

Modelling the council tax freeze in Scotland – a guide to the facts and figures

31 October 2023

Since the council tax freeze was announced, there has been a lot of discussion about its merits (or otherwise). Along with others, at the FAI we have tried to put some numbers in the public domain to illustrate the evidence of impact of the freeze along with the postponement of the [consulted change in multipliers](#).

It is unclear what evidence factored into decision making before the freeze was announced. Given it was an announcement at Conference, civil servants should not have been involved directly. However, they will be involved now in the process of negotiation with COSLA over how councils will be compensated. In the run-up to the Scottish Budget, we can hope that civil servants are also providing robust advice to the FM and DFM to confirm this is indeed where they want to focus scarce Scottish Government resources.

Evidence on the impact on changes in council tax rates or multipliers is drawn from modelled estimates. Models require assumptions and it is important to note that different estimates can result from (perfectly legitimate) changes in assumptions. Different figures may be produced by different organisations, based on their choice of assumptions. This may be disconcerting for those who want a straightforward answer, but it is unavoidable when it comes to council tax modelling for reasons we will explain.

This note aims to offer additional background on recent estimates, shedding light on their production process, the reasons behind variations, and, crucially, the key insights that remain consistent, regardless of the method of calculation. The note is divided into two sections, which in turn detail the process for:

1. Estimating how much it will cost;
2. Estimating the impact on households.

1. What has been proposed, and how much will it cost?

Council tax rates are usually set each year by each local authority as laid out in the Local Government Finance Act 1992 through the setting of an anchor band D rate. The Scottish Government (SG) has control over what are called the ‘multipliers’ – essentially what the ratio between each of the bands and the band D rate.

Table 1: Council tax multipliers currently in place

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Multiplier	0.67	0.78	0.89	1.00	1.31	1.63	1.96	2.45

Source: Scottish Government, FAI calculations

Given that the multipliers set the level of each band relative to band D, the decision on the percentage increase in each year for band D indirectly imposes the same percentage increase on all other bands.

Council tax rate policy might be local government’s responsibility, but the SG has in the past negotiated coordinated policy with COSLA (the Convention of Scottish Local Authorities), which represents all 32 local authorities in Scotland. This included a freeze in rates between 2008-09 and 2016-17 and in 2021-22, as well as an agreement to cap increases at 3% in 2017-18 and 2018-19. In all these cases, this included compensation from the SG to local authorities for revenue forgone.

Abidance with the SG’s desired path for council tax rates is formally voluntary for local authorities, although divergence is unlikely to be without consequences. Grants from SG form the bulk of local government funding (65% in 2021-22), and local authorities are therefore not in a strong negotiating position to go against the government or to reject certain additional funding in exchange for uncertain tax collection down the line.

The SG consulted over the Summer on increasing the multipliers for properties in bands E to H, by 7.5%, 12.5%, 17.5% and 22.5%. These are the highest-banded properties, although that does not mean they are necessarily the current highest-value properties, as council tax in Scotland is still based on 1991 property valuations.¹ The table below shows what the proposed multipliers have been had the proposal been introduced.

Table 2: Council tax multipliers proposed in the Summer consultation

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Multiplier	0.67	0.78	0.89	1.00	1.41	1.83	2.30	3.00

Source: Scottish Government, FAI calculations

The FM’s policy announcement also included a cancellation of this increase, which was widely trailed as being implemented – with the question being whether to introduce all the increases at once or whether to phase in the higher increases as the top end.

¹ The same is true in England. Wales did a revaluation in 2003 and is in the process of consulting on a second revaluation which would take place in 2025. Council tax was never introduced in Northern Ireland, which still operated domestic rates – a proportion of calculated values based on 2005 property values.

Methodology and establishing the counterfactual

To estimate how much the policy will cost, we need to establish what the tax base will be next year, as well as how much revenue will be generated based on the new proposals (the freeze and no change in multipliers) compared to a counterfactual - what would have happened had the FM not announced the freeze.

One possible counterfactual would be that the anchor band D rate in 2024-25 would be the same as in 2023-24 in the first place, in which case the only cost would be the cancellation of the multiplier increase. While that is theoretically possible, it seems highly unlikely it would have been the case. Councils' budgets have been stretched for a number of years, and with inflation running high, keeping rates at the same cash level would reduce their funding in real terms. Additionally, whenever not compensated by the SG to do so, local authorities have chosen to increase council tax rates. So on the basis of financial constraints and revealed past behaviour, this can be discounted as a realistic counterfactual.

Last year, councils put their band D rate up by between 3.9% and 10%, with an average of 5.4%.² We use this as our benchmark counterfactual for 2024-25, while also showing what the cost of the policy would be when assessed against a 3% and an 8% increase, respectively, which are roughly equidistant from the actual increase in 2023-24.

Estimating the tax base and revenue from the counterfactual scenarios

We obtain the number of chargeable dwellings by band for each of the 32 local authorities in September 2023 (the latest available data)³ from the SG's [council tax datasets](#). Clearly the number of dwellings is not static over time, and so we compare the growth in the number of dwellings in each band in each local authority between September 2023 and September 2022, applying those growth rates to forecast the number of dwellings liable for council tax in 2024-25. This means an overall growth of 0.8% in the number of properties, with growth skewed towards higher bands.

Table 3: Forecast for the number of dwellings in Scotland in each band

Dwellings (thousands)	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
2023-24	497	579	420	360	358	215	138	14	2,582
2024-25 (projected)	496	581	424	365	362	218	140	14	2,601
Growth	-0.2%	0.3%	0.9%	1.4%	1.1%	1.7%	1.7%	1.2%	0.8%

Source: Scottish Government, FAI calculations

Multiplying this by the council tax rates in each local authority gives us the maximum total liability for council tax for each authority, and for Scotland when aggregated. However, not all properties will pay council tax. Between council tax reduction for those on low incomes and with other qualifying criteria, single person discounts, exempt dwellings and other discounts, [SG statistics](#) show only 75% of the maximum yield from council tax was billed by local authorities in 2021-22.⁴ Although it is band

² This is calculated as the average of the percentage increases across all councils. The increase in average council tax of a band D property is 5.2% if calculated based on total band D equivalents, as reported in the [council tax datasets](#), which accounts for composition, but they are different measure of the same change.

³ Since we first published our [blog](#) detailing the cost of the measure, the Scottish Government has released chargeable dwellings data for September 2023. We originally used September 2022 data and growth rates relative to September 2021. We have updated the results to account for the new data – the difference is small.

⁴ We have not made an adjustment for collection rates, as liability still exists, although it would be possible to make assumptions about that going forward. To do so, the starting point would be that the average rate from latest statistics on collection (97.2%) is maintained going forward, making only a small difference to the overall results.

A properties that have the lowest billable proportion, reductions happen across the bands – reflecting the fact that valuations are on an obsolete basis.

Table 4: Proportion of council tax billed in each band in 2021-22

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Potential council tax (£m)	474	609	498	474	617	447	343	46	3,507
Billed council tax (£m)	231	387	352	377	528	401	316	41	2,632
Billed proportion (%)	49%	63%	71%	80%	86%	90%	92%	90%	75%

Source: Scottish Government, FAI calculations

As 2021-22 is the latest data available for these proportions, we apply them to the potential revenue from each local authority in each band, giving us a forecast for the tax base in 2024-25 in each of the counterfactual scenarios. Table 5 also presents the forecast for revenues both including and excluding the proposed multiplier increase.

Table 5: Council tax revenues under different counterfactual scenarios

Net revenues (£m)	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
2023-24	228	405	375	406	570	443	355	45	2,826
2024-25 (excluding multiplier increases) assuming:									
3% increase	234	418	390	424	594	464	372	47	2,943
5.4% increase	239	427	398	433	606	474	379	48	3,004
8% increase	245	439	409	445	622	487	390	49	3,085
2024-25 (including multiplier increases) assuming:									
3% increase	234	418	390	424	638	522	437	57	3,121
5.4% increase	239	427	398	433	651	533	446	58	3,186
8% increase	245	439	409	445	669	547	458	60	3,272

Source: FAI calculations

Costing the freeze in council tax rates

The process of estimating the revenue raised with frozen rates for 2024-25 is fairly similar – we take the projected number of chargeable dwelling for 2024-25, multiply them by the rates for each band (which would be the same as in 2023-24) and then apply the billed proportions from table 4. The cost of the measure is then the revenue under this scenario against each of the counterfactual assumptions we have made.

Table 6: Cost of the council tax freeze under different counterfactual scenarios

Net revenues (£m)	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
2024-25 with freeze	227	406	379	412	576	451	361	45	2,857
Difference in revenue from freeze against baseline (excluding multiplier increases) assuming:									
3% increase	-7	-12	-11	-12	-17	-14	-11	-1	-86
5.4% increase	-12	-21	-20	-21	-30	-23	-19	-2	-148
8% increase	-18	-32	-30	-33	-46	-36	-29	-4	-229
Difference in revenue from freezing against baseline (including multiplier increases) assuming:									
3% increase	-7	-12	-11	-12	-62	-72	-76	-12	-264
5.4% increase	-12	-21	-20	-21	-75	-82	-85	-13	-329
8% increase	-18	-32	-30	-33	-93	-97	-97	-15	-415
Memo: difference in revenue from cancelling multiplier increases against baseline assuming:									
3% increase	0	0	0	0	-45	-58	-65	-10	-178
5.4% increase	0	0	0	0	-45	-59	-66	-11	-182
8% increase	0	0	0	0	-47	-61	-68	-11	-187

Source: FAI calculations

As shown above, the cost of the policy is heavily dependent on the assumptions made regarding what action councils would have taken in the absence of the FM's policy announcement. This

matters all the more because of the SG's promise to "fully fund" the freeze. We still have no clarity on what that will mean – but clearly planning on these three different bases (as a matter of example) would be very different.

If councils were planning increases that mirrored last year's, fully funding the freeze and cancellation of the multipliers would cost £329m - £148m for the former and £182m for the latter. A 3% increase would cost £264m, whereas an 8% increase – higher than last year but not much above inflation, and therefore not bringing significant spending power increases – would cost £415m.

We await more detail from the negotiations to see where the compensatory figures will settle, but we have also assessed how the freeze will affect people at different places in the income distribution.

2. Who will benefit the most from the proposed policy?

On top of estimating the cost of the policy, it is important for the debate to understand what the distributional impact is likely to be and who benefits the most. Understanding the impact on households requires a different set of data and a process of analysis called microsimulation.

Data

The main data source is the Family Resources Survey (FRS) which is a comprehensive dataset produced by the Department for Work and Pensions (with additional funding from the Scottish Government) that collates info on household incomes. It is the main dataset by governments across the UK to analyse the impact of tax and benefit decisions on households.

Most of this data collected for the FRS is available publicly through the [UK Data Service](#). This means that people outside of government (such as ourselves) can use the data to do our own analysis of the impact of tax and benefit decisions on households.

There is one omission in the publicly available dataset which is worthy of note for council tax analysis. The FRS data can be split into different countries and regions of the UK, but in the public data it is not disaggregated to local authority. This is for disclosure reasons: in small local authorities, it might be possible to work out who someone is by the information included in the survey.

This is problematic for council tax analysis because different rates apply in different local authorities. The FRS does tell us which council tax band people are in, but the best we can do is use the Scottish average band D rate and multipliers to calculate the amount of council tax people pay.

This usually isn't a big problem. For some households we'll be estimating that a council tax bill that is too high, and for others it will be too low, but these will offset each other to some degree, leaving the overall totals the model produces in the right ballpark.

Microsimulation model

The FRS gives us information on total household income, and using the average band D rate and multipliers we can estimate of how much people pay in council tax. It also provides us with information on the characteristics of households in the survey sample meaning that we can estimate which households would be eligible for discounts, exemptions and reductions (i.e. Council Tax Reduction). All this is done by a microsimulation model that simulates the impact of a range of policies and economic factors (for example inflation) for each household in the FRS sample (which is a micro-level dataset, hence the term microsimulation).

At the Fraser of Allander Institute, we purchase the services of the IPPR Tax Benefit Model, but other organisations (and governments) use different models. However, they all operate along the same principles, but may incorporate different assumptions.

The key word here is **eligible** – just because someone can claim single person discount or Council Tax Reduction, it does not mean they will. This may be because they do not know they are eligible, or that they do not think it is worth the effort, for example. In some cases, we can use administrative data to provide a guide to take-up, but in the case of Council Tax Reduction, no take-up statistics are available. Nor is there any independent body who has been tasked to come up with a best estimate that others could use- the Scottish Fiscal Commission do not forecast local taxes so do not have to look at council tax and CTR like they do with other devolved taxes and benefits.

The difference in the take-up assumption is one of the key reasons why modelled estimates of impact may look different, depending on who is producing the estimates. Other reasons that results may look different include definitions of income (for example whether they include an offset for housing costs) and the assumptions made around uprating of variables in future years (we are producing results for the financial year 2024/25 which obviously hasn't happened yet, so incomes could look very different). In addition, from time to time, errors are found in models or updates are made to improve the way the models work and as noted in the data section, governments may have access to more reliable source data.

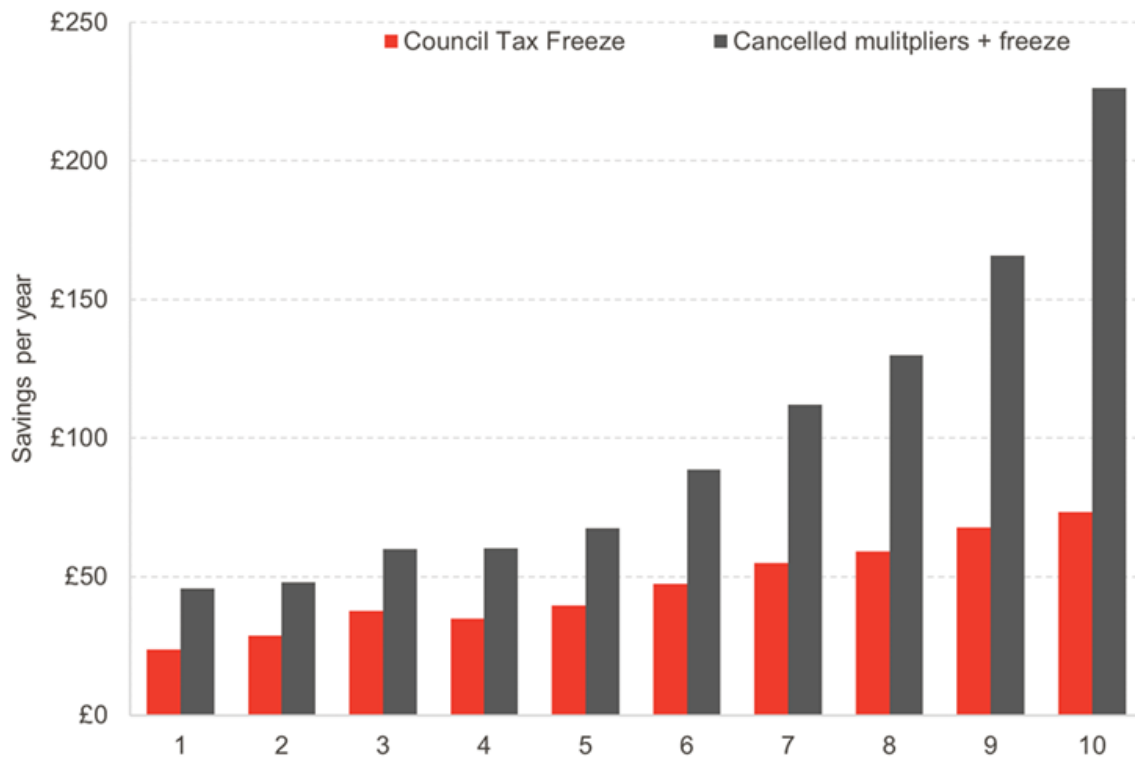
Given all these uncertainties, is it worth doing any kind of estimation? Well, in our opinion, yes. Because regardless of these uncertainties, there are underlying trends which hold which are valuable to illustrate. Some work has been done by ourselves to check how the modelled outputs we produce differ from others, such as the Scottish Government (see [here](#) for example). Whilst there will always be differences, these usually aren't big enough to warrant any panic - i.e. the overall trends are the same even if the actual numbers are a little different.

There are two key issues which analysis of the impact on households looks at, which provide slightly different insights. The first is the absolute (cash) impact and the second is the relative (cash relative to income) impact. These impacts are usually shown by income decile which are constructed by dividing the population into ten equal sized groups and plotting their income from low (income decile 1) to high (income decile 10).

For modelling the freeze, we've assumed a 5.4% increase in the counterfactual scenario.

Modelled estimates – absolute gains

Chart 1: Impact of council tax freeze and decision not to go ahead on multiplier changes by income decile (absolute impact)



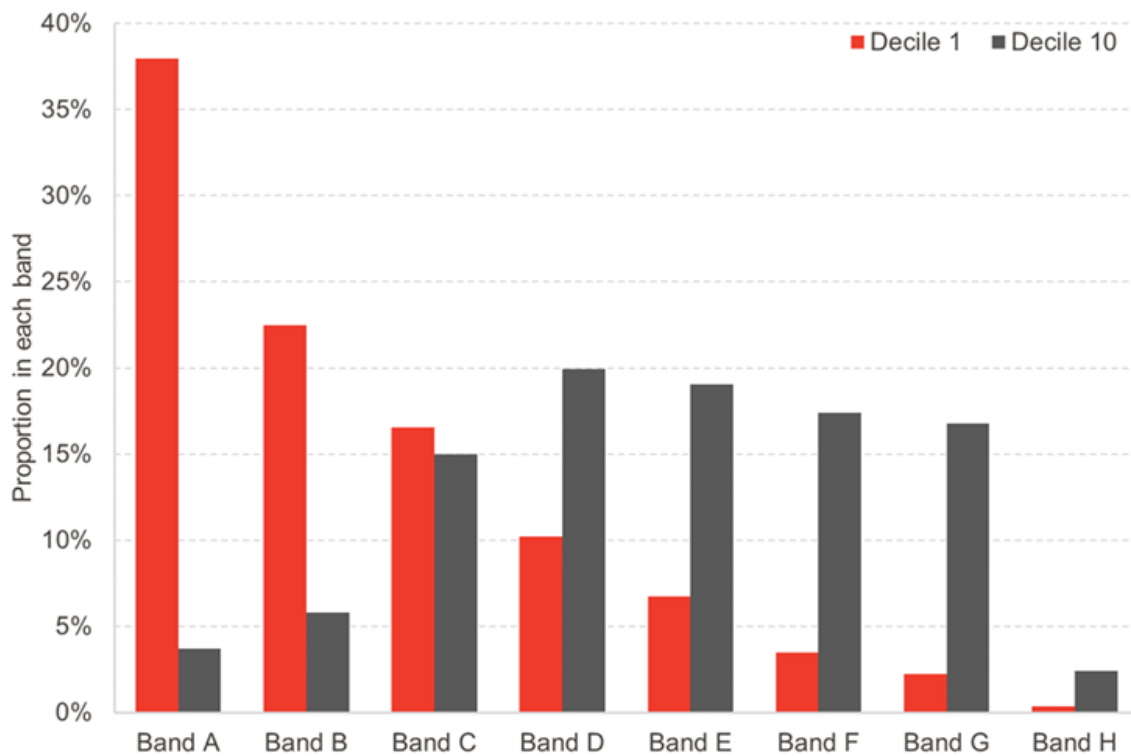
Source: IPPR model, FAI calculations

Chart 1 shows that those who benefit the most in cash terms from the freeze and the decision not to go ahead with the change in the multipliers are those in the higher income deciles.

These figures are inclusive of modelled estimates of discounts, reductions, and Council Tax Reduction. The fact that there are households in the lowest income deciles who are impacted by this is either due to them not being eligible for CTR or due to take up being less than 100%. Even if take up of Council Tax Reduction was 100%, the trend shown in Chart 1 of the absolute gains being larger for those at the top of the income distribution would still hold.

Another issue to point out is that although, on average, those in higher income deciles pay more, there are households in income decile 10 (the highest) that are in homes in Band A, and even households in income decile 1 (the lowest) who are in Band H homes (see Chart 2). Whilst no doubt this issue will have been exacerbated by the lack of a revaluation since the early 1990s (with many households in the wrong band if Council Tax was based on current relative property values) it is unlikely that incomes would ever be perfectly correlated with the value of the property. The most obvious example is for pensioners, who may live off a relatively small pension, but have no mortgage so they are able to live in a relatively expensive home.

Chart 2: Council tax band by income deciles



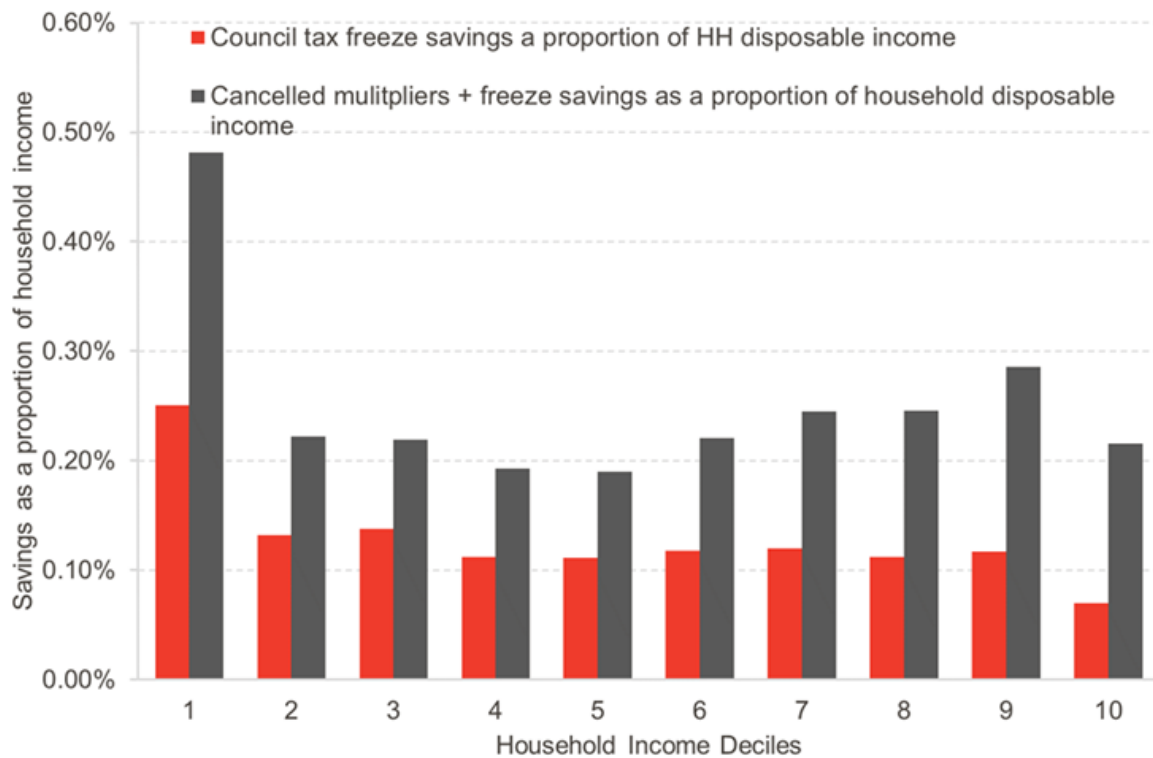
Source: IPPR model, FAI calculations

Modelled estimates – relative gains

A common response to the findings from Chart 1 (that absolute cash savings benefit higher income households) is that the opposite is true when you look at what this means relative to someone's income; the argument being that £25 to someone on a low income will make a bigger difference than £75 paid to a higher income household.

Chart 3 shows that as a proportion of income, the freeze benefits those in the lowest income decile the most, and those in the top income decile the least when shown as a proportion of income. For the deciles in between, it's a bit more mixed. When the cancelling of the freeze is added to the picture, income deciles 4 and 5 seem to benefit the least.

Chart 3: Impact of council tax freeze and decision not to go ahead on multiplier changes by income decile (relative impact)



Source: IPPR model, FAI calculations

The same argument is used to criticise the current form of council tax – on average higher income households pay more as a proportion of income council tax hits poorer households more.

These two arguments can't be used interchangeably. It is difficult to defend the council tax freeze on these grounds (i.e. poorer households benefit more in relative terms) at the same time as doing nothing about the underlying unfairness of council tax itself. At the same time, those who criticise council tax due to its underlying unfairness in terms of bills as a proportion of income can't use the same argument to criticise the freeze.

There are, however, plenty of other reasons to criticise council tax (see [here](#) for previous complaining). It is a tax that is not designed well and has been left to deteriorate further through lack of revaluation. The only valid option is to reform.