

REPORT TO: East Lothian Council

MEETING DATE: 29 August 2023

BY: Executive Director for Council Resources

SUBJECT: Fairer Council Tax Consultation Response

1 PURPOSE

- 1.1 To provide Council with an overview of the consultation on changes to council tax multipliers, and inform members of the potential implications of this for East Lothian.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note the joint consultation to change the council tax bandings
 - Note the potential implications of changes to the council tax multipliers within East Lothian.
 - Note that political groups and members of the public are encouraged to provide their views on the proposed changes through individual responses to the consultation.
 - Consider the key issues raised within this paper, including the principles set out in paragraph 3.27 and specifically:
 - Provide a view on whether a response, if any, should be submitted from the Council;
 - If a response is to be provided, provide specific clarity on whether changes to council tax on properties in Bands E to H should apply.

3 BACKGROUND

- 3.1 For the purposes of council tax, domestic properties are split into eight bands (A-H), depending on the price they would have sold for in April 1991, when valuations for the current system were made.
- 3.2 The bandings determine the level of council tax due for each band of property, relative to the band D (average) charge.
- 3.3 Although the level of council tax charged is determined by individual councils, the multipliers are set by Scottish Government through regulations, and Valuation Boards determine the banding for each property.
- 3.4 In 2017, Scottish Government increased the multipliers for properties in band E, F, G and H by 7.5%, 12.5%, 17.5% and 22.5% respectively, and this remains in place.

Proposed changes

- 3.5 Scottish Government and COSLA have issued a consultation on some proposed changes to the council tax multipliers within bands E-H. A link to the consultation is included within the background papers section of this report, with consultation responses by 20 September 2023. As part of the consultation, views are being sought as to whether those in properties in the highest bands should be making a greater contribution.
- 3.6 The change being consulted on is to repeat the 2017 changes to the multiplier, meaning that Council Tax would increase by 7.5%, 12.5%, 17.5% and 22.5% for properties valuation Bands E, F, G and H respectively if the rates for Band D properties remained unchanged. The table below summarises the previous (pre-2017), current and proposed multipliers for each band:

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Pre-2017	0.67	0.78	0.89	1.00	1.22	1.44	1.67	2.00
Post 2017	0.67	0.78	0.89	1.00	1.31 (+7.5%)	1.63 (+12.5%)	1.96 (+17.5%)	2.45 (+22.5%)
2023 Proposals	0.67	0.78	0.89	1.00	1.41 (+7.5%)	1.82 (+12.5%)	2.30 (+17.5%)	3.00 (+22.5%)

Table 1: Comparison between Pre-2017, Post-2017, and with 2023 Consultation Proposals: Change in Council Tax Multipliers

- 3.7 This shows that under the current system, the council tax charge for a band H property is 2.45 times the charge for an average, band D property. Under the proposed changes, this differential increases to 3.00 times the band D charge.

- 3.8 The rationale for the proposal is to bring council tax more into line with the Scottish Government's fair and progressive approach to taxation, as set out in the Framework for Tax. This is on the basis of the relative value of properties within the higher bands, compared with those in the lower bands.
- 3.9 The consultation is seeking a range of views on the rate, timing and impact to inform any decision on this. It is very difficult to quantify in full what this would mean to both the Council and local community, and this report seeks to highlight some of these wider risks and assumptions. If changes were to take effect from 2024-25, any increases could either be introduced in full or through a phased-approach of up to 3 years, which would see percentage year-on-year increases over a number of financial years to that maximum level.
- 3.10 Since the multipliers are set nationally, there is no scope for local decision-making or discretion around how these changes would be applied.

Local Impact

- 3.11 It is estimated that the proposed changes would impact 19,659 households in East Lothian, approximately 37% of dwellings. The impact of the proposed changes based on 2023/24 council tax levels is set out in the table and would see an increase in Bands E to H of £141, £292, £492 and £791 per dwelling. **This excludes any annual increases to the council tax charges made as part of budget setting.**

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
No. properties*	1,185	9,542	15,485	6,967	7,374	6,280	5,287	718
Current charge**	£957.08	£1,116.59	£1,276.10	£1,435.62	£1,886.24	£2,332.88	£2,811.42	£3,517.26
Proposed	£957.08	£1,116.59	£1,276.10	£1,435.62	£2,027.71	£2,624.49	£3,303.42	£4,308.64
Difference	£0.00	£0.00	£0.00	£0.00	£141.00	£291.61	£492.00	£791.38
% change	0%	0%	0%	0%	7.5%	12.5%	17.5%	22.5%

*Forecast property nos. at 1/4/24

**2023/24 charge, excluding water and waste charges

- 3.12 Appendix 1 sets out the net impact for the Council. If these changes were implemented in full in 2024/25, taken alongside the key assumptions set out in the current budget projections (council tax increase of 5% and estimated housing growth), the additional net income that would be generated from East Lothian residents is estimated to be £5.0m.
- 3.13 However, it is important to note that under the current method of distributing funding to local government, this increase would be taken into account and a negative reduction would be applied to the funding received through the general revenue grant.

- 3.14 The consultation also makes reference to the fact that the proportion of properties in each valuation bands E-H varies across the country, which means that some councils would benefit more than others from any increases in council tax in these property bands. Respondents are asked whether steps should be taken to ensure that all councils benefit proportionately from this policy. Given the relatively higher proportion of properties within these bands in East Lothian (37%) compare to Scotland overall (25%), this presents a further risk that revenue raised from local tax payers would be redistributed elsewhere and therefore would not be available for investment in local services.
- 3.15 Furthermore, the relatively high proportion of properties within these bands would leave this council exposed to a higher degree of risk in relation to non-collection, as well as needing to meet the potential additional costs of council tax reduction which would arise from these changes.
- 3.16 As set out further in Appendix 1, if the changes were phased in over three years, then the benefit of the change to the multipliers in 2024/25 is estimated at £1.7m (on the same calculation basis), with the full benefit of the change to the multiplier materialising in 2026/27.
- 3.17 The funding gap for 2024/25 is currently estimated at £27.1m, and the cumulative funding gap over the next 5 years is £71m. There is therefore a high likelihood that it will be necessary to increase the council tax charge in order to balance the budget. This would result in ratepayers within bands E-H facing significant increases in their council tax bills over a short period. Based on current modelling assumptions of 5%, this would see increases in Bands E – H of between 12.9% and 28.6% (£242 to £1,007).
- 3.18 A range of external factors will impact on the affordability of the proposed increases for households, in particular the impact of rising interest rates which will constrain household finances as fixed rate mortgage deals come to an end. The Council does not collect data regarding the income of council tax payers to enable conclusions to be formed as to the affordability of the proposed changes for these households. Data that is held regarding this group of households indicates that of the 19,659 band E-H properties in East Lothian:
- 465 (2.4%) claim council tax reduction; and
 - 3,637 (18.5%) claim a 25% discount due to being a single person household or through entitlement to other discounts or disregards.
- 3.19 Current collection rates for this group of properties are slightly higher than overall collection rates (for 2022/23 collection rates for bands E-H were 99.34%, compared with 97.6% overall).
- 3.20 Councils administer the Scottish Government's means-tested Council Tax Reduction (CTR) scheme which reduces or eliminates the council tax

liability for lower income households. Entitlement to CTR and the amount awarded is based on the characteristics, capital, needs and income of the household. If someone is liable for council tax, they may be able to get one of the following:

- Council Tax Reduction – if they are in receipt of certain benefits such as universal credit or have a low income.
- Council Tax Bands E to H relief scheme – if they are living in a home in bands E to H and their income is less than £321 a week if they are single, or £479 a week if they have a partner or children, and they have savings below £16,000.
- Second Adult Rebate Scheme – if they have a non-dependent who stops them getting a discount and the non-dependant has a low income

The award depends on which one of the schemes gives them the most money off their Council Tax bill.

3.21 The Council currently has an unfunded burden on the Council Tax Reduction Scheme (CTRS) of £1m, and this and any wider changes in CTRS policy must be supported with additional resources.

Impact on distribution

3.22 The consultation notes that some council areas could benefit from the proposed multiplier changes to a greater extent than others, due to having a greater number of band E-H properties (37% of all dwellings compared to 25% nationally).

3.23 This is already reflected through changes to the national distribution formula arising from the 2017 multiplier changes, where general revenue grant funding compensates for the different proportions of properties in each council tax band. Given East Lothian has a higher number of properties above Band D than other local authorities, as such it receives a lower level of General Revenue Grant. This will result in a further impact if the changes in multiplier is introduced.

3.24 Council tax raised is currently retained locally, and any change to redistribute this would be a change to current national policy. It is difficult to fully quantify what the impact of such a change would be to the council through the national distribution formula and the consultation does not provide any detail on this. As noted elsewhere in this paper, the Council could also face additional pressures from increased costs of the council tax reduction scheme as a result of this change.

Conclusions

- 3.25 The consultation closes on 20 September 2023. As noted in this paper, the Council does not hold sufficient data to draw firm conclusions on the potential impact and affordability of the proposed changes for taxpayers in East Lothian.
- 3.26 In addition, further clarity would be needed in order to form a judgement on the financial implications for the Council of any proposed redistribution of additional revenue raised through changes to the multipliers.
- 3.27 Taking into consideration the key issues highlighted within this paper, Council is recommended to consider what response if any should be submitted to the consultation, and specifically whether changes to Council tax on properties in Bands E-H should apply. In considering whether a response should be provided, consideration should be given to the following key principles:
- Any benefits of any increases to council tax charges which are borne by local residents should be retained in full for investment in local services.
 - Appropriate national funding should be made available to cover the full cost of the council tax reduction scheme and any potential changes to existing policy.

4 POLICY IMPLICATIONS

- 4.1 The consultation relates to a potential change in national policy. The Council will not have discretion over whether or not to apply the proposed changes locally if they are implemented by Scottish Government.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – as described within the report
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

7.1 Link to consultation: [Fairer Council Tax: consultation - gov.scot \(www.gov.scot\)](https://www.gov.scot/consultations/fairer-council-tax)

AUTHOR'S NAME	Ellie Dunnet Sarah Fortune
DESIGNATION	Head of Finance Executive Director for Council Resources (Chief Financial Officer)
CONTACT INFO	edunnet@eastlothian.gov.uk sfortune@eastlothian.gov.uk
DATE	21 August 2023

Appendix 1 – Indicative Scenarios including 5% council tax increases

Forecast additional revenue shown in the below scenarios does not make allowance for any redistribution or take account of reductions to the General Revenue Grant.

Scenario 1 (5% increase in 2024/25, assumes multiplier changes are applied in full in 2024/25)

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
No. properties*	1,185	9,542	15,485	6,967	7,374	6,280	5,287	718
23/24 charge	£957.08	£1,116.59	£1,276.10	£1,435.62	£1,886.24	£2,332.88	£2,811.42	£3,517.26
Proposed 24/25	£1,004.93	£1,172.42	£1,339.91	£1,507.40	£2,129.09	£2,755.71	£3,468.59	£4,524.08
Difference	£47.85	£55.83	£63.81	£71.78	£242.85	£422.83	£657.17	£1,006.82
% change	5%	5%	5%	5%	12.9%	18.1%	23.4%	28.6%

*Forecast property nos. at 1/4/24

Estimated additional income to council in 2024/25 £5.0m [2025/26 £5.4m, 2026/27 £5.7m].

Scenario 2 (5% annual increase from 2024/25 (assumes multiplier changes are phased in over 3 years)

2024/25

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
No. properties*	1,185	9,542	15,485	6,967	7,374	6,280	5,287	718
23/24 charge	£957.08	£1,116.59	£1,276.10	£1,435.62	£1,886.24	£2,332.88	£2,811.42	£3,517.26
Proposed 24/25	£1,004.93	£1,172.42	£1,339.91	£1,507.40	£2,030.07	£2,551.59	£3,124.19	£3,970.11
Difference	£47.85	£55.83	£63.81	£71.78	£143.83	£218.71	£312.77	£452.85
% change	5%	5%	5%	5%	7.6%	9.4%	11.1%	12.9%

*Forecast property nos. at 1/4/24

Estimated additional income to council in 2024/25 £1.7m

2025/26

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
No. properties*	1,193	9,550	15,540	7,327	7,546	6,350	5,381	734
24/25 charge	£1,004.93	£1,172.42	£1,339.91	£1,507.40	£2,030.07	£2,551.59	£3,124.19	£3,970.11
Proposed 25/26	£1,055.18	£1,231.04	£1,406.91	£1,582.77	£2,181.09	£2,781.23	£3,452.60	£4,445.60
Difference	£50.25	£58.62	£67.00	£75.37	£151.02	£229.64	£328.41	£475.49
% change	5%	5%	5%	5%	7.4%	9.0%	10.5%	12.0%

*Forecast property nos. at 1/4/25

Estimated additional income to council in 2025/26 £3.5m

2026/27

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
No. properties*	1,200	9,557	15,588	7,642	7,696	6,412	5,463	748
25/26 charge	£1,055.18	£1,231.04	£1,406.91	£1,582.77	£2,181.09	£2,781.23	£3,452.60	£4,445.60
Proposed 26/27	£1,107.94	£1,292.60	£1,477.25	£1,661.91	£2,339.66	£3,022.36	£3,797.43	£4,944.86
Difference	£52.76	£61.56	£70.34	£79.14	£158.57	£241.13	£344.83	£499.26
% change	5%	5%	5%	5%	7.3%	8.7%	10%	11.2%

*Forecast property nos. at 1/4/26

Estimated additional income to council in 2026/27 £5.5m

Note: Additional income is estimated in comparison to a base model with the same 5% Council Tax increases and housing growth assumption.