

NORTH LANARKSHIRE COUNCIL

To: Commission on Local Tax Reform	Subject: Response to Call for Evidence by the Commission on Local Tax Reform	
From: Head of Revenue Services		
Date: 17 th June 2015	Ref: BC /	

1 Introduction

- 1.1 The Commission for Local Tax Reform is an independent body reviewing the opportunities to deliver a fairer system of local taxation in Scotland. The call for evidence by the Commission has been extended to allow Local Authorities to make a submission by 30th June.
- 1.2 The call for evidence is focussed around 4 themes and these are reflected in the sections below.

2 Theme 1: Scotland's Current System of Council Tax

- 2.1 The current system of Council Tax has been in operation since 1st April 1993. Whilst there have been some changes to the Council Tax system (e.g. Council Tax Levy, varying levels of discounts for empty property etc) the system remains substantially unchanged since its inception.
- 2.2 The gross liability is essentially determined by the valuation of the property as it relates to the 8 bandings (A – H) as outlined in Table 1 below.

Table 1

Band	Ratio	Property Values	Midpoint of Band	Number of Properties	%
A	6 / 9	£0 to £27,000	£13,500	48,332	35.5%
B	7 / 9	£27,000 to £35,000	£31,000	33,190	24.3%
C	8 / 9	£35,000 to £45,000	£40,000	16,821	12.3%
D	9 / 9	£45,000 to £58,000	£51,500	14,174	10.4%
E	11 / 9	£58,000 to £80,000	£69,000	14,121	10.4%
F	13 / 9	£80,000 to £106,000	£93,000	7,078	5.2%
G	15 / 9	£106,000 to £212,000	£159,000	2,487	1.8%
H	18 / 9	£212,000 upwards	£265,000 *	123	0.1%
				136,326	

* assumed using midpoint increase at Band G

- 2.3 As above the starting point for determining the Council Tax liability is based on the property. The Council Tax System ensures that there is a fairness and equality in terms of the property and the occupier through a series of available reliefs and discounts that may then be applicable relating to either the property (e.g. empty relief, repairs etc) or the occupants (e.g. Council Tax Reduction Scheme, Single Person discount etc) to give the net liability due. The operation of these reliefs means that the Council Tax system involves both a property and a personal element in the calculation of the net liability due by the householder.

- 2.4 It has been suggested that the Council Tax system has a regressive feature as the range of the gross liability has a 3x multiplier (Band A = 6/9ths to Band H = 18/9ths) whilst the average property values associated with the bandings (Band A = £13,500 to Band H = £265,000) can be a 20x multiplier. Consequently it could seem that households that can afford a property that is 20x more valuable only pay Council Tax at 3x the level.
- 2.5 As indicated above the provision of reliefs and discounts within the Council Tax system provides scope to reflect the ability to pay of the occupants. A significant aspect of this is the Council Tax Reduction Scheme (CTRS). This scheme can provide a reduction on the amount of Council Tax due based on the household income. As can be seen in Table 2 below the majority of recipients of CTRS, 72.7%, are within Bands A and B. Thus whilst the gross liability is merely 1/3 of Band H with the award of CTRS the amount due to be paid is significantly less, and in two-thirds of the cases the award of 100% CTRS means there is nothing to pay and removes the regressive aspects of the Council Tax system.
- 2.6 As can be seen in Table 2 just over 1 in 4 households receive an award of CTRS. Of these 2 in 3 are awarded 100% CTRS (i.e. 1 in 6 households) meaning that they have no liability for Council Tax.

Table 2

		Council Tax Reduction Scheme			
1	2	3	4 (3 / 2)	5	6 (5 / 3)
Band	Number of Properties	Award Numbers	% of Property by Band	Award of 100%	100% CTRS Award
A	48,332	20,538	42.5%	14,615	71.2%
B	33,190	10,025	30.2%	6,317	63.0%
C	16,821	3,810	22.7%	2,257	59.2%
D	14,174	1,380	9.7%	745	54.0%
E	14,121	765	5.4%	396	51.8%
F	7,078	296	4.2%	141	47.6%
G	2,487	76	3.1%	30	39.5%
H	123	2	1.6%	1	50.0%
	136,326	36,892	27.1%	24,502	66.4%

- 2.7 The operation of the various Reliefs and discounts allows the Council Tax system to provide some protection to a range of vulnerable groups within our society. Whilst there should be a review of all the associated reliefs and discounts the impact will be greatest for those which have the largest award basis. The two most significant awards in terms of value of award and number of beneficiaries are CTRS as shown in Table 2 above and the Single Person Discount (SPD) which reduces the liability by 25%.
- 2.8 Table 3 shows that the 25% discount is awarded to approximately 1 in 3 households and these are predominantly SPD recipients. The number of SPD recipients continues to increase creating a significant cost to sustain the award level at 25% which is effectively payable by all other Council Tax payers. As part of the process of updating the Council Tax system the continuing appropriateness of maintaining this relief, and other reliefs, should be assessed to ensure that they continue to provide the right level of support to those most needing it within our communities.

Table 3

Band	Number of Properties	25% Discount	
		Award Numbers	% of Property by Band
A	48,332	22,581	46.7%
B	33,190	12,120	36.5%
C	16,821	5,281	31.4%
D	14,174	3,224	22.7%
E	14,121	2,157	15.3%
F	7,078	778	11.0%
G	2,487	223	9.0%
H	123	12	9.8%
	136,326	46,376	34.0%

2.9 The Council Tax system has a number of features that would need amending to improve the equality and fairness of the system:

2.9.1 **Revaluations** – The current system is based on the premise of property values as at the tone date in 1991. Whilst this may have been administratively simple to operate at implementation in 1993 it has become increasingly outdated over the last 20 years. To address this it is proposed that the property base is subject to a revaluation and that there are regular revaluations carried out thereafter, probably on a 5 year cycle similar to the operation of NDR. Whilst there may be a case for considering transitional relief for those affected this should be balanced against the need to move all those within the tax base to the position of paying the liability due as early in the revaluation cycle as is practical e.g. If transitional relief was phased in over the 5 year cycle at 20% per year then households would only pay the full rate in year 5 and then be subject to a further revaluation, this method and any shorter period would also mean significant increases each year as the Council Tax would increase by 20% of the transitional amount and present a stepped increase in the sum due each year.

2.9.2 **Bandings** – As with Revaluation the current number and width of bandings, as shown in Table 1, relate to the position that existed at 1991 and have become increasingly outdated over the last 20 years. As part of the process of revaluation the number and width of bands should be reviewed each revaluation cycle to ensure that they retain an appropriate relationship to the valuations within the property database.

2.9.3 **Council Tax Freeze** – The operation of the Council Tax freeze for the past 8 years has diminished the accountability and partnership between the electorate and their democratic representatives. There is no fiscal accountability with regard to the level of Council Tax set or any scope to address local priorities through an acceptable increase in the level of Council Tax set. The removal of the freeze would provide an opportunity for local authorities to begin to re-establish the connection with their communities and be responsible for, and respond to, the funding of local services to meet local needs

3 Theme 2: Reform of Local Taxation

3.1 The Council has contributed to, and considered the reports from, a number of studies over the years on local taxation. The Council Tax system has demonstrated that it is inherently a fair and equitable local taxation system as it incorporates the best advantages of both a property and a personal tax system. The Council Tax system is

compatible with the 6 assessment principles agreed across Local Government for Local Taxation:

- Fair in application and easy to understand
- Administratively efficient and able to limit tax avoidance
- Provide stability of funding with a buoyancy in the underlying tax base
- Provide scope for the level of tax to be locally set to enhance local accountability
- Provide scope for rates / reliefs to be locally set
- Provide scope for the introduction of other local taxes to raise additional resources

3.2 Council Tax is a recognised, and accepted, tax system that has operated within the community for over 20 years. Whilst the system has been resilient over that period there are improvements that are needed to ensure that it would continue to operate fairly and responsively to the community's needs e.g. Revaluations, Bandings, Council Tax freeze, these have been outlined in paragraph 2.9

3.3 The Scottish Parliament is currently introducing the Scottish Rate of Income Tax (SRIT) which will be introduced with effect from April 2016. This will potentially introduce a cumulative rate of Income Tax in Scotland which could differ from that applied in the rest of the UK.

3.4 If the Review of Local Taxation were to consider some form of local income tax as the main basis of raising revenue this would create a further complication for the Income Tax system as taxation, reliefs etc would not only have to accommodate the two rates (for Scotland and the rest of the UK) but also a potential 32 local amendments to either of these two reflecting each local authority's scope to set a different rate.

3.5 The Commission may give consideration to permitting additional taxes to be introduced by individual local authorities. It should be recognized that Scotland, and the individual Local Authority areas, are relatively small and there may be adverse impacts of introducing varying types of taxes in different Councils or, indeed, within parts of the same Council. Consideration should be given to the scope, complexity, tax base, and the potential revenue raised in determining if such powers should be provided and operated. The operation of BIDs (Business Improvement Districts) within NDR may provide a model for such schemes if they are to be introduced

4 Theme 3: Local Priorities

4.1 It is important for the operation of local democracy that the powers and responsibilities of Local Authorities are evident and demonstrable to the electorate. That responsibility is intrinsically linked to both the decision making powers and fiscal management of local service delivery.

4.2 It is important that the local community is able to hold elected officials to account for local service delivery. As indicated in paragraph 2.9.3 the continued application of the Council Tax freeze has adversely affected. The Council Tax freeze has removed the ability of Local Authorities to increase Council Tax levels, providing additional resources, even if there is a need and willingness in the community to improve services. The Council Tax freeze has also meant that the amount of funding for local services which is raised locally has been reduced year on year with the result that funding of local services is now achieved based on the distribution of national grant rather than local need. This disjoin needs to be removed to strengthen the accountability of the Council and its elected officials and the local community.

4.3 The Commission should be considering developing the funding model of Local Government to empower greater capacity to raise revenue locally and retain it to meet local priorities. This could be achieved by allowing LAs to raise and retain the income from Non Domestic Rates. Such flexibility would provide Local Government in Scotland

with a similar degree of fiscal responsibility as exists throughout most of our European counterparts.

- 4.4 The future governance across Scotland needs to develop a greater level of fiscal freedom for Local Authorities allowing them to respond to local needs and provide Local Authorities with the powers to raise and be accountable for the revenue funding required to meet local needs. The remaining financial support needed by Councils would continue to be provided through government grant. This would allow Scottish Government to continue to support and develop national priorities and address any financial support / equalisation which would be needed to compensate between authorities for any disparity in the tax raising base.

5 Theme 4: Further Information

- 5.1 As part of the call for evidence the Commission will receive, and consider, a wide range of contributions. As the Commission develops its position it would be beneficial to continue to engage with those bodies and agencies that will play a significant role in the future operation of Local Taxation. This could include, but not be limited to, Local Authorities, CoSLA, IRRV, Assessors etc. The commission may want to ensure that it continues to have access to the opinions and support from these representatives to act as a sounding board and aid the Commission by providing critique and analysis of proposals as they develop.
- 5.2 The Commission may also want to engage with third sector and voluntary organisations that represent and advocate on behalf of the public, eg. CAB, which would provide input from all parties.

6 Summary

- 6.1 In response to the call for evidence the Council would emphasise the following points in respect of the four themes:
- 6.1.1 Scotland's Current System of Council Tax
- Revaluation of all properties should be undertaken and conducted on a regular basis (e.g. 5 yearly)
 - A review of the number and widths of the Council Tax bands should be undertaken at each revaluation.
 - Local Authorities should be able to determine the level of Council Tax set and the Council Tax freeze should be discontinued as early as possible
 - The principles of award criteria for the Council Tax Reduction Scheme and the 25% discount (e.g. Single Person Discount) should be reviewed. Such reliefs should be reviewed to ensure that they are affordable, sustainable and meet the needs and priorities identified for Scotland.
- 6.1.2 Reform of Local Taxation
- Reforming the Council Tax provides a fair and equitable taxation system that is compatible with the six assessment principles
 - More detailed consideration may be needed in respect of introducing other subsidiary Local Taxes
- 6.1.3 Local Priorities
- Need to reinvigorate local democracy through the link between fiscal responsibility and service delivery
 - Remove the Council Tax freeze at the earliest opportunity
 - Allow Local Authorities to retain the Non Domestic Rate Income raised in their area
- 6.1.4 Further Information

- Ensure that continued dialogue is maintained with Local Government as the Commission's proposals are developed.

6.2 Whilst the Council Tax system may have been disadvantaged in its operation over the last 20 years due to the lack of revaluations, rebanding etc it has been widely accepted and understood by the community. This is demonstrated by high collection levels and supports the position that developing the Council Tax system to make it more relevant to the incomes and property market as currently exist will provide the most effective solution to improving local taxation.