

RESPONDENT INFORMATION

To help us make the most of your response, please tell us about yourself and how you want us to use the information you provide. There are some questions marked * and these must be answered by all respondents, unless you are directed past this question.

* I am responding as:	<input type="checkbox"/> An individual
	<input checked="" type="checkbox"/> An organisation/group
Name of Organisation (if appropriate)	<i>Child Poverty Action Group (CPAG) in Scotland</i>
Forename	<i>Jon</i>
Surname	<i>Shaw</i>
Address	<i>Unit 9 Ladywell 94 Duke Street Glasgow</i>
Postcode	<i>G4 0UW</i>
Telephone	
Email	
Do you consider yourself or your organisation as from or representing?	
<input type="checkbox"/> a rural area	<input type="checkbox"/> an urban area
<input type="checkbox"/> an area with both urban and rural parts	<input checked="" type="checkbox"/> don't know / not applicable
Would you be happy to be approached by the Commission for further discussion about your submission?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If you are responding as an individual:	
* Do you agree to your response being made available to the public on the Commission's web site?	<input type="checkbox"/> Yes <input type="checkbox"/> No
* If you have agreed to your response being made available to the public, please tell us if we may also make your name and address available. (Please select one option only)	
<input type="checkbox"/> Yes, make my response, name and address all available	
<input type="checkbox"/> Yes, make my response available, but not my name and address	
<input type="checkbox"/> Yes, make my response and name available, but not my address	
<i>If you are responding as an individual we would be grateful if you could provide some additional information at the end of this form. This is absolutely optional but will help us get an overall picture of the information we receive.</i>	
If you are responding as a group or organisation:	
* The name and address of your organisation will be made public on the Commission's web site. Are you content for your response to also be made available?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Which of the following best describes your organisation? (Please select one option only)	
<input type="checkbox"/> Community Group	<input type="checkbox"/> A business
<input type="checkbox"/> Local Authority	<input type="checkbox"/> A government department or agency
<input type="checkbox"/> Other public sector organisation	<input type="checkbox"/> A social enterprise
<input checked="" type="checkbox"/> Third Sector organisation	<input type="checkbox"/> Other (please specify)
<input type="checkbox"/> Professional body	
Short description of the main purpose of your organisation:	
<i>CPAG works to end child poverty. We have extensive expertise on UK social security and its interaction with devolved sources of financial support and wider policy to prevent child poverty, and are the leading national provider of independent second tier welfare benefits training, information and casework support.</i>	

Tell us what you think

We have not provided a long list of questions, but we do want to hear what you have to say about some themes. Please respond to as few or as many as you wish. If you would prefer to send us other information, please feel free to do so. However, it would be helpful to keep your response to no more than eight pages.

If you are able to, please provide evidence or examples in support of what you say. This will help us explore your ideas further.

1. SCOTLAND'S CURRENT SYSTEM OF COUNCIL TAX

To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?

You may wish to illustrate your answer with examples from your own experience.

This response highlights some issues with the current council tax system, and particularly around financial support with council tax (council tax reduction, or CTR). The criticisms of council tax reduction below should not be taken as undermining the more general point that CPAG welcomes the Scottish Government's decision to maintain the level of support formerly provided by council tax benefit across Scotland. This sits in stark contrast to the effect of localisation of council tax support on low-income families in many areas of England.

*Council tax is regressive. It is levied on property value, not on incomes, and the rate paid does not rise sharply with rising property value. Reform of local taxation presents a potential lever to reduce the burden of taxation on less well off households. Even after financial support with council tax is taken into account, the poorest households with children pay over five per cent of their gross incomes in council tax compared with under two per cent for the richest families (Office for National Statistics, *The Effects of Taxes and Benefits on Household Income, 2012/13*). Even if the entire system of council tax is to be replaced in the longer term, there is nothing to stop the current system from being re-balanced in the short-term, for example by adding further bands at the top of the scale and using the extra money generated to increase council tax reduction (CTR) personal allowances and/or reduce the rate at which CTR support is withdrawn as income increases.*

Whilst reducing household expenditure for some low income households, the blanket council tax freeze inevitably undermines the ability of local authorities to raise additional resources that could be used to invest in services for children and families. The fact that the council tax bill has not increased is of limited comfort to those who rely on council services that have been cut back or are now charged for. Whether families or disabled people, those who use more public services tend to be groups who are at greater risk of poverty.

Council tax benefit historically had a particularly low take rate of those entitled to it. In 2009/10 at least 2.3 million households across the UK were estimated not to be taking up their council tax benefit entitlement (<https://www.gov.uk/government/collections/income-related-benefits-estimates-of-take-up--2>). A claimant of a DWP means-tested benefit could be offered the opportunity to submit the information already provided to their local authority as a claim for council tax benefit. This possibility no longer exists under the CTR scheme, creating a further barrier to citizens taking up their entitlement. The most recent CTR statistics show a reduction in both caseload and expenditure, the former falling by five per cent over the past two years (<http://www.gov.scot/Publications/2015/06/2028>). The reason for this is not considered, and the Scottish Government do not provide estimates of CTR take up, but it nonetheless represents a worrying trend.

The introduction of universal credit (UC) continues the high rates of benefit withdrawal faced by low-income families as their income increases. Many will receive both universal credit and CTR, exacerbating this problem. The CTR calculation for UC claimants forces the LA to take into account UC maximum amounts and income as assessed by the DWP (converting them to weekly figures). The 65 per cent taper of UC as net earned income increases becomes 71 per cent when a claimant also receives CTR, or even higher once a claimant pays income tax and national insurance contributions.

CTR has removed some important protections for claimants. There is no longer any protection in the CTR Regulations for those claimants whose council tax bill is reduced by a local authority due to its own error, even if the applicant did not contribute to the error and could not reasonably have realised that the bill should have been higher (as there was in Reg 83 of the Council Tax Benefit Regulations 2006 SI No 215). Vulnerable families are then left at the mercy of local authority discretion on how the council tax arrears created by its own error are collected.

The CTR regulations are close to identical to the housing benefit regulations, but over time differences are emerging, whether by design or oversight it is not clear. Local authority staff do not appear to be aware of these differences in some cases. If administration of financial support is to be carried out by the same staff, it is vital that any differences in entitlement conditions are considered, and that the staff making those decisions are fully aware of them. Examples are the treatment of non-dependents and when deductions are made, the right to reside test for EEA nationals, the temporary absence rules, and the rules about how 'notional capital' is calculated and treated as decreasing over time.

The method of challenging CTR decisions is necessarily different to the housing benefit (HB) rules. However, the fact the time limits and processes for challenging decisions are different is less easy to understand. We welcome the fact that the Scottish Government set up the Council Tax Reduction Review Panel to allow unfavourable CTR decision to be taken to an independent tribunal. However, it also introduced equivalent of the 'mandatory reconsideration' rules that apply to DWP benefits. This stage does not apply in housing benefit cases and these different processes have the potential to cause confusion. Even more of an issue is that of the time limits to challenge a decision. Whilst this is longer for CTR, there is no discretion to extend the time limits as there is in HB. In combination with the extra stage required to get an independent review of a decision, this risks access to justice of those refused CTR.

2. REFORM OF LOCAL TAXATION

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

Do you have any examples of why this is the case?

We do not recommend a specific alternative above others. However any replacement, (and any reform to council tax) must meet the following tests.

At the very least, it must not leave any families living in poverty worse off than the current system. There are inevitably winners and losers from any significant policy change. A replacement system must minimise the number of the latter amongst low income groups. Our view is that more progressive and redistributive policies are generally better, but it is always important to think about the adverse impacts on smaller groups of vulnerable people too. This is especially important when seeking to simplify a complex system. Citizens must also be protected from sudden demands and inappropriate enforcement action by local authorities, particularly in cases where problems have been caused by the local authority.

Local taxation must contribute meaningfully to the duty of the Scottish Government and commitment of local authorities to do all within their powers to end child poverty. All of the levers that control local taxation are devolved to Holyrood. Whilst there is no reason to think that replacing council tax would re-reserve any of these powers to Westminster, it is vital that the Scottish and UK Governments work together at an early stage to ensure a common understanding of the extent to which a Scottish local taxation system can depart from the current council tax system without amendments to the devolution settlement. This will ensure that the Scottish Government has the necessary competence to exempt the lowest income households from local taxation, and provide support with liability for those on modest incomes.

Local taxation must be made more progressive, with the amount paid better reflecting the ability of the citizen to pay, and reducing inequality in Scotland. At the same time, it must provide enough income to local authorities to allow them to give every child the best possible start in life. The local tax base must be robust enough to allow investment in public services to reduce child poverty and inequality. This will of course depend on the choice of design for a replacement scheme. There is a need for minimum standards of protection for those on low incomes. The design of a replacement system must ensure adequate funding to provide services such as free school meals and childcare free at the point of delivery, as well as protecting work incentives and public buy-in for funding of these and other vital anti-poverty levers.

Access to support with the costs of local taxation must be straightforward, to ensure that it is taken up. We recommend that the Scottish Government explore the potential for links with the reserved universal credit system and, depending on the system chosen, to what extent there is potential for a more seamless interaction between social security and local taxation. However, none of the comments below should be taken as recommending a particular replacement system.

By March 2016, universal credit will have been rolled out across Scotland for a limited group of new claimants. It will be years before it affects all low income families, but it will be the main source of means-tested support for working age people in the longer term. One of the key aims of universal credit is stated to be to 'make work pay'. This is of course to be welcomed, although the current taper rate still leaves those on the lowest incomes with a higher participation tax rate than

the richest. The simultaneous withdrawal of council tax reduction exacerbates this problem.

When the proposals for universal credit were initially produced, support with council tax was to be included within the new benefit. However, the decision was later taken to exclude it, and to localise support in England. A helpful summary of the issues that this creates for any future integration, particularly where there is local variation in support with local taxation in different areas, can be found in a recent report from the New Policy Institute (<http://npi.org.uk/publications/council-tax/managing-challenges-localised-council-tax-support/>).

If council tax is retained or a replacement introduced that is levied on the occupiers of a property, there will be a clear need to ensure that the poorest households are exempt, to avoid placing further financial pressure on those already least able to make ends meet. One option would be that all UC claimants are 'passported' to full support with local taxation liability, as happens with pensioners receiving means-tested benefits and council tax reduction. The advantage of this is that the single taper of universal credit is preserved. However, it could be argued that this approach reduces the tax base for local taxation too far (particularly where the tax itself is as regressive as council tax is) and risks eroding public support for redistributive local taxation by feeding into the narrative that distinguishes between 'tax-payers' and 'claimants'. It would also require local authorities to retain the administrative structures to assess the income of those earnings too much to qualify for universal credit.

The Resolution Foundation suggest that a compromise in the short term would be to keep a separate taper for council tax reduction (or by analogy any replacement), but administer this through universal credit. They estimate that this might save enough in administrative costs to generate the savings required by the 10 per cent cut in funding to English councils without reducing support to claimants (see <http://www.resolutionfoundation.org/publications/making-it-work-final-report-of-the-resolution-foundation-review-of-universal-credit/>). If this is accurate, there would be the opportunity to use this saving to make support with local taxation in Scotland more generous, as the 10 per cent shortfall in the funding devolved in 2013 is currently being met. This could be done by increasing earnings disregards or reducing the rate at which entitlement is tapered away as earnings increase (assuming that any replacement is similar enough to council tax that an analogous low-income exemption scheme could be introduced).

Combining UC and support with local taxation is not currently within the competence of the Scottish Government, given that universal credit remains reserved to Westminster. However, this may change anyway when the forthcoming review of council tax support in England is published, which must consider whether it should be combined with UC (this is required by section 9 of the Local Government Finance Act 2012). Should it be decided that support with council tax will be linked more closely to universal credit, any replacement should be designed to take advantage of any improved work incentives and administrative savings that this can achieve.

If a more radical approach is taken to the reform of local taxation, different considerations will apply. For example, a local income tax might potentially interact seamlessly with universal credit (as universal credit is reduced by 65 per cent of net earnings). However, a complete shift to local income taxation without any tax levied on the value of assets seems unlikely. If a new tax on property or assets were to be introduced alongside a local income tax then the considerations above would apply to supporting those on lower incomes.

Whilst there may be an intuitive attraction to simple systems like exemption thresholds set at fixed amounts or a proportion of taxpayers' income, it is important to consider the impact of family composition and needs on what constitutes an adequate income. A single adult earning £25,000 a year will have a very different disposable income to the only earner in a family with three children on the same salary. The means test for universal credit is crude and imperfect but does take some account of family size, disability and level of housing costs. Any replacement for CTR that attempts to do so completely independently will involve duplication of effort, and any system that takes no account of such factors will damage the living standards and life chances of our children.

If there is a shift to something akin to a land valuation tax, then there may be another potential solution to interaction with universal credit. The current Scotland Bill before the UK Parliament proposes to devolve responsibility for setting the amount of universal credit support for those renting accommodation to the Scottish Parliament (Clause 24 of the Scotland Bill 2015-16). Thus if landlords responded to the introduction of a land valuation tax (or similar scheme) by increasing rents, the Scottish Parliament would potentially be able to increase the support provided through universal credit to protect those on the lowest incomes. However, it is important to note that it is not planned to devolve housing benefit for claimants over pension age, or those in certain types of supported accommodation. Further, there would still be a need to protect those owner occupiers who have a low income level from an increased local taxation burden.

3. LOCAL PRIORITIES

How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?

Do you have any ideas or examples about how this could improve people's lives?

See our answer to question 2 above.

4. FURTHER INFORMATION

We would like to keep the conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.

Feel free to contact us if we can help by clarifying or expanding on any of the points made in this response.

Thank you for your submission. If you have any queries about the Call for Evidence please contact us at:

Commission on Local Tax Reform
Verity House
19 Haymarket Yards
Edinburgh EH12 5BH
0131 474 9200
email: info@localtaxcommission.scot
twitter: [@localtaxscot](https://twitter.com/localtaxscot)