Submission to the Commission on Local Tax Reform

West Lothian Answers to West Lothian Questions

Chris Cook **Linlithgow, 28th May 2015**

Introduction

I make this submission and these Proposals both in my capacity as a Director of the Nordic Enterprise Trust - a Scottish social business which aims to promote Scottish-Nordic dialogue and interaction – and also as a Senior Research Fellow of the Institute for Security & Resilience Studies, University College London.

The Commission's stated Remit is *"to identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government".*

The rationale for these Proposals is the principle that those who benefit from privileged property rights over commons should share the benefits of such rights with the society which confers them. The same rationale applies to the taxation of business and agricultural use of land and resources but these uses are not addressed in this submission.

The following Proposals do not so much outline ***alternatives*** but rather suggest ***complementary*** systems of local levies and funding for services which are additional to the existing system and may be introduced in parallel to it. These Proposals therefore address not only taxation but also the payment mechanism.

Moreover, while the call for evidence envisages only property-based taxation on individuals, this proposal suggests not only a levy based on land use but also levies based upon the use of renewable and non-renewable energy resources inextricably associated with land use.

Proposal 1- Land Use Levy & Land Dividend

In addition to existing taxes a Land Use Levy will be introduced on land rental values at local government level eg West Lothian.

The proceeds of the Land Use Levy will be held by the relevant council in a ***Land Pool*** Treasury account as custodian, and will be managed by professional providers of administration, accounting and financial management services to standards and parameters set and monitored by councils.

Land Dividend

After a proportional allocation to service providers of funds receivable to pay for such Treasury services a distribution of £1.00 denominated Land Use Credits will be made equally to all qualifying residential occupiers as a Land Dividend, and this is paid in addition to existing benefits which are paid in £ sterling.

So by way of example if £10m is collected and £1m is allocated to the Treasury Services provider, then 9m Land Use Credits each of £1.00 denomination will be created and distributed equally to qualifying Occupiers.

Using their Land Dividend entitlement of land use credits, owner occupiers will be able to pay some or all of their own levy. Tenants will be able to pay their rent using Land Use credits because landlords will be able to use these credits in payment of their own levy obligation.

Land Loans

It will be seen that significant balances in £ sterling will accumulate in local Treasury accounts. These balances open up additional policy options for consideration and development such as direct (through prepayment of land rentals at a discount) Public Land Loans to be utilised for development of local land. Public land loans also offer an optimal form of equity release with minimal financing costs and which open up possibilities for new policies in the field of health and other care funding.

Outcomes

The outcome is firstly a net transfer from those who have above average privileged residential property rights over the commons of land use to those who have below average land use.

A secondary outcome is a form of interest-free (but not return-free) long term funding which provides a 'real' return. This is not compound interest (£ for the use of £) but rather consists of the use of £'s worth of land use over time.

Finally this direct Peer to Asset funding method leads to new policy options for housing through the simple but radical Land Dividend universal income paid as of right.

In particular, the use of land loans provides an optimal (least £ cost) method of releasing equity, particularly in exchange for care, whether for people or for property. In this way, a generation which is 'long' of property and 'short' of care may mobilise the human resources of a generation which is short of property, but long of care. ie a Care for Housing Swap.

Proposal 2 – Energy Levy & Energy Dividend
A local levy will be introduced on all renewable energy generation and carbon fuel use and the £ proceeds will be held by the local council as custodian in a separate **Energy Pool** account. This will be managed by professional providers of administration, accounting and financial management services. After a proportional allocation to pay for such Treasury services a distribution of Energy Credits will be made equally to all residential occupiers as an Energy Dividend.

(Note: RWE nPower are the first to have created a Fuel Bank of energy credits being allocated by the Trussell Trust to those in energy poverty.)

Energy Dividend
An Energy Dividend of credits denominated in energy (say the energy equivalent of 10 KwH) will then be distributed to all qualifying Occupiers. The energy credits distributed will then be available to pay for energy consumption.

Energy Loans
The levy results in an **Energy Pool** fund of £ sterling which is then available to invest firstly in local heat & transport infrastructure and residential energy efficiency and secondly in renewable energy production such as solar PV.

Households who take on an 'energy loan' will then pay, via their energy utility, firstly a reduced energy bill thanks to reduced consumption and secondly they may then buy back prepay energy credits from the Energy Pool fund at the energy market price. Note that there is no compound interest or return on £ capital: the return is in the £ value of energy.

Outcomes
The outcome is firstly a net transfer from those who have above average use of energy resources to those who have below average use.

A secondary outcome is a form of interest-free (but not return-free) long term funding which provides a real return in the absolute value of energy use. Finally such direct Peer to Asset energy funding leads to new policy options for addressing energy poverty through a simple but radical approach to a universal income paid as of right.

Through energy loans invested directly in carbon fuel savings – which are made (unlike sales of renewable energy) at the retail not wholesale energy price – it is possible to fund massive investment in energy efficiency and new heat infrastructure at nil £ cost of capital. This is because the return of capital to investors is in the intrinsic energy value of carbon fuel such as natural gas ***before*** combustion rather than in the inherently worthless value of C02 ***after*** combustion.

The conventional Green Deal energy efficiency policy suffers firstly from the effect of compound interest at 7%pa on the £ bank loans which fund energy efficiency investment, and secondly from the 'rebound effect' that £ savings do not guarantee energy savings. The use of energy loan investment in energy efficiency and heat infrastructure firstly does not suffer from compound interest and secondly ***unless*** the borrower saves energy he will not save £.

Conclusion

The above proposals for basic pooling and sharing of a local land use levy as a Land Dividend and of a local energy levy to create an Energy Dividend are both complementary policies which may be introduced with minimal legislation.

The institutions & instruments which apply these policies are also administratively extremely light, since the role of local government is purely as a custodian and supervisor, with professional service providers administering the system on a revenue sharing quasi partnership basis.

There are numerous potential policy options which may then follow from the use of this new direct Peer to Peer and Peer to Asset infrastructure, and from the extension of these into agricultural and business land and energy use.