

## EVIDENCE FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

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**THE LOCAL TAX COMMISSION, SCOTLAND**

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**22nd June 2015**

## 1 Introduction

- 1.1. The SFHA welcomes the opportunity to give evidence to the Local Tax Commission for Scotland.
- 1.2. The SFHA is the national representative body for housing associations and co-operatives in Scotland.
- 1.3. Housing associations and housing co-operatives in Scotland own and manage 47% of the country's affordable rented housing stock. This represents over 280,000 homes across Scotland, concentrated in some of the poorest communities in our country.
- 1.4. Housing associations and co-operatives have been working to provide, manage and maintain housing throughout Scotland since the 1960s and have a track record of making a significant contribution to improving housing for the people of Scotland.
- 1.5. There are some important and distinctive features of housing associations and co-operatives. Our members are:
  - Independent businesses that provide and manage high quality affordable accommodation and housing services;
  - Responsible for accessing and managing public and private resources;
  - Managing their businesses, not to make a profit but using resources imaginatively and inventively to benefit housing and communities;
  - Accountable to their members, who live or have other interests in the communities and places which they create;
  - Publicly accountable and thus regulated given their use of government resources;
  - Housing associations and co-operatives are diverse organisations at different scales, with different histories, purposes and goals. They also collaborate in different ways with each other, with the private sector and with local authorities, according to their particular business imperatives.

## 2 General Principles

- 2.1. In responding to the commission's call for evidence, the SFHA is not proposing a preferred option for the reform of local government taxation and funding. We know that the commission has members and a secretariat with expertise in this area, and will take evidence from experts on finance and taxation who can cover the respective merits of a reformed Council Tax, a Local Income Tax and a Land Value Tax.
- 2.2. Instead, we set out some general principles of what a local tax should seek to achieve in order to enable the communities that our members serve to thrive, and to help the Scottish Government achieve its stated goal of building a fairer Scotland and tackling inequalities<sup>1</sup>.
- 2.3. We believe that local taxation should be reformed in order to provide a more progressive system, with the burden of taxation reflecting ability to pay. The Land and Buildings Transaction Tax, provides a good example of how a tax can be designed to achieve this. In particular we believe that any reform should consider the impact on people working but who are on low incomes and may not currently be eligible for exemptions or discounts.
- 2.4. The tax should be designed to increase the provision of housing across all tenures. With over 150,000 households on social housing waiting lists, the shortage of housing is a major issue for Scotland. Recent influential reports by Audit Scotland<sup>2</sup> and the Black Commission on Housing and Wellbeing<sup>3</sup> identified the shortage of housing across Scotland as a significant national issue impacting on several key Scottish Government priorities including economic growth, community empowerment and improved health.

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<sup>1</sup> One Scotland (Scottish Government, 2014); available at <http://www.gov.scot/Resource/0046/00464455.pdf> accessed 22nd June 2015

<sup>2</sup> Housing in Scotland (Audit Scotland, July 2013); available at [http://www.audit-scotland.gov.uk/docs/local/2013/nr\\_130711\\_housing\\_overview.pdf](http://www.audit-scotland.gov.uk/docs/local/2013/nr_130711_housing_overview.pdf) accessed 22nd June 2015

<sup>3</sup> Commission on Housing and Wellbeing (shelter, June 2015); available at <http://www.housingandwellbeing.org/> accessed 22<sup>nd</sup> June 2015

2.5. Any local tax should be designed to help incentivise increased energy efficiency in Scotland's housing. Fuel poverty is running at 39%<sup>4</sup>, while Scotland has exacting Climate Change Targets which it has struggled to meet. While the SFHA welcomes the announcement that the Scottish Government is to treat domestic energy efficiency as a National Infrastructure Priority<sup>5</sup>, any opportunity should be taken to encourage investment in energy efficiency.

2.6. The SFHA is concerned that any new or reformed tax should not result in housing associations and cooperatives having to pay a tax on the properties that they own. Housing associations and co-operatives provide affordable housing to those in greatest need and operate as charities and not-for profit organisations – any tax reform should therefore avoid placing additional financial burdens on them.

### **3 A Progressive Tax**

3.1. The SFHA submits that any reform of local taxation should be designed to ensure that the tax is progressive and that taxes levied closely reflect ability to pay. While the current Council Tax system is broadly designed to do this there are some concerns about it. Homes have not been revalued for some time and there are a limited number of bands – therefore there may be concerns on how progressive and fair the Council Tax currently is, and how closely bills reflect households' ability to pay.

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<sup>4</sup> Scottish House Condition Survey 2013 – Key Findings (Scottish Government, December 2014); available at <http://www.gov.scot/Publications/2014/12/6903> accessed 22nd June 2015

<sup>5</sup> Heat Policy Statement (Scottish Government, June 2015); available at <http://www.gov.scot/Publications/2015/06/6679> accessed 22nd June 2015

- 3.2. While the Council Tax freeze has benefitted many across Scotland, the cumulative effect of seven successive years of Council Tax freezes is that people in more expensive houses are saving more money (as their homes would be subject to a higher tax band) year on year than people on lower incomes living in lower band properties. Since Council Tax helps to fund essential local services, and it is likely that lower income households are more reliant on these services, it can be argued that the freeze also disadvantages lower income households by affecting the local services that they use.
- 3.3. We believe that the Land and Buildings Transaction Tax, which recently replaced Stamp Duty, provided an excellent example of how a tax can be changed or reformed so that it is progressive and reflects ability to pay and we would like to see a similar outcome following the deliberations of the commission.

#### **4 Encouraging Housing Development**

- 4.1 As highlighted above, there is a major shortage of housing in Scotland across tenures. There are 150,000 households on waiting lists for affordable rented housing, while it is well documented that many households that aspire to own their own home but are unable to do so.
- 4.2 Good quality affordable housing has an important role to play in supporting improved health and educational attainment and in enabling labour market mobility – in short in helping to Build a Fairer Scotland and tackling inequality, one of the Scottish Government's key aims.
- 4.3 Developing housing also has a high multiplier effect, creating a significant number of jobs for money invested.
- 4.4 For the above reasons, we believe that any proposal to reform local taxation in Scotland should also seek to incentivise the development of housing and the re-use of vacant properties and buildings. Reforming local taxation to incentivise housing development should work in concert with investment in infrastructure and the recent reforms to the planning system.

## 5 Incentivising Energy Efficiency

- 5.1 Domestic energy efficiency is a huge issue for Scotland. With fuel poverty now affecting 39% of Scotland's households and Scotland having tough Climate Change targets to meet, investing in domestic energy efficiency is essential.
- 5.2 While providing tax incentives to encourage improved energy efficiency will not on its own lead to significant investment, we believe that tax incentives have a role to play in improving the energy efficiency of Scotland's housing. Combined with minimum standards for energy efficiency (currently set our for social landlords, and about to be consulted on for owner occupiers and the private rented sector) and investment in energy efficiency schemes such as the Home Energy Efficiency Programme for Scotland, tax incentives have a role to play to encourage property owners to invest in energy efficiency measures.
- 5.3 As stated above, we welcome the recent announcement by the Scottish Government that energy efficiency is to be treated as a national infrastructure priority. The SFHA believes that investing in energy efficiency can not only reduce fuel poverty and reduce carbon emissions. Investing in energy efficiency can also stimulate the economy – a study by Cambridge Econometrics<sup>6</sup> found that funding domestic energy efficiency programmes was the most cost effective way to create jobs and stimulate the economy. Reform of local taxation could help stimulate that investment.

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<sup>6</sup> Economic Impact of Energy Efficiency Investment in Scotland (Consumer Futures, 2014); available at <http://www.consumerfutures.org.uk/reports/economic-impact-of-energy-efficiency-investment-in-scotland> accessed 22nd June 2015

## 6 Conclusion

6.1 The SFHA welcomes the opportunity to make a submission to the Local Tax Commission, and to follow this up with oral evidence. While we are not stating a preference for way that taxes should be raised to support local government we argue that local taxation should

- Be progressive and based on ability to pay
- Encourage the development of housing across tenures to meet Scotland's housing need
- Incentivise energy efficiency

6.2 It is important, however, that any reform does not place any additional financial burden on housing associations and co-operatives, who are not for profit or charitable organisations and require grant support in order to provide affordable rented housing to those in housing need.