

Submission to the Scottish Government

Consultation on Fairer Council Tax

12 September 2023



About us

The Poverty Alliance is Scotland's anti-poverty network. Together with our members, we influence policy and practice, support communities to challenge poverty, provide evidence through research and build public support for the solutions to tackle poverty. Our members include grassroots community groups, academics, large national NGOs, voluntary organisations, statutory organisations, trade unions, and faith groups.

Introduction

Investment in our public services through progressive taxation is fundamental to creating and sustaining a just economy and a compassionate society. An adequate and equitable taxation system provides a solid foundation to the common good, supporting the services that individuals, communities, and businesses all rely on to achieve their potential.

People want their public services to be designed with equity and fairness at its heart, where those who have more, invest more, and where those with limited incomes are not pushed into debt to meet unaffordable bills. Sadly, on these measures, our current system of Council Tax is failing. The Poverty Alliance believes that - nearly 25 years after the establishment of the Scottish Parliament - now is the time to stop tinkering on the edges of a fundamentally flawed taxation system. Instead, the Scottish Government must utilise all of the devolved powers at their disposal for the benefit of the people of Scotland. We urge the Scottish Government to replace this regressive tax with a progressive system that places justice and compassion at its heart. This action is necessary to build strong public services that work for all of us.

We welcome this consultation as a starting point for this process. However, we have concerns about the continued resistance to embark on the much needed and anticipated fundamental reform of Council Tax. Delays to this reform is causing harm and financial precarity for our local councils and those struggling to get by on low incomes who rely on council provided services.

1. Do you think that Council Tax in Scotland should be changed to apply increases to the tax on properties in Bands E, F, G, and H?

Don't know

Please give reasons for your answer?

Earlier this month, the Poverty Alliance published a briefing¹ alongside other organisations in the third sector, including the Scottish Women's Budget Group, IPPR Scotland and Oxfam, putting forward the case for tax reform in Scotland. This briefing reaffirms the widely felt view that the current model of Council Tax is deeply regressive and inefficient at generating an adequate and equitable level of investment for local councils to put into public services. The Scottish Government committed to undertake an 'effective deliberative engagement on sources of local government funding, including Council Tax, that will culminate in a Citizens' Assembly' over two years ago, yet this has not been acted upon.

Whilst we broadly support the proposal to ensure that those who earn more should pay more tax, we have concerns with the decision to tinker around the edges of the current model rather than implementing the desperately needed overhaul. It is for this reason that we cannot commit to supporting these proposals in full.

A further concern we have is on the proposed change exclusively to Council Tax bandings E-H. Although these proposals aim to make the system fairer, with the presumption that people living in these properties are higher income groups, there remains a significant risk of harm to those living on low incomes in these bandings. The likelihood of these unintended consequences is heightened by the fact that current bandings are based upon estimates established in 1991 making the values largely outdated. As a result, some higher income households who reside in lower bandings will face no increase in Council Tax. Demonstrating this, our joint briefing² utilises modelling by IPPR Scotland showing that whilst around three quarters of all homes are in bands A-D (the lowest value bands) more than a third of the homes occupied by the richest 10 per cent of people. This means that people with some of the highest incomes in Scotland pay the least in Council Tax and latterly would not be affected by the proposed changes.

Concurrently, although higher income households are more likely to live in bands E-H, a number of lower income households also live in these homes. This means that a number of lower income people are paying some of the highest Council Tax bills in the country and would fall victim to the proposed increases. Although the Council Tax Reduction schemes exist, and should be able to mitigate for this, there are issues with the scheme meaning

¹ IPPR Scotland, Oxfam Scotland, Poverty Alliance, CPAG in Scotland, Scottish Women's Budget Group, One Parent Families Scotland, and the Wellbeing Economy Alliance Scotland (2023) *The Case for Fair Tax Reforms in Scotland*.

² Ibid.

that low-income households are missing out on crucial support we have expanded more on this in Q5. These households may fall into higher levels of Council Tax arrears as a result of these proposed changes.

We are glad to see that the Scottish Government acknowledges the regressive nature of the tax in the consultation paper. However, it is disappointing to see a lack of any meaningful action to fundamentally redesign the system to make it fairer. The proposed increases may offer marginal improvement, yet it will be short-term and well below the bold changes we need to see. There are significant amounts of wealth tied up in property in Scotland therefore an equitable, robust and fair Council Tax system tied to property value is the right way to fund public services. To this end, instead of increasing outdated bandings with little relevance to today's housing market, the Scottish Government should commit to entirely replace the current Council Tax system before the end of this parliament in 2026.

2. The proposal is to increase the Council Tax on properties in Bands E, F, G and H by 7.5%, 12.5%, 17.5% and 22.5% respectively. Do you agree with the levels of increase set out in this proposal?

Yes

As explained above in Q1, we support the broad premise that those who earn more should be expected to contribute more towards our public services. Fairness and equity must be a core component embedded in any new taxation systems, particularly given that Council Tax currently makes up the lowest component of home value for those in the highest value properties and as a proportion of income for high income households in Scotland.³ We therefore support increases that embed fairness when defining levels of charges; namely that increases ensure that charges are proportional to property wealth.

3. If you have answered no to Question 2, what do you think the increases to the Council Tax on properties in Bands E, F, G and H should be?

N/A

4. When should any increases be introduced if the tax on higher band properties is increased as proposed?

N/A

³ IPPR Scotland (2021) *Better Than Before: How Local Tax Reform Can Help Pay for Recovery*. Available at: <https://www.ippr.org/files/2021-04/better-than-before-how-local-tax-reform-can-help-pay-for-recovery.pdf>

5. Should the Council Tax Reduction scheme be expanded to protect those on lower incomes from any increases to higher band properties?

Yes

It is unequivocally important that any, and all, increases to Council Tax bands are accompanied by a robust and extensive drive to boost awareness of and applications for the Council Tax Reduction scheme. To this end, it is concerning that numbers of households in receipt of Council Tax Reduction has dropped substantially since 2013⁴ despite the significant rise in living costs and stagnating levels of child poverty. Furthermore, we are disappointed by the lack of action to rectify this.

These schemes must be expanded to respond adequately to the financial reality of Scottish households as a matter of urgency. Council Tax Reduction schemes do offer protection for those on the lowest incomes, in particular those relying on social security. However, the current system fails to accommodate those who may be in work yet face insecure, low wages whilst being ineligible for social security. This is particularly important when the latest data showing that 69% of children in poverty in Scotland live in a household where someone is in work⁵, a rise from 54% in 2013. To rectify this, the Scottish Government should assess the income allowances to determine income based Council Tax Reduction's and ensure they are fit for purpose given the recent cost of living, ideally leading to a more generous allowance which can capture more low income working households to free up disposable income for other essential costs.

Relatedly, there are important question to be raised regarding automation. Prior to the introduction of Universal Credit, low income households who needed support to meet their housing costs could make an application for housing benefit to their local authority. This automatically worked as an application Council Tax Reduction, meaning that anyone getting support for their housing costs was also assessed for eligibility for Council Tax Reduction. Housing costs are now included in the application for universal credit and therefore Council Tax Reductions are a separate application. This may be contributing to the overall drop in applications for Council Tax Reduction and thus leading to some people missing out.

Whilst some local authorities automatically assign Council Tax Reduction's to households if they are identified as receiving Universal Credit, others rely on residents to apply for them manually. This creates a gap where lack of awareness and the role of stigma can prevent people from applying for support, thus driving people into unnecessary financial difficulty as they attempt to pay for bills that they are exempt from. For these reasons, we believe

⁴ Scottish Government (2023) *Council Tax Reduction in Scotland: 2022-23*. Available at: <https://www.gov.scot/publications/council-tax-reduction-scotland-2022-2023/pages/1/>

⁵ Scottish Government (2023) *Poverty and Inequality in Scotland 2019-22*. Available at: <https://data.gov.scot/poverty/>

the Scottish Government should reach an agreement with COSLA ensuring that all notifications of a household receiving Universal Credit are counted as an application for a Council Tax Reduction. This would follow a similar mechanism as was known prior to Universal Credit.

A further consideration should be made to include full reduction in water and sewage charges in the Council Tax Reduction scheme. It is unjust that households who are deemed to exempt from paying Council Tax should be expected to pay for water and sewage charges in full.

The actions proposed above are critical to the progress of Scottish Government's Minimum Income Guarantee (MIG). The interim report of the MIG expert group recommended that the Scottish Government should ensure the Council Tax Reduction and water rates discount for households on the lowest incomes are reviewed with a view to taking significantly greater numbers of low-income families out of paying these charges. The review should be undertaken in time for consideration for the 2024/25 Scottish Government draft budget. Decreasing costs facing people and households underneath the level of a MIG is a critical aspect of the realisation of this Scottish Government commitment.⁶

6. Please tell us how you think changes to Council Tax rates for properties in Bands E, F, G and H might impact you, or the people your organisation represents?

According to Christians Against Poverty, Council Tax arrears are the largest source of debt facing their clients in Scotland⁷ and lower-income households in Scotland are more likely to experience problem debt.

Research by the Joseph Rowntree Foundation (JRF) in Scotland found that in summer 2022, almost one in five households were already behind on one or more bills or payments⁸. This has important impacts for groups more vulnerable to poverty and therefore debt such as disabled people, Black and minority ethnic households and single parents- the majority of which are women. According to JRF:

- 70% of single parents surveyed have one or more debts and a quarter with debt have more than £2,500 of debt.

⁶ Minimum Income Guarantee Expert Group (2023) *Interim Report* available at <https://www.gov.scot/publications/minimum-income-guarantee-expert-group-interim-report/>

⁷ Christians Against Poverty (2023) *Taking on UK Poverty: Client Report*. Available at: <https://capuk.org/about-us/policy-and-research/reports-and-publications>

⁸ Joseph Rowntree Foundation (2022) *Poverty in Scotland 2022*. Available at: <https://www.jrf.org.uk/report/poverty-scotland-2022>

- Nine in twenty low-income families in arrears are in arrears to a public service (including Council Tax) and we know that 87% of people who are in arrears to a public service have cut back on essentials.
- For disabled households, focusing on families in arrears two in five are behind on a payment to a public service (including Council Tax).⁹

Echoing this, earlier this year we published research alongside the Scottish Women's Budget Group focusing on women's experience of the cost of living crisis. Findings from this research suggests that women are at greater risk of falling into debt and worsening existing debt. Of the 16 women who took part in this research, some were managing to pay a regular proportion of their income towards their debt, but most were struggling to repay debts or not paying anything at all. Types of debt varied and included loans, credit card debit, overdrafts, rent or mortgage arrears, Council Tax debt and energy arrears. For around half, debt was long-term i.e., lasting more than a year. In some instances, women had been in debt for more than five years with levels of debt ranging from around £500 to £6,000. Debt and repayments have significant negative impacts on household finances, mental health, and health outcomes more generally. This, again, has important consequences for policy priority areas such as reaching child poverty targets and tackling the mental health crisis.

It is therefore critical, as detailed more in Q5, that that people in poverty are protected from these Council Tax rises through a robust expansion and promotion of Council Tax Reduction schemes. Additionally, we are calling for the scheme to be expanded to allow for people to backdate Council Tax Reduction scheme applications for households who were unaware of the support available.

7. Please tell us how you think changes to Council Tax rates for properties in Bands E, F, G and H would affect your local area, or Scotland as a whole (please consider social, economic, environment, community, cultural, enterprise impacts that you think are relevant)?

We have expanded on this in Q1, 4 and 5.

8. Please tell us how you think changes to Council Tax rates for properties in Bands E, F, G and H might affect Island Communities

Don't know

⁹ ibid

As detailed above in Q1, under the current Council Tax system any increases to pre-existing bands are regressive and will lead to consequences for low income communities and the individual households within them. The lack of properties in bands E-H in certain localities is likely to be an issue with the original valuation method underpinning the Council Tax bandings (as noted in the consultation paper, this valuation last took place in 1991, making these values over 30 years old and largely out of date). This is a key area which demonstrates the need to overhaul the entire system, rather than tinkering around the edges of an inherently unfair tax.

9. Do you think there would be any equality, human rights, or wellbeing impacts as a result of the proposed increases in Council Tax rates for properties in Bands E, F, G and H? Please tell us what you think these impacts would be.

Yes

As the equality impact assessment has not been published alongside the consultation, we are unable to comment on this in detail. However, as explained in Q5, unless significant expansion and promotion of the Council Tax Reduction scheme is implemented alongside these changes, there is a high risk that some of the lowest income households will be forced into paying more despite being eligible for exemption or reduction. As detailed in Q7, this will have particular impacts on groups more vulnerable to poverty.

The completion of robust, high-quality equality impact assessments at the start of the policymaking process are essential to furthering equality considerations through policy decisions. The purpose of an equality impact assessment is to ensure that policymakers take account of equality as policy and services are developed, so that any unintended consequences can be mitigated against. When assessments are completed in the later stages of the policy process, this leads to less opportunities to consult, examine evidence and make adjustments to policies and consequently leads to policies being less robust and inadequately proofed for equalities considerations. We are therefore disappointed that the equality impact assessment for this consultation is not yet published.

For more information, please contact:

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