mutually beneficial trades of properties. I might live in a property that is no longer best suited to me because my needs have changed—for example, I might want to live closer to family, I might want a smaller more suitable property or I might want to move for a job—but, because LBTT has to be paid every time a property changes hands, that makes it expensive to move around. It makes it expensive for people to move for work or to get a better home for themselves.

One answer would be to keep the tax system as a whole as progressive as it is at the moment, but to do less via LBTT and more via council tax. That would do just as much to redistribute revenue, but it would do so in both a fairer way, because it would not penalise people who need to move because of changes in their circumstances, and in a more economically efficient way, because it would not gum up the housing market and prevent people from moving for work. That is my first point.

Even people who want to make the tax system as a whole more progressive and who do not see council tax reform as a way of doing that should be thinking about how to make council tax more progressive and other taxes less progressive in order to have a more efficient way of implementing a progressive tax system.

You mentioned land value taxation. I do not think that land value taxation would be a good replacement for council tax. We tax people's consumption of other goods and services via VAT. As Emma Congreve said, we can think of council tax as being a bit like a consumption tax on housing. We do not have VAT on housing. Council tax steps in for that. When someone has a house, they consume not only the land that it is on, but the property that is built on the land. To ensure consistency with how we tax other forms of consumption, such as cars, televisions and clothes, it makes sense for council tax to continue to be a property tax.

I think that a land value tax makes much more sense on the business rates side. Fundamentally, business rates discourage businesses from improving the property and investing in the integral plant and machinery. One reason why industry struggles more in the UK than it does in other places is that we charge a hefty tax not only on the property, but on integral plant and machinery. If you replaced business rates with a land value tax, you could raise just as much as you do now, but you could do it in a way that was more economically efficient and that did not discourage businesses from investing in improvements to their property or building new integral plant to do, for example, steel working or wind turbine making.

I am sorry—I realise that I am going on a bit. If you reformed council tax, LBTT and business rates all together, you could fundamentally improve Scotland's tax system. We are talking about an area in which Scotland already has most of the powers.

Emma Congreve: I agree with David Phillips. Essentially, we have council tax as a quasi-property tax, as well as many other things, and we have LBTT as the other property tax. Both of those are flawed as taxes, given what we have discussed and what David has covered, so it might be interesting to think about how those taxes could be reformed together, in order to make the process a bit more acceptable, politically and to the public.

For example, a revaluation could be done when someone sold their property or when a property was transacted. Rather than paying LBTT, they would pay only the amount that was due on the property that they moved to once it had been revalued under a reformed council tax. There might be a way of meshing together a reform that could help to unlock some of the fear that politicians have. That would be technically difficult to do, but it would be possible.

David was right to say that NDR is ripe for inclusion in any reform. In the work that the commission did, they found that a lot of people were very interested in land value taxation. People

thought that it could be a fairer basis on which to levy a local tax because it brings in not just the house but the value derived from big gardens and things like that. The public need to be better informed about land value tax and what it would mean, but there were encouraging signs that people thought that it might be something that they would favour more than they would an outright property tax.

The Convener: Ken Gibb talked about a split tax—part LVT, part housing services.

Emma Congreve: There are a lot of imaginative ways to look at it. The important thing is to get over the hump of actually doing something.

The Convener: Exactly.

I have two more questions—please give brief answers if possible, and then we will arrive on time.

The next question relates to some of Ken Gibb's thoughts. He believes that

"local government finance reform needs to be nested in reform of local government powers and boundaries"

and that

"Tinkering with one aspect does not begin to deal with the wicked problems of reforming local government in Scotland."

What are your thoughts on those ideas?

Emma Congreve: That gets into the wider debate about local democracy and the whole local government finance system. We could be here for a long time talking about that, so I will not go too far into it.

There has been a sense that council tax has become divorced from local democracy. The reforms in 2017 raised revenue but it was top-sliced by the Scottish Government and recycled back in to the education system. There have been council tax freezes at various times in the past few years and they have been used as a political football. It is now the time of year in which councils are announcing the amount by which they want to increase bills, and they are going through that process at a local level—that becomes very political. Pressure is put on councils not to increase council tax very much.

A debate needs to be opened about the whole system of local government finance and the question of whether councils are sustainable and have enough revenue from the Government and from their own revenue raising. It would be hard to do a full reform of council tax without opening up all of that. It is important to understand what the priority is. From the Fraser of Allander Institute's point of view, revaluation of council tax is the first thing: it does not require opening the can of worms that is local government finance but it would take

us substantially further down the path so that we can start to have a meaningful debate on what such reforms might mean and how they would nest in overall changes to local government.

The Convener: David, do you have anything to add in that space?

David Phillips: I agree with Emma that, with council tax, there are elements that could be done without opening the can of worms of wider local government reform. Even for just a revaluation, you would need to update the grants that individual councils get to reflect the fact that the tax bases would have changed. That update would be relatively modest: in the current system, the Scottish Government does that each year when it allocates grants to local areas. The update would use the system as it currently stands.

There is a political question about how we then achieve change. If you want to make some more radical changes to property taxes, do you package them up? If so, there will be winners and losers from different parts, but there will be enough winners from various parts to get momentum behind a reform package. Alternatively, you could package the changes so that they are about not just reforming taxes so that there is a fairer and more efficient way to redistribute and boost growth, but linking up with changes that empower local government to do more things at a local level. That could build on the Bute house agreement to empower local governments with more revenue-raising opportunities and more flexibility in how they spend their money. Central government might intervene less on the council tax rates that they raise, or on how they spend them—for example, on keeping teacher numbers constant, on adapting to changing circumstances to redistribute funding to social care, or on more special educational needs teachers.

There is a political choice to be made: what are the changes that you want to prioritise pushing forward? Like Emma Congreve, we think that council tax revaluation is so far overdue that it needs to be our priority.

12:00

However, it is not just about the priority. How do you actually build a coalition for change? Does adding more things to the mix make it harder or easier to change things? That is a question for politicians, rather than economists like us, to answer.

The Convener: You have cued me up for my last question, on consensus, which both of you have touched on. The joint working group stated:

"Together we need to work towards building a consensus on a single option for reform."

Reforms will always lead to winners and losers, so it would be interesting to hear your thoughts on how we get to the point of achieving consensus.

Emma Congreve: What David Phillips said about whether it is easier or harder to do reform and revaluation if you add other things into the pot is true and interesting, but we are so far away from the point of being able to debate the areas in which we can get consensus, because we have not had the revaluation. The consensus in every stakeholder group and most political parties—at the time of the commission, certainly—was that revaluation has to be the first priority. We do not need to debate whether there is a consensus for revaluation; it just has to happen, and we have to deal with its consequences, whether that is through a transitional relief scheme or by protecting low-income households.

If we add other elements to the reform, or have a separate process of thinking about reform after that, it will be very difficult to find a full consensus, because every option has pros and cons. We do not expect political consensus when we make changes to income tax—it is a decision that the Government has to make in order to meet its priorities. It is interesting that, for some reason, there has to be consensus to reform council tax, whereas the Government is prepared to make often tough decisions on other taxes and welfare benefits in order to meet its priorities. It would be great if there were a consensus, but that is perhaps being put in the way as a barrier to reform, in order to kick it into the long grass. That needs to be challenged.

The Convener: David, you are nodding. Do you want to add anything?

David Phillips: Yes. What Emma said is really important. Given that reform is a possibility, I will be very frank: if we cannot reach a consensus on revaluation, it is because those who oppose it are being wilfully ignorant about the situation.

Fundamentally, revaluation is a fairness issue. Households that live in properties that have the same value can now face bills that differ by many hundreds of pounds a year, because the properties used to be worth different amounts a third of a century ago. We would not tax people based on what their jobs' relative pay was in 1991—that would be a great deal for footballers but a terrible deal for nurses—yet that is what we do for council tax. Fundamentally, it is a fairness issue, because no matter what you think the right level of tax should be or how it should be distributed across households, it should be distributed based on current circumstances, not those from a time when a number of MSPs were not even born.

Having said that, revaluation will be a change and a wrench, particularly the first time, because it has been so long since the last one. You need to address people's legitimate concerns and their fear that everyone's bills will go up, explain why that is not the case and put in place transitional relief and mitigation measures, such as a deferral scheme.

On the wider reforms, as Emma said, people differ on how progressive they think the tax system should be and how much should be raised through council tax. Therefore, the Government needs a strong narrative. Policy in Scotland has diverged from that in the rest of the UK on income tax, social benefits and many things because the Scottish Government has had a strong narrative. I have been surprised, sometimes, to find that political issues that have been huge in Wales—for example, when the Welsh Government had a slightly less-generous business rates relief scheme for retail, hospitality and leisure—have not been so in Scotland, even though, in that case, the policy differed more. It was an issue, but it did not dominate the news in the same way that it did in Wales, and that was partly because the Scottish Government had a narrative behind what it was doing.

I think—and I agree with Emma Congreve here—that you can build consensus on part of this, and you can address concerns but, fundamentally, you need political will and you need a narrative. Whether it be that you are doing this to have fairness, to raise revenues in a more progressive way, to boost funding for teachers and so on, having a narrative lets you make difficult decisions. Where you do not have a narrative—political leadership, if you like—it becomes a zero-sum game of losers and winners. You can never make progress with a zero-sum game; you need a positive message about why this change can be beneficial overall.

The Convener: That is great. Thanks very much.

That concludes our questions. We have ended up with a very clear next step, which is making revaluation a priority and just getting on with it. I get the sense that it is almost a case of our not being able to see the following step until we take that first step. Once we do that, we can start to get a greater understanding of where we need to go.

I appreciate your joining us today for what has been a really helpful discussion. As that was our last item in public, I close the public part of the meeting.

12:06

Meeting continued in private until 12:23.

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