

Paying for Local Government

A UNISON Discussion Paper

Introduction

UNISON is the largest trade union in Scottish local government. Our members deliver local services and also have a wider citizenship interest in how services are provided and paid for.

The funding of local government has been a difficult issue for political parties. At best proposals have been sticking plaster solutions because change is viewed as being politically challenging. However, we simply cannot go on as we are with short-term fixes that damage services and undermine local democratic accountability. We need to develop a new consensus that provides a long-term solution.

In this discussion paper we set out our view of the taxation options for local government in Scotland. The primary aim of the paper is to enable UNISON branches in Scotland to reach a view on this issue, but we would welcome views from others who have an interest in this important issue.

Adequate funding of services

UNISON believes that taxation is the fairest way to fund local services. That does not mean that we believe the current tax system couldn't be fairer. In particular, we would like to see super rich companies and individuals pay their fair share. This means changing tax rates, closing down loopholes and tackling tax avoidance measures, because everyone in Scotland benefits from the existence of high quality public services. Delivering services costs money, so it is vital that services are properly funded and that everyone pays a fair share towards those costs. Businesses benefit too, that's why they too must bear a share of the costs.

In order to ensure that we all pay a fair proportion, all forms of wealth need to be taxed. Currently the system taxes wages more highly than other forms of wealth leaving ordinary workers bearing an unfair burden.

Property is a significant form of wealth and must be taxed in order to reduce inequality. The well-off already own bigger and more houses than the rest of us. If this form of wealth is untaxed it becomes an even more attractive form of investment. This means that more people buy houses, not as a place to live but as an investment. This will add to our already dire housing shortages, increasing prices for both renters and ordinary buyers. Unlike wages properties can be passed on to relatives, further maintaining and increasing inequality for future generations. VAT has no regard to your income at all. Changing the tax system to target all wealth is a fair and effective route to pay for public services, reduce inequality and boost the economy by giving disposable income to ordinary workers.

While changing the whole tax system is not currently within the competency of the Scottish Parliament, the tax used to fund local government always has been and the recent changes to the benefits system and the devolution of extra powers mean that the parliament also has power over what used to be council tax benefit. If the council tax freeze lasts until the next election it will have cost £2.5billion. The freeze is underfunded: £70million across 32 authorities per year. Councils are only able to access their share of this money if they agree to freeze the council tax, maintain teacher numbers in line with pupil number and until recently maintain an artificial police officer target.

The commitment to this spend is limiting the options for local government to respond to budget cuts. Councils are facing increased demands for services caused by the economic crisis and demographic changes, and extra costs such as rising fuel costs. Charges are being introduced and increased which hits the lowest paid most while the freeze benefits the wealthiest most. Cuts to services are also impacting heavily on those who rely on these services. UNISON's [FOI](#) on charges and a recent Audit Scotland report show these costs are mounting up for ordinary service users while wages for workers are static.

UNISON principles for local authority funding

These are the principles that UNISON bases its current policy position on:

- **Local authorities raise and control revenue.**
Local authorities have their own democratic mandate but increasingly their ability to respond to local demands is hampered by their lack of control over the level of funding available to them. Local authorities need to be able to have the ability to control the levels of their own budgets. Currently about 85% of local authority funding is determined centrally.
- **Business rates returned to local authority control**
Councils should be able to set their own business rates, this will allow them to raise money to pay for services and devise their own criteria to support the type of businesses they want to encourage.
- **A property tax is the best fit for local government**
A property tax is the best fit for local government as it is clearly linked to the authority. It cannot be moved or hidden making it cheap and easy for the local authority to administer.
- **Grant support allocated with minimum ring fencing,**
Local authorities are well placed to make decisions about local priorities because councillors are directly accountable to local people for the decisions they make. Central government funding should acknowledge that and funds should be minimally ring-fenced.
- **Taxation should be broadly progressive**
Progressive taxes attempt to reduce the tax incidence of people with a lower ability-to-pay. It doesn't mean every tax has to be progressive, but overall, those on higher incomes should pay more.

Current options under discussion in Scotland

There are four main options:

- On going council tax freeze
- Local income tax
- Land value tax
- Fairer property tax

In 2007 the Burt Review covered all of this in detail, but the main recommendation was shelved because it was so close to an election. The report weighs up the various options then recommends taxing the capital value of property taxes. The submission to the Burt review from professionals working in tax and valuation, like RICS and IRRV, are particularly useful for understanding why Burt rejected land value and a local income tax.

How should local government raise money?

In order to make a decision on the best way for local authorities to raise taxation we first need to understand what the problems are with the current council tax system. We should also remember that the council tax has traditionally raised only around 20% of council income. That proportion has been declining since the council tax freeze and most income comes from government grants. Charges for services have also been increasing and now constitute half the income raised by the council tax.

The council tax is a hybrid property and income tax where council tax benefit is used to evaluate an income and occupancy based level of support. A key issue with the council tax has been that the benefit system did not work properly particularly for those on low pay. Many who were entitled to the benefit also did not claim it leaving many struggling to meet their bills. The council tax was a quick political fix introduced to get the government out of a hole created by the reaction to its Community Charge (Poll Tax) and it was introduced with substantial subsidies. As these were withdrawn the bill increased to avoid service cuts. These initial big rises are what anti-tax campaigners have been very effective in highlighting.

Current charges are based on 1991 property values; this means that the tax is increasingly out of touch with real property values. Those with the most valuable properties are increasingly facing bills that are substantially below the rates that they should be paying. Even before the current government freeze politicians were “afraid” to revalue. Although revaluation could have led to new more appropriate bands and reduced bills for many of the least wealthy, the fear was that the losers would be a lot more vociferous than the winners. So revaluation was avoided and avoided and avoided again.

There are two problems with the current council tax banding system. Even when it was introduced, there were too few bands and the multipliers between the bands did not take account of the disparities in wealth - so the resident in a £400K house only pays 3 times the bill of a resident in a £40k house. The top band contains houses from £212,000 upwards: a huge range of property values all with the same charge. Revaluation without re-banding would also put some ordinary family homes into the top band. This is why a mansions tax is gaining some support. It would be possible though to avoid the need for a separate tax by amending the council tax bandings.

In 2007 the SNP came into government promising a local income tax to replace the council tax. The freeze was to be a temporary measure until the new tax could be introduced. Following a critical response to the consultation on the local income tax, including UNISON's response, no further proposals were published and the freeze remains in place.

There are other forms of local taxation that could provide some additional funding at the margins, such as a bed tax.

Local Income Tax

As stated above, wages in Britain are already highly taxed in comparison to other forms of wealth and for those on average and low incomes they make up the vast majority, if not all of their wealth. A household's overall financial security also depends not just on actual earnings but also the number of people reliant on those earnings, so a one earner household of four with a £40k income paying rent can be less well-off than a single householder on £15k who owns their home outright. As the cost of living increases and with wages largely frozen, particularly for public sector workers, an extra tax on ordinary workers' wages is not the fairest way to raise income for local government. Only 60% of people pay income tax so getting rid of a property tax for local authorities will leave 40% of people not contributing. Like the poll tax, all workers in a household will pay a local income tax leaving some households like adults sharing and families with older children still living at home (because of high rents/house prices) paying a lot more than their current council tax bill.

There are also a host of practical reasons why a local income tax (LIT) is not the best tax for local services, not least that it would have to be collected nationally then redistributed back to councils. This requires major adjustments to the central IT system and to those of payrolls across the UK as many workers living in Scotland work for UK firms. Even within Scotland many people don't live and work in the same local authority area. This makes allocating tax from wages to the right authority more complex and therefore costly. In order to raise equivalent income, the LIT would need to be at a rate which makes those on low and average incomes pay more than council tax per household. The Scottish Government proposed a rate of 3% but over 6% would be required to match council tax income. Submissions from organisations like Carers Scotland indicated that it would leave many carers worse off due to their allowances.

Advantages of a property tax

Any strategy to reduce wealth inequality needs to include taxing property. For local government a property tax's advantages are practical - it's easy and cheap to collect. Property is easy to find and value. It can't be hidden or moved abroad, nor does it appear suddenly as changes to existing and new buildings require agreement with local authority planning departments. The yield from a property tax is stable and enables the kind of long-term planning which local government needs to be able to do. Significantly for UNISON members, over 4000 people were employed in council tax administration and so any change to a national or income based tax puts those jobs at risk.

Land Value Tax

Campaigns for a land value tax (LVT) have been growing. LVT is most often proposed to replace both business rates and the council tax. The tax has an immediate surface appeal - tax the rich. The [Burt Report](#) and the [Mirrlees Review](#) both found that there are good reasons that this is a seldom-used tax despite over 150 years of campaigning. The Mirrlees Review was set up to review the UK tax system and propose ways to make it much less complex while maintaining the same level of revenue. Pro land value tax groups often quote it as being in favour of LVT. What it does say is that it is worthy of further study if its practical difficulties could be overcome. It also says that even if the practical valuation issues could be overcome, it is not a suitable replacement for the council tax, but a possible option to replace business rates, not the council tax. Mirrlees also proposes an end to all VAT exemptions.

Land value tax is a tax levied on the owners of land based on the value of the land excluding any property/fixtures on the land. One of the key issues with this tax is working out the value of land itself in order to then work out the level of tax due. Land is rarely sold without anything on it nor are buildings sold without the land underneath. There is therefore very little real data to base valuations on. This means that any bills will essentially be based on an estimated value. Those who support this tax feel this will be a simple process. Others believe that many will challenge the bills leading to a complex and costly appeals process. A report done for the [Green Party](#) is proposing that this can be overcome by allowing land owners to set the value of their land while giving local authorities the right to buy land at this value if it is ever sold. UNISON campaigns against tax evasion and avoidance and this proposal seems open to abuse.

Most people do have a general understanding of property values in the area they live and this means that bills based on the value of your own property are easy to understand. This will not be the same for land values. There are also concerns as to whether it will be widely perceived as fair if two plots of land with very different properties on them would have the same charge: for example two plots of land one with a one bedroom cottage and one with a mansion. A Glasgow City Council pilot indicated that while flat owners could be better off, those with houses and gardens may not as you have more tax payers on the same size of land plot. This could mean more winners than losers in a city like Glasgow, but a different mix in the suburbs like East Renfrewshire.

Land value tax would also be more costly to collect, as landowners are not as easy to find and bill as occupiers. Individuals and/or offshore companies hiding in tax havens can own land. These are hard enough for a central tax body to find and get money out of – so certainly too costly for local authorities. Landowners will be able to pass the cost on to tenants in higher rent charges. Housing Associations and local authorities that still have social housing will also face the charge and may also raise rents to cover the cost.

In the UK, local authorities have control over much less of their funding than in other European countries. Local taxes should support local accountability. Local government should raise money from those people who live and work in their area, who use the services they provide. Wealthy landowners become the major contributors to local finance under LVT and may exert pressure on authorities to cut back services, particularly if they do not even live in the area and see no benefit from having high quality local services. So even if the practical difficulties over LVT could be overcome, the Mirrlees and Burt Reviews both concluded that LVT is not really a tax suitable to local government. That does not mean that LVT may not be an appropriate national tax to address issues like land banks, but that is out with the scope of this paper.

Local Property Tax

UNISON's current policy position is that the council tax can be reformed to deal with its current issues. Now that changes to the benefits system and devolution of further powers in this area have taken place, the Scottish Government has the power to change both the tax itself and any benefits to be paid to protect those on low incomes. This could involve a fairer banding system by increasing the number of bands – top and bottom (Lyons Report) and changing the multiplier between bands (From 3 to up to 10+).

It is also essential that any future bills are based on current property valuations so regular revaluation would have to be set in stone to prevent the current situation building up again. Pensioners with high value properties and low incomes could also be allowed to defer payments, which would then come out of their estates. Because of the small number involved local authorities can easily plan round deferred payments.

The Burt Review found that using actual property values rather than banding was more progressive because it would get rid of the 'cliff edge' where those on either side of a band with a small difference in property values have very different bills. On the other hand banding could reduce appeals. In 2007 he recommended it be set at 1% for same yield as the Council Tax and while this would have created one-third losers, half would be gainers.

Political considerations

There is no easy political solution to the problems of local taxation. No one wants to pay higher bills, wages are frozen and other costs are rising. Those who get higher bills will campaign loudly against them, winners will quietly carry on. However, it is possible to separate a structural change in local taxation from the rate at which the tax levied. Parliament could, if it so wished, reform the council tax on the basis of no increase in yield until the economy improved.

Conclusion

UNISON members are taxpayers, service users and many are also local government employees who need taxation to provide adequate funding to support fair wages for the work they do. While reform is challenging, political difficulty is not a reason for avoiding a solution that pays for services and strengthens local democratic accountability.

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