



# **Council Tax (Substitution of Proportion) (Scotland) Order 2016**

The UNISON Scotland Evidence to the Scottish Parliament Local Government and Communities Committee **September 2016**

## Introduction

UNISON is the largest trade union in Scottish public services. Our members deliver services, pay taxes and also have a wider citizenship interest in how services are provided and paid for. We therefore welcome the opportunity to submit evidence to the Scottish Parliament Local Government and Communities Committee regarding Council Tax (Substitution of Proportion) (Scotland) Order 2016.

The funding of local government has been a difficult issue for political parties. At best proposals have been sticking plaster solutions because change is viewed as being politically challenging. However, we simply cannot go on as we are with short-term fixes that damage services and undermine local democratic accountability.

The council tax freeze was supposed to be a temporary measure until a new tax was introduced. We have now been through a nine year council tax freeze, an economic recession and years of budget cuts which are severely impacting on services. Local government has borne the brunt of cuts and authorities have so far responded to the cuts by salami slicing services. UNISON's [Damage](#) reports show that this is already having a severe impact on services. Salami slicing will not be enough to meet the next round of budget cuts and it is clear that current services cannot be sustained on current levels of funding. Local authorities need not only more money but more control over how much money they have.

We understand that introducing new taxes is difficult, winners stay quiet and losers are very vocal, but the point of the Commission on Local Tax Reform was to look at the options and gain agreement to ensure Scotland can move forward. We are therefore disappointed that so far the government has chosen not to either introduce the new property tax the commission recommended or even taken on board the reform of the council tax that the commission explored. The Commission's report seems, like the Burt Report before it, to be left to gather dust on a shelf.

UNISON will continue to urge the Scottish Government to take measures to provide local authorities with substantially increased funding, a progressive fair local tax and a return of control over a reasonable portion of their own budgets.

## Response

### 1. Overall, do you support the principles of the Government's plans to reform council tax?

UNISON has called for an end to the council tax freeze since it was introduced and so welcomes its removal. We opposed the freeze because it was regressive, restricted local authorities' powers and cut funding for public services. We therefore oppose the principle of the Scottish Government capping any increases. Local authorities are directly elected, responsible to their own communities and must retain the right to control a significant proportion of their own budgets.

UNISON supports the principle of both taxing property and that a property tax is the best fit for local government and is therefore disappointed that the Scottish government is not taking the advice of the Commission on Local Tax Reform and introducing a new fairer tax.

While UNISON believes that a new tax is the best way forward there are ways that the council tax could be reformed which would be more effective than the current proposals. UNISON supports progressive taxation that means the wealthiest paying a greater proportion of tax than the less well off. We believe that if the Scottish government wants to focus on reforming rather than abolishing the council tax then it needs to change the number and size of the bands and the multipliers between the bands, revalue current properties and ensure regular revaluations going forward.

The current system has too few bands and the new proposal will not change that. In particular the top band contains a huge range of properties from £212,001 and above. Introducing extra bands at the top and bottom would make the system much more progressive than the current proposals. There are only about 900 properties in Scotland in a Mansion Tax range, so there is not quite the same opportunity to raise money via the tax in Scotland as for example in London, but adding extra bands would still offer an opportunity to increase tax income and support local services.

Improving the council tax requires a change to the band multipliers. The current system limits how much those with very expensive properties have to pay. A £400K house pays three times as much as a £40K house - not ten times. This means that like VAT, it takes up a bigger proportion of low income households than high.

There is also no plan for revaluation, leaving bills based on property values from 1991. A basic principle of taxation is that it should be based on real values. The Commission on Local Tax Reform found that (without changing the bands) 44% of properties would move up or down a band, 11% would move up or down 2 bands and only 43% would have remained the same. A tax system where 57% of people are paying the "wrong" bill is clearly a problem.

The proposal also involves both limiting overall rises to 3% and using the money raised by changes to higher bands to fund the government's education reforms. UNISON believes that money raised by local taxation should be spent according to local priorities. Local authorities should be accountable to their own communities for their tax decisions not the Scottish or UK governments.

While we are supportive of the government's aim to close the attainment gap, ring-fencing money raised by local taxation also contravenes the principle of local control over local taxation. The Government already has its own budget and tax raising powers along with the power to ring-fence the grant settlement. Government should therefore use its own powers to fund its education reforms. As Green MSP Andy Wightman has argued this could also be a breach of the European Charter for Local Self Government.

## **2. To what extent will the Government's proposed reforms make the system of council tax fairer?**

UNISON does not believe that the current proposals to reform the council tax go far enough to make it fairer. The current system has too few bands and the top band contains a huge range of properties from £212,001 and above. While increasing the multipliers for the top bands, as proposed, is some progress it is not substantial and still leaves those in a £212,001 home paying the same bill as those in a million pound one. The additional rates for the higher value properties are not substantial enough to ensure that the new tax is progressive. Introducing extra bands at the top and bottom would make the system much more progressive than the current proposals.

The Commission on Local Tax Reform indicated that with a remodelled proportional council tax the tax on highest value homes would need to be 15 times that of the lowest value homes in order to achieve proportionality. So as the SPICe briefing on the government proposals states, these proposals fall short on making the tax a proportional tax. The reformed council tax is still a regressive tax.

When we also look at the impact of changes on authorities' income and therefore their ability to properly fund services, we also see that there are serious issues with the fairness of the proposals. The model indicates Edinburgh would raise £15.6m while Glasgow, a far larger authority £6.7m and West Dunbartonshire only £1.0m. Councils with less wealthy householders will benefit least from these changes when the aim of progressive proposals should be that those with the least gain the most. Even if councils were able to keep the additional revenue, the amounts and the uneven distribution do not make up for the substantial budget cuts local authorities are experiencing. Cuts

on public services impact most severely on those on low incomes as they are both most reliant on public services and least likely to have the means to buy alternatives from other providers.

It is impossible to comment on the fairness of the distribution of any of the funding to “close the attainment gap” until we have more details on how that will be applied.

UNISON believes that the Commission on Local Taxation recommended a much fairer way forward with the new property tax than is proposed in this legislation. Even the Commission’s model of a proportionate council tax is substantially fairer than the government proposals as those in bands A-C would pay significantly less than under current Scottish government proposals and those in higher bands substantially more.

### **3. To what extent will the changes be straightforward for local authorities to implement?**

If the question is “how easy is it to alter the computer systems that send out the bills” then of course this will be relatively straight forward. The wider issue is how the changes will impact on local authority budgets and the services they have to deliver. More information is also needed on how the 3% cap on tax rises will be enforced and how the £100million will be allocated before anyone can comment fully on the changes. However, given that much of the extra funding raised will be ring-fenced by the Scottish Government, it will be extremely difficult for local authorities to deliver high quality public services.

### **4. Do you support the Government’s planned changes to the proposed council tax reductions?**

So far there is very little detail on the proposal so it’s hard to comment. What we do know is that all means-testing ends up complex, costly and struggles to take account of the complexity and flexible nature of household/family lives. UNISON is also concerned that since the end of council tax benefit any relief for local tax payers is lost income for councils.

Like the distribution of high value properties, different councils will “forgo” different levels of income depending on the population/income mix. Currently councils lose £6.4 million per week or £333.2 million a year through the current relief system. The five authorities with the highest number of Council Tax Relief (CTR) recipients are Glasgow City Council with 93,610 recipients followed by North Lanarkshire 38,560, Edinburgh with 36,270 then Fife 32480, and South Lanarkshire 31890. The island councils are at the other end of the table with fewer than 4000 recipients between them. It appears therefore that the plan will impact on the income of councils with most low income people. These people may well find that any savings made on their council tax bills will not make up for cuts in the services they use or extra charges for those services.

Authorities are increasingly turning to charging to replace lost income. Charges now make up almost 7% of council budgets while council tax revenue has shrunk to around 15%. Social work now provides 25% of income from charges that means people with disabilities and the elderly being charged for support. Charging for services is much less fair than even the current council tax as charges often bear no relation at all to wealth. This has been a regressive step.

### **Further comments**

UNISON understands how politically risky introducing a new tax can be. The previous Labour/Liberal administration also shelved an inquiry’s recommendations for a new tax unwilling to go into an election on a promise of higher tax for the better off. On top of the complaints from those who have to pay more, there is widespread lack of understanding about the tax system. No wonder, its complex and you often don’t even know when and how much you are paying. When we look at

our pay slips we focus on what we've got left. When we buy things with VAT or other duties we only see the total price – not how it's made up. Council tax on the other hand is an actual bill and even then many people don't notice that it includes water charges. This makes it a highly visible and therefore for some unpopular tax. Progressive governments must though stand up for and act to protect public services and the people who rely on them. This requires fair and progressive taxation.

UNISON believes these limited proposals do little to deal with the fundamental flaws in the council tax: avoiding revaluation, not adding extra bands and changing the multipliers between the bands to reflect the real differences in the value of properties.

Tax is a good thing. First and foremost it pays for public services. This means for most of us it saves us money. Most of the services we use would cost more if we bought them ourselves from a private provider because of economies of scale and the fact that money isn't lost to profit. For those of us who believe in social justice, tax is also good because it reduces inequalities by taxing wealth. Those with more wealth pay more. The provision of services also reduces inequality by giving us access to services like education and health services that many would struggle to access otherwise. Taxes can also be used to modify behaviour, whether of businesses or individuals, so we tax cigarettes and alcohol, but not books. This means those who drink alcohol could end up paying more tax as a person with exactly the same wealth who doesn't. Working out what's fair is not straightforward.

The discussion round council tax and fairness tends to focus on the tax itself rather than how it sits in our overall tax system. The fairness of a tax cannot be judged in isolation, but has to be seen in terms of the overall burden it places on tax payers.

Property is a significant form of wealth and as such it needs to be taxed. The next questions are: what is the simplest, fairest and most cost effective way to do that? That is why property is the form of wealth most suited to local taxation. The links are obvious and property is immovable, the yield is predictable and stable - so it is cheap and easy for local government to collect.

While there is plenty of scope for very high earners to pay more income tax, adding extra income tax to ordinary workers is not the best route to a fairer tax system. The OECD indicates that there is an "economic case for a shift away from income taxes ...towards consumption taxes and recurrent taxes on residential property".

Ordinary workers are already paying income tax, adding an extra local tax to ordinary workers would mean that everyone in the house paid extra tax. Given the increasing number of people on zero hours/minimal hours contracts, it would also mean a much less predictable local tax yield for local authorities. If a large local employer closed, income would fall for authorities just when they needed to spend to help those who have lost their jobs.

Setting up a fair property tax and rate that reflects the real values of properties is what will make the system fairer. We also need to design a system for those who struggle to meet their property tax obligations because of low incomes which does not unfairly impact on the budgets of local authorities with disproportionate numbers of low income citizens and deferment opportunities for the small group of property rich, cash poor pensioners.

## **Conclusion**

The funding of local government has been a difficult issue for political parties. At best, proposals have been sticking plaster solutions because change is viewed as being politically challenging. However, we simply cannot go on as we are with short-term fixes that damage services and undermine local democratic accountability. We've had two inquiries into local taxation in less than ten years, it's time to stop tinkering and act on the recommendations for a new fair property tax.

For further information, please contact:  
Dave Watson [d.watson@unison.co.uk](mailto:d.watson@unison.co.uk)  
Kay Sillars: [k.sillars@unison.co.uk](mailto:k.sillars@unison.co.uk)

Mike J Kirby, Scottish Secretary  
UNISON Scotland,  
UNISON House,  
14, West Campbell Street,  
Glasgow  
G2 6RX  
Tel: 0800 0857 857  
Fax: 0141-331 1203  
Email: [m.kirby@unison.co.uk](mailto:m.kirby@unison.co.uk)