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The Burt Report on local government finance in Scotland has recently been published. In England, the review by Sir Michael Lyons is due to appear soon. Whitehall has changed the system for domestic properties in Northern Ireland while the Assembly has been suspended. The subject is certainly in the air now. Accordingly, we devote much of this Issue to a look at Burt. Our first page, however, is "business as usual".

A REMEDY FOR INEQUALITIES

Since 1997, "house prices have tripled, adding £2.5 trillion to the wealth of those owning residential property – equivalent to two years' national output" (Ashley Seager, "The Guardian", 8th. January). Most of this of course is land value. Labour and material costs have risen only slowly in a period of comparatively low inflation. These price rises do not add to the real stock of wealth. They have merely led to "a huge rise in debt, a drop in savings, and a 'crowding out' of investment in more productive enterprise... [Instead, last year] people withdrew about £45bn" of this bonanza to spend on goods and services for consumption and "on things such as second homes, new cars and deposits for their children's houses. Was that money available to renters? No chance... So what is to be done?... Land has a scarcity value when it is in desirable locations. That value is not down to individual effort but derives from the [activity of the whole] community." Land has a rental value that can be collected in place of existing taxes on work, spending and saving.

IRISH, BUT NO JOKE

"Ireland gives artists and entertainers generous tax breaks. For these *glitterati*, Howth Head [close to Dublin] has become an exclusive address, with properties changing hands for over £5,000,000" (Neil Oliver, presenting a television programme, "Coast", on BBC2, 23rd. November). Thus do tax breaks, like subsidies, end up being transferred to the pockets of landholders – in this case, owners of housing land. The vendors also glitter!

MADEIRA READY TO TAKE THE BISCUIT?

"Promoters of Madeira argue that its 'downsides' – the rain, the lack of sandy beaches and the absence of low-cost carriers – will eventually attract second-home buyers because they also serve to keep tourist hordes away" (Emma Tucker, "Financial Times", 23rd. September). At the same time, "thanks to a newly refurbished airport and a big road building project, [developers] are starting to recognise the island's potential... Improved infrastructure [has] made access easier." A more desirable location raises rents and prices for the landholder.

BURT

“A Fairer Way: Report by the Local Government Finance Review Committee”, published by the LGFRC (Chairman: Sir Peter Burt), Edinburgh, November 2006, and duly submitted to the Scottish Ministers. Copies are available from Blackwell’s Bookshop, 53, South Bridge, Edinburgh, EH1 1YS and on the LGFRC website www.localgovernmentfinancereview.org The Report contains over 200 pages of text (in clear but by no means large print), tables, and figures.

The Burt Report is the product of an independent review committee set up by the Scottish Executive to examine local government finance in Scotland. It is a well written and informative document, deserving of attentive consideration. Unhappily, its proposal to replace the council tax (“CT”) by what it called a local property tax (“LPT”) in the form of a 1% tax payable each year on the assessed capital value (selling price) of a home, has little to recommend it; and indeed “the day before it was officially unveiled” the plan was “dismissed out of hand [by ministers] as completely unacceptable” (Angus Macleod, “The Times”, 9th. November). Sir Peter indignantly hit back, saying that “his critics should read his 207-page report in full before passing hasty judgements” (Tom Gordon, “The Herald”, 10th. November). In the Scottish Parliament later, Tom McCabe, Labour, Minister for Finance and Public Service Reform, declared that his party sees merit instead “in expanding the number of [CT] bands and looking at the gearing between them” – an option the Report had examined and dismissed: “We are not satisfied that any banded system can be improved sufficiently to overcome its inherent shortcomings” (13.30).

Local Income Tax flatly rejected, and some other options dismissed

On any reading of Burt’s findings, the most discomfited must be the Liberal Democrats and the Nationalists, both of whom put forward cases for a local income tax (“LIT”). As Mark Ballard, M.S.P., Green, observed to the Parliament, Burt “dealt a knock-out blow to those who advocate an income-based local government tax”. The Land Value Taxation Campaign in its paper, “Options For Local Government Finance” (February 2005), and in “Practical Politics” (notably Issue No. 121), has vigorously exposed the fiscal and administrative drawbacks of proposals for LIT. Burt surely has now put the matter beyond all reasonable doubt. The Report’s observations, detailed analysis, and conclusions are to be found in Section 9 (sub-sections 4 to 40) and Section 10 (all 24 pages).

Section 9 also considers, and rejects, a poll tax, a local sales tax, and a local vehicle fuels tax (particularly strongly resented). A tourism tax gets the “thumbs down” too (except, grudgingly, for the City of Edinburgh in peak season – maybe). A return to the old rating system is rejected (11.4) after the scantiest consideration.

Council Tax dismissed, whether reformed or not

Burt considers a property tax appropriate, within the overall basket of U.K. taxes. CT is currently the only truly local tax, contributing just 20% or thereabouts of local government income. The rest comes from, or, rather, through, Brussels, London, and Edinburgh. The uniform business rate provides some 20% and the rest derives from general taxation, notably income tax and value added tax. The

average CT bill payable in Scotland is at present £958; but in fact 17.6% of the total CT due is paid to councils by the Department of Work and Pensions on behalf of welfare benefit recipients. Exemptions and statutory disregards also detract from the picture of CT as a simple, straightforward property tax.

CT goes back to a 1991 valuation which put Scotland's 2.26 million domestic properties in eight bands, based on the assessed capital value (selling price) of the dwelling and the site it is built on. About half are in the two lowest bands, A and B. Only 4% are in G and H, the top bands. A multiplier is applied, band by band, such that the charge on a property in the top band is three times that on the lowest. The Report finds a general relationship between income and the property occupied. Burt's overall verdict, however, is that CT is not progressive enough; the link to ability to pay is inadequate; and the multiplier is too shallow.

In the light of this, Burt goes on to examine possible modifications to CT. Studies show that, counter-intuitively, adding two bands at the bottom of the range and two more at the top, has very little effect on the burden of CT; and the Report notes that Sir Michael Lyons has found similarly in his study on England. Computer simulations, made raising the multiplier from 3, even to as much as 42, do not confer significant benefit to most CT payers, whilst hurting substantially the losers at the top end. Burt regards the multiplier process as purely arbitrary.

The need for an effective benefit system is stressed. Frequent revaluations are urged. Even so, Burt cannot approve of CT. The committee's findings are recorded in Sections 12 and 13, and, *passim* but significantly, also in Section 14.

The Committee's own proposal, a Local Property Tax

As stated in our introductory paragraph, the LPT, in the form of a 1% tax payable each year on the assessed capital value (selling price) of a home, has little to recommend it, and was rejected even before its official publication. It is explained, and the case argued, in Section 14. Essentially this is the system which Whitehall is imposing on Northern Ireland under Direct Rule. The Land Value Taxation Campaign aired its objections in "Practical Politics" (Issue No. 141). Burt maintains that LPT is more progressive than CT at both top and bottom of the price range, could be underpinned by the equivalent of the CT benefit scheme, and could be capped at the high end by political decision.

Inter alia, the Campaign argues against assessments made on the capital value of the whole property, which is to say on the buying/selling price of the land plus the building and other developments on it. Annual value at least represents use value at the date of valuation. Capital value is liable to be much more volatile, since buying/selling prices are influenced by current and anticipated future trends in interest rates and inflation forecasts; by elements of land speculation, "hope" value, the prospects (adverse as well as favourable) following planning permissions and infrastructural developments; by booms and slumps in the housing and housing land markets; and by the perceived consequences of potential political, economic, social, and environmental changes (perhaps even upheavals). This view is

supported by Pat Watters (President, Convention of Scottish Local Authorities): “It would be impossible for them to estimate what a 1 per cent of market value would be in each year in view of the way in which the property market fluctuates” (cited by Angus Macleod, “The Times”, 9th. November).

The LPT system would of course collect nothing from a vacant house plot, and would tax good quality developments much more highly than poor and run-down buildings standing on land of equal value. Do we really want to reward the bad and penalise the good? This brings us to land value taxation (“LVT”), which the Report treats in Section 11 (sub-sections 5 to 32) and Annex A.

Land Value Taxation, passed over, but...

Section 17 takes a sideways look at non-domestic rating, and supports its retention. Burt is able to recommend the UBR be extended “to vacant and derelict land” (17.22), as an incentive for re-development. Later (17.28) he weakens the effect by referring to “vacant or derelict land and property.” In fact there are smatterings of LVT thinking scattered throughout the Report, suggesting that the committee has been influenced by the LVT case but without really grasping it.

In fact the Report’s discussion of LVT ends limply, with no formal recommendation at all. “We considered at length the many positive features of a land value tax...particularly its progressive nature” (11.32). Comments are made that could easily have been clarified by further probing. “We concur with Layfield [Enquiry, 1976] who recommended that any local property tax should be based on capital values” (11.34). That LVT is not in full and proper operation anywhere is regarded as sufficient reason to doubt convincing theory and other persuasive evidence (11.10). A feature of LVT that is admitted to be reasonable “logically and economically” (11.16) is set aside because it might be regarded as unfair. Some comments are simply wrong, for example that “good schools or transport links locally or attractive topographical features” somehow complicate the valuation process for LVT (11.23), as if valuation for LPT or CT has not to take account of them too! The committee is worried about appeals against assessments (11.25), a subject we have already covered in “Practical Politics” (Issue No. 124). There is needless confusion over payment of site value by a tenant as a component of his rent, and the requirement on the landholder to meet the LVT demand (11.27) – the latter can no longer just pocket the lot.

For all that, LVT comes out of this review rather well, not least because nothing else is any good! We have one last criticism. There is much ado about feelings of fairness in the Report, but nothing about justice. Begin at the beginning: no man ever made the land...Now think on...

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