

Local Tax Reform and The SNP's Council Tax Proposals: Policy Briefing by Professor Richard Kerley

11 March 2016

With permission from [LGiU Scotland](#), the CSPP publishes this policy briefing from Professor Richard Kerley, Chair of the CSPP.

This week the First Minister announced proposals for council tax reform. Richard Kerley, chair of the Centre for Scottish Public Policy assesses the plans and the reaction to them. He puts the proposals in the historic perspective of previous attempts to change local tax. He also looks at the plans in the context of local authority autonomy. LGiU Scotland will continue to offer perspectives, blogs and briefings on council tax reform in coming months as the political parties detail their own proposals ahead of the May election. If you would like to contribute please [contact us](#).

Summary

In a speech this week the First Minister announced plans for amendment to the Council Tax if the government is re-elected in May this year.

Central to her proposals was the end of the Council Tax 'freeze'; some planned increases to the higher bands of council tax; a further set of changes to exemptions and benefits for some households; the possibility of some councils being assigned a proportion of income tax raised in their areas; and the capacity for councils to increase council tax by 3% per annum.

In this paper, the author puts the plans in the context of the difficulties governments in the UK and Scotland have encountered in trying to change local taxation.

He also looks at the reactions to the proposals and the potential implications for households across differing local authority areas.

The author says that there are potential complexities and difficulties in the proposals, including the decision not to have a general revaluation, and the assignment of income tax receipts to local government in place of grant.

Briefing in full

Background

Council tax now represents a small proportion of the revenue streams that flow to local authorities. At 12 % overall it is less than Non Domestic Rates (15%); Charges (14% and rising); and various forms of other income (15%) distinct from the main revenue grant. These figures were cited in the recent report of the [Commission on Local Tax Reform](#) , a review body with representation from four political parties, jointly chaired by the Local Government Minister and the President of COSLA, which reported in December.

Their report 'Just Change' was based on a wealth of evidence, government and commissioned research and consultation with citizens and expert opinion. The 90 page reported was accompanied by a 245 page of technical annexe and a 400 page 'Compendium of evidence'; the scale of both giving some sense of the thorough work the Commission did.

Although the Commission did not recommend a specific replacement for the council tax they launched their report [by asserting a common view](#):

“The present Council Tax system must end, with any replacement designed to be fairer, more progressive and locally empowering.”

They recognised this would not be easy, and the history of local taxation in the UK and Scotland has been dogged by failed attempts at change for a relatively small proportion of local government income. The Community Charge /Poll Tax was a factor in bringing down the Thatcher government. The review work of the [Burt Committee of 2006 \(PDF document\)](#) commissioned by the Scottish Lab/Lib Dem coalition government and published as ‘A Fairer Way’, was dismissed by the then First Minister and Alex Salmond within a few hours of publication. The minority Scottish National Party government of 2007 introduced the Council Tax freeze and proposed a ‘local income tax’ to be levied at the same rate country wide, but did not have sufficient votes in Parliament. This policy was not pursued further by the SNP when it formed a majority government in 2011. So change is not easy, and the latest set of proposals are clearly influenced by this legacy.

The Proposals

There were a number of different features to the announcement in [the speech given by the First Minister on March 2nd](#) which discussed both short (post-election for 2017 implementation) and longer term (dates unspecified) changes to local taxation.

- The Council Tax is to be amended, not abolished and replaced, and the current ‘freeze’ is to end next year, with councils continuing to receive the incentive payments that have supported the standstill Council Tax levels.
- The current system is based on a rigid set of multipliers that pivot around Band D, often (though incorrectly) referred to as the ‘average’ rate of Council Tax .On Bands A, B, C, and D the multipliers will remain as they are. For Bands E, F, G, and H they will increase slightly with the highest band changing from a multiplier of 2.0 to 2.45.
- The likely cash increases that will occur because of this change were announced on the basis of the ‘Scotland wide Band D rate’ and headlined in both speech and the media coverage as ranging from £100 to a little over £500.
- The Scottish Government estimates that £100 million a year will be raised by the increases, and that additional revenue will be assigned to education in future local government settlements.
- There are no plans for a general revaluation of domestic properties.
- Planned changes to exemptions and reductions were announced in outline , but not yet in detail, and are intended to further protect families with children in lower banded houses, and the lower income occupiers of larger houses: the classic ‘asset rich and cash poor’.
- No details of the overall effect of band changes on households are yet available, but it is stated that overall 1.8 million households will be unaffected by band changes and 50,000 households or more will benefit from increased exemptions.
- Councils will in future be allowed to raise Council Tax by a maximum of 3% annually.
- In the longer term there are indications of the government consulting on proposals to enable councils to exchange part of their general grant settlement for an assigned

proportion of income tax receipts in their area and the potential of a development land tax. The government will also 'listen to councils' on other possible additional taxes though there was no reference to the often mentioned tourist tax.

Reaction to the proposed changes

The proposals announced by the First Minister fell very short of the expectations of those who had followed the work of the Commission on Local Tax Reform. [COSLA](#), the [STUC](#), and trade unions responded with terms such as 'tinkering', 'weak', and 'astounded'.

A round-up of media coverage for the FM's speech can be read in Thursday 3rd March's edition of the [LGIU Scotland Daily News](#).

The media was generally critical, and across the spectrum of media opinion comment ranged from a general account of unambitious change in the Herald, Scotsman, and Guardian to the more strident claims of 'mansion tax' in the Times. The National, despite its generally enthusiastic coverage of government proposals, took the slightly evasive editorial stance of 'Could Holyrood have pushed reform further?' Unsurprisingly, the editorial concluded 'Yes', that changes could be more radical and used the term 'half measures'.

Comment

The failure to revalue properties on a general basis to update the 1991 valuation bands may be problematic. One of the key findings of the research for the Local Tax Commission was that 57% of residential properties may be incorrectly valued and in either higher or lower bands than they should be. In effect, households in the top four property bands will be expected to pay more local tax without confidence that their property is correctly valued, a recipe for grievance and possible complaint.

The indicative figures for the cash impact on households were presented in a manner that ignored the likely consequences of council decisions on rates of council tax and what form these might take. Ms Sturgeon indicated:

"Councils will have the discretion to increase tax – but only up to a maximum of 3% a year."

It seems reasonable to assume that after a lengthy standstill on council tax levels, most or even all councils will use this discretion and set such an increase. Indeed it would seem a rational response to do that in the first available year and in each subsequent year. It is not clear whether there will be fresh primary legislation to legislate for such a 3% limit, although it may well be needed by the government unless they place great reliance on persuasion and back stage discussions.

When we try to assess the impact on households, then it is necessary to assess tax levels in *each* local authority with such an assumed rise built in. No household pays a 'Scottish average council tax'. The average figure for Band D is £1149 in this current year but this ranges from £1024 in Eilean Siar to £1230 in Aberdeen. If we assume each council will increase local tax to the limit permitted, these will rise respectively to £1055 and £1267. For the highest banded properties in Aberdeen that will probably mean an increase in Council Tax of some £90 more than the First Minister used in her speech – before water and sewerage charges are added on.

The same calculations can be applied across all 32 councils and then geared up for the higher property bands of E, F, G and H. There are 15 councils in Scotland that have Band D tax levels higher than the Scottish 'average' figure so various households can expect greater increases than the headlines suggested.

The other distinction that needs to be drawn out is the difference in property mix between different councils. Across the country as a whole there are approximately 25% of households that fall into the highest four bands for Council Tax. There is a slight lag in the figures available but this proportion ranges from under 10% in Eilean Siar to around 50% in several council areas with both East Renfrewshire and East Dunbartonshire at approximately 55%. In some areas many more households will be affected than elsewhere.

The changes currently proposed are of course intended to take the SNP into an election, and may take a different form depending on the outcome of that vote. The Government's proposals have been widely criticised as unambitious but arguably they do echo the general trend of caution that the SNP has tended to follow.

Some forms of taxation of derelict and undeveloped land suggest interesting options for councils and a direction of travel for many who will welcome such land tax influenced reforms.

There are changes that will be beneficial to low income households though some of the suggested amelioration of the revised Council Tax (assuming it will still be called that) may be more complicated and have less impact than initially promised.

The proposal to assign councils some share of the proceeds from the new Scottish Government income tax powers brings potential complexity and problematic issues of risk and benefit sharing between different spheres of government – which are rarely easily resolved.

The refusal to revalue properties last subject to a general valuation in 1991, and with the majority of properties now probably wrongly valued, is a serious technical omission, though some people may think it a smart move electorally.

The test of whether the changes will be 'empowering for local communities' as the Local Tax Commission urged is not really met here . A cap on Council Tax increases that may require legislation ; a simple assertion by government that increased revenue *will* be spent on education ; and no discussion of Non Domestic Rates could all lead to perceptions of continued – even increasing – centralisation.

Declaration of Interest: Richard Kerley lives in a property in Band G.

This article can be read on the CSPP website at the following link:

http://www.cspp.org.uk/professor_richard_kerley_local_tax_reform_and_the_snp_s_council_tax_proposals