
Report To:	Policy & Resources Committee	Date:	17th November 2015
Report By:	Chief Financial Officer	Report No:	FIN/92/15/AP/CM
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Subject:	Council Tax – 2016/18 Budget Implications		

1.0 PURPOSE

- 1.1 The purpose of this report is to provide information to Committee to consider as part of the budget process regarding the implications of increasing Council Tax.

2.0 SUMMARY

- 2.1 The MBWG requested that a report be prepared providing information on the various impacts were the Council to increase Council Tax. The MBWG thereafter suggested the matter be reported to Committee.
- 2.2 Council Tax currently generates around 16% of the net Revenue required by the Council and was last increased in Inverclyde in 2006/7. Inverclyde currently has the 5th highest level of Council Tax in Scotland at £1198 for a Band D property with the highest being Aberdeen City at £1230. Inverclyde has the 9th lowest average Council Tax in Scotland at £1003 compared to the Scottish Average of £1087.
- 2.3 Council Tax has been frozen by the Scottish Government since the 2008/9 budget and there is a commitment from the Government to maintain this freeze up to and including 2016/17. It is claimed that Councils are compensated for not increasing the Council Tax but the practice for the last number of years is that if Councils increase their Council Tax then their existing funding is reduced ie the Council Tax freeze is effectively being self-funded by Councils.
- 2.4 Councils are dealing with demographic, environmental and legislative pressures many of which are not fully funded by increases in grant. The Council is therefore facing the option of either increasing Council Tax and having its grant cut or cutting costs/raising fees and charges. Had the Council increased Council Tax by CPI over the last 8 years then the revenue budget would be around £7million higher than at present. There is a real risk that by continuing the Freeze, Councils are reducing services to many of the people the Freeze in Council Tax was designed to protect.
- 2.5 The future of Council Tax is currently being reviewed by the Government and CoSLA and the Council recently gave its support to the CoSLA submission to the Commission on Local Taxation. This identified the need to review but retain Council Tax in order to remove its regressive nature by increasing the number of bands, reviewing the “multipliers”, having a full revaluation and reviewing reliefs to better target them at those least able to pay.
- 2.6 The report and appendices provide details on the high level impacts at a Council and Council Tax payer level were the Council to increase Council Tax by 3%. From this it can be seen that 28% of households pay no Council Tax or are on the Council Tax Reduction scheme and as such get no direct benefit from the Freeze.
- 2.7 It is not clear what approach the new Scottish Government will take post the 2016 Holyrood Election and as the 2016/18 budget covers this period then an opportunity may exist for the Council to notionally indicate a desire to increase Council Tax to support the temporary use of Reserves to balance the 2016/18 budget pending clarification of this matter.

3.0 RECOMMENDATIONS

- 3.1 That the Committee note the contents of this report and agree to review this matter as part of the final consideration of the 2016/18 Budget.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 Council Tax is billed and collected locally with the level of Council Tax determined at individual Council level. It accounts for approximately 16% of Council net spend with the balance coming from Revenue Grant and Non-domestic Rates.
- 4.2 Council Tax is based on a 50% property and 50% personal charge and is split over 8 Property Bandings with properties placed in bandings depending on their valuation (many of which were carried out in 1991). Each Banding thereafter has a “multiplier” applied to determine the level of charge with Band D being 100% and all other Bandings varying in a direct relationship from the Band D charge. Councils cannot vary this relationship.
- 4.3 Inverclyde’s Band D Council Tax is the 5th highest in Scotland at £1198 with Aberdeen City having the highest level at £1230. Appendix 1 provides more details. However Inverclyde’s average Council Tax charge is about 8% below the Scottish average due to the higher proportion of lower value homes in Inverclyde.
- 4.4 In 2007 the Scottish Government agreed to freeze Council Tax at 2007/8 levels for the term of the Parliament and this Freeze remains in place. In the early years of the Freeze extra funding of £70million was set aside to compensate Councils (equating to around a 3% increase) and this was paid on the basis that Councils agreed to implement the freeze. In recent times with “Flat Cash” or reduced cash settlements, this extra funding has not been available but rather Councils are advised their current levels of funding will be cut by their share of the £70million if they increase Council Tax.
- 4.5 The Scottish Government has advised it intends to maintain this Policy until at least 2016/17.

5.0 CURRENT POSITION

- 5.1 CPI has increased by around 20% between April 2008 and April 2015. Based on the budgeted level of Council Tax income in 2015/16 the Council would have an extra £6.7 million per year income had Council Tax levels kept pace with CPI. As budget cuts become ever deeper there is the risk that future budget cuts will impact on many of the people the Council Tax Freeze was designed to assist.
- 5.2 The current direct penalty for Inverclyde Council increasing Council Tax is £1.008million. To raise a similar amount of income Council Tax would need to increase by 3.0%. It is not clear what other sanctions could be imposed on any Council that was to increase Council Tax.
- 5.3 Council Tax Benefit, funded by the DWP, was replaced with the Council Tax Reduction (CTR) scheme in 2013. CTR is largely funded by the Scottish Government with a contribution of £17million coming from Scottish Councils. As reported to Policy & Resources Committee in May, the amount of CTR funding available is greater than required at present and a significant factor in this is the Council Tax Freeze. If Council Tax were to increase then the Council would pay out more in CTR payments. What is not clear is whether the Government would fund this extra or expect the Council to raise Council Tax to meet this cost. In 2014/15 the Council spent £6.72 million on CTR in respect of 11,030 households, 7285 of which paid no Council Tax. More analysis is shown in Appendix 2.
- 5.4 It should be noted that if Council Tax increases and all other factors stay the same then the amount paid by those in receipt of CTR stays the same ie: it is CTR that covers the increase. It should be noted that were no extra CTR support given by the Government then the Council would potentially require to fund the increase which could be anywhere between £150 - £230,000 for a 3% increase depending on the mix of single person households.
- 5.5 In light of the above and due to concerns about the regressive nature of the Council Tax (ie those with the least income proportionally pay more), the Government and CoSLA are jointly chairing a Commission on Local Taxation. The Council submitted a response following Committee approval which supported the CoSLA position of retaining a modified Council Tax

but increasing the number of Bandings, looking at the multipliers, reviewing reliefs/discounts and having a full revaluation. The Commission is due to report options in the Autumn in order that these can be considered as part of the manifestos for the forthcoming Holyrood elections.

- 5.6 A key challenge in any review will be equalising any impact due to the fact that a national revaluation will not impact equally across Councils. It would be a reasonable expectation that over the period since 1991, house values in Inverclyde will have increased lower than the Scottish average.
- 5.7 A further factor is the movement in “Band D equivalents” as shown in Appendix 3. All Council areas have shown an increase in their Council Tax Base over the medium term. The national Council Tax Base has grown by 0.75% per year over a medium term period, Appendix 3 shows that the Inverclyde Council Tax Base has increased by less than 0.1% per year over the last 11 years.

6.0 OPTIONS FOR THE 2016/18 BUDGET

- 6.1 Increases/decreases to Council Tax is a policy issue for Members to decide upon. Officers can supply information on the options, implications and amounts raised.
- 6.2 As has been indicated above the Scottish Government has reiterated its intention to maintain the Freeze in 2016/17 therefore were Members minded to increase Council Tax in 2016/17 it would do so in the strong likelihood that the Council’s grant would be cut by £1million and it would be required to fully fund the increase in CTR thus requiring a greater than 4.0% increase in order to gain financially.
- 6.3 For 2017/18 the position is less clear and could be dependent on the recommendations from the Local Taxation Commission and the results of the Holyrood election. An increase may help Members justify the temporary use of Reserves to balance the 2017/18 budget pending clarification of the future of Local Taxation and other outstanding matters.

7.0 IMPLICATIONS

7.1 Finance

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

Implications will depend on the decision taken by Members.

7.2 Legal Implications

Councils continue to have the power to vary Council Tax.

7.3 Human Resources

None.

7.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

7.5 Repopulation

It is difficult to conclude how significant a factor the level of Council Tax is in influencing whether people are attracted to or driven away from an area. There is however stronger evidence that the quality of local services, many of which are funded by the Council, does have a major influence.

8.0 CONSULTATIONS

8.1 The report has been considered at the Members Budget Working Group.

9.0 BACKGROUND PAPERS

9.1 None.

Current Council Tax Levels

Band A	£799	6/9ths
Band B	£932	7/9ths
Band C	£1065	8/9ths
Band D	£1198	9/9ths
Band E	£1464	11/9ths
Band F	£1730	13/9ths
Band G	£1997	15/9ths
Band H	£2396	18/9ths

Council Tax Levels – 2007/8

		<u>Band D</u>	<u>Average</u>
1/	Aberdeen City	£1230	£1199
2/	Glasgow	£1223	£1077
3/	Dundee	£1211	£1019
4/	Midlothian	£1210	£1169
5/	Inverclyde	£1198	£1003
6/	Stirling	£1197	£1311
7/	East Ayrshire	£1189	£998
8/	Argyll & Bute	£1178	£1165
Others	Renfrewshire	£1164	£1096
	West Dunbartonshire	£1163	£1024
	North Ayrshire	£1152	£1009
	East Renfrewshire	£1126	£1338
	Scottish Average	£1149	£1087

Impact of 3% Increase

<u>Band</u>	<u>Properties</u>	<u>Council Tax £</u>	<u>3% Increase Annual £</u>	<u>3% Increase Weekly £</u>
A	19,122	779	23.97	0.46
B	5844	932	27.96	0.54
C	3504	1065	31.95	0.61
D	3305	1198	35.94	0.69
E	3465	1464	43.92	0.84
F	1911	1730	51.90	1.00
G	1422	1997	59.91	1.15
H	212	2396	71.88	1.38
	<u>38,785</u>			

Council Tax Reduction

<u>Band</u>	<u>CTR Recipients</u>	<u>% of Band</u>	<u>CTR No Liability</u>
A	7841	41	5299
B	1869	32	1249
C	763	22	448
D	330	10	186
E	158	5	74
F	55	3	23
G	13	1	6
H	1	-	0
	<u>11,030</u>		<u>7285</u>

66% of CTR recipients pay no Council Tax.

COUNCIL TAX BASE

Year	Total
2004	28,585.44
2005	28,513.23
2006	28,418.66
2007	28,447.54
2008	28,401.11
2009	28,427.34
2010	28,519.45
2011	28,542.34
2012	28,595.00
2013	28,664.89
2014	28,756.44
2015	28,860.88

