

Commission on Local Government Tax Reform

SCVO response

9 June 2015

Summary

A local tax system must be based on certain principles:

- it must be progressive, based on the ability to pay, so that low-income households are not faced with bills they cannot meet;
- it needs a connection to the locality, with an increased proportion of tax raised locally kept locally, alongside better participatory forms of engagement, such as mini publics, citizens' juries, and participatory budgeting;
- when it is discussed and presented, language must be used carefully, so that those who cannot pay are not demonised or demoralised.

In practical terms:

- a reformed Council Tax, a property tax, and a land value tax are all options;
- whichever is chosen, it must be straightforward to pay and collect, and easy to understand;
- it should also be flexible, in order to best meet the needs of communities well into the future.

Our response

SCVO welcomes the opportunity to respond to this consultation and would like to contribute to the following:

Introduction

Tax reform is a complex issue and not one that we are experts in. However, given that a large number of our member organisations support those on low incomes and/or benefits, that others campaign for changes in land distribution and ownership, and that yet others are concerned with supporting those affected by homelessness, it seems appropriate that we respond to this consultation, and we thank the Commission for seeking evidence from us.

There seems to be two sides to the Commission's work, and indeed to any work that considers the tax system. The first is a principled approach, the second a practical one. Deciding on those principles and then marrying them with the practicalities is the Commission's challenge, and we do not attempt to do that for them; there are many more expert on the ins and outs of various taxes than ourselves, and we are sure the Commission has or will hear from many of them. We will, however, use this space to discuss some of the principles that we feel should underpin any tax system in order to best serve the needs of those our members support. We will also highlight some practical ideas that some in our sector are discussing and/or that may lend themselves as a way to embed our principles in the tax system.

Principles

The first principle that we refer to comes from Adam Smith, latterly quoted by the Finance Secretary John Swinney MSPⁱ – that tax should be based on the ability to pay. Whilst concern is often shown for the relatively few asset-rich but cash-poor households (Joseph Rowntree Foundation research in 2006 found they made up just 0.7% of the UK's householdsⁱⁱ), little attention has been paid to the over 5 million households on low incomes and/or benefits that regularly struggle to pay Council Tax. These struggles have very real consequences on those households in terms of affording basic goods such as

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food and fuelⁱⁱⁱ. Given that so many of our members support those who either require social security support, and/or who suffer from low pay, it is vital for us that people are not asked to pay more than they can afford. The first principle, therefore, must be to focus on redesigning the local tax system so that it is truly progressive, with households who cannot afford to pay protected from high bills in a way that is straightforward, consistent and easy to apply.

Our second principle is related to democracy. Local elections are currently poorly contested, and have some of the lowest turnouts in Europe^{iv}. It is hard to know why this has occurred, but it seems likely that the centralising of local government funding, and the perception that power is held centrally within Scotland and the UK, does not help encourage people to participate in local politics. Certainly, during the referendum the large increase in voter turnout was perhaps a reflection of the fact that every vote had real power. And since the referendum, the Scottish Government has argued further for full fiscal autonomy from the UK Government. It seems sensible, therefore, that there should be an increase in the amount of money that is raised and kept locally. Of course there needs the usual caveat around equalisation (the sharing of resources across areas according to need), but the principle that local government should have the ability to raise much of what it spends, and that voters can therefore choose who to vote for based in part on their spending and taxing plans, might help to increase engagement in local politics – along with, we would argue, better participatory forms of engagement, such as mini publics, citizens' juries, participatory budgeting and so on. We need councils that reach out to people, inviting them to participate and providing space for real deliberation and discussion, and we need decision-makers to hold meetings and events in communities as a matter of course (for more on this, see SCVO's Democracy Discussion paper^v). Doing so will encourage more transparency, making local councillors become more accountable to local voters. Therefore our second principle seeks greater connectivity between the money raised and spent by local authorities, and the local communities that those local authorities work for.

Our third and final principle is one around language. We have become concerned around the constant insistence that tax-payers are the only valued members of society. The rhetoric of politicians regularly suggests the rewarding of so-called hard workers, and

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positions those who do not work and pay tax as less important in our society. Given that so much of the value of the third sector comes from those who freely give up their time for others, and that this is what supports and nurtures our society, and, indeed, is what often enables those 'hard workers' to go out and work in the first place, we find this language disturbing. People bring value to individuals, society and our communities in myriad ways, not just through paid work. For some, earning a living is never going to be an option. However, this does not mean that they should be penalised nor demonised. So our third and final principle is on the importance of ensuring that as we ask people who can afford to do so to pay tax, we do not at the same time dismiss the value of those who cannot.

Practicalities

As we are sure the Commission is aware, there are it seems three common options for reforming local tax. One, a reformed Council Tax, two, a property tax based on current home values, and three, a land value tax. The work of Burt^{vi}, of Glasgow City Council^{vii}, of Mirrlees^{viii} have all reviewed these ideas to various extents and we are sure the commission is familiar with them all. As a third sector membership body with a wide range of members, we do not have a view on which is the better tax.

Having said that, it is clear that the current banding system has flaws in terms of the jumps between bands, and that will be the case however many bands are put in – so perhaps a reformed Council Tax is not the most progressive, although it is at least familiar and so reasonably easy for people to understand. A property tax, based on something like 0.5% of the value of a property, is at least easy for people to understand and very progressive, assuming that those in the wealthier houses who are 'cash poor' are able to waive their bill to a later date. Obviously, with both of these systems, regular revaluations would need to take place – something that has undoubtedly led to some of the unfairness around Council Tax now, as properties that have seen above average price increases in recent years have gained whereas those that have not have lost out. Given the availability of house price data due to the UK's obsession with property prices, it seems perfectly plausible that very regular (annual?) revaluations could be completed with relative ease.

The third clear option, the land value tax, has a lot of support within those in our sector who work on community empowerment. A land value tax is seen as a way to stop

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speculation and the hoarding of land, to encourage land to be put to its best use, and to ensure that landowners pay their fair share in local taxes even if there is no property on their land. Whilst there are clearly some current issues around the registration of landowners at present, once such issues are sorted out a land value tax could be another tool with which to widen the local tax base and ensure sufficient income for local services as well as preventing land being used as a tax-free asset (see the report *A Land Value Tax for Scotland*^(x)).

Finally, whatever practical option the Commission chooses, it is important to ensure that it is straightforward to pay and collect, and easy to understand. It must also be flexible, as the last thing that anyone wants is to implement a new system only to find it is not appropriate ten years down the line. We do not know what household make up will be in the future, what our jobs market will look like, nor what public services we will need or want. Therefore it is important that the new system that is created today can respond to those changing needs.

Conclusion

We are aware that in this work we have not perhaps given the Commission what it wants, as we are not advocating one tax over another. We hope the Commission understands that as a large membership organisation that holds a range of views we cannot do so. However, we have set out what we hope the Commission will find some useful guiding principles for them when considering local tax reform, and which will help lead them to a suitable solution for all of our communities across Scotland.

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About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1,600 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,600 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland

SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.

Further details about SCVO can be found at www.scvo.org.uk.

References

ⁱ <http://news.scotland.gov.uk/News/Land-and-Buildings-Transaction-Tax-14ce.aspx>

ⁱⁱ *Struggling to pay council tax*, Michael Orton, Joseph Rowntree Foundation, 2006.

ⁱⁱⁱ Ibid.

^{iv} <http://reidfoundation.org/wp-content/uploads/2012/04/The-Silent-Crisis1.pdf>

^v <http://www.scvo.org.uk/long-form-posts/a-new-democracy-for-scotland-discussion-paper-by-the-scottish-council-for-voluntary-organisations/>

^{vi} <http://www.gov.scot/Resource/Doc/153766/0041377.pdf>

^{vii} Glasgow City Council Local Taxation Working Group: overall findings

^{viii} <http://www.ifs.org.uk/publications/mirrleesreview/>

^{ix} *A Land Value Tax for Scotland*, Andy Wightman for the Green MSPs.

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