

# LOCAL GOVERNMENT FINANCE, 22.6.15

**Calum Martin (SSP), Ashley Erdman, Steve Rushton**

## 1. Calum Martin Service Tax

Council chambers across Scotland must be echoing with the sound of grating steel this week, as one after another, council administrations have begun sharpening their axes. Cuts are coming.

In Edinburgh the fragility of the claims of Labour and SNP to be truly anti-austerity was revealed, as the Labour-SNP administration of the city council committed itself to some £22million pounds of cuts this year.

Some 1,200 council workers will lose jobs during these first rounds of cuts, and plans have been announced for a total of £67million worth of cuts by the end of 2018.

It's not just Edinburgh. In the Highlands Local Authority, run by a coalition administration involving both Labour and the SNP, it was reported that almost 1000 council workers were set to have their jobs lost as the council considers some £64million worth of cuts.

Meanwhile the Labour majority administration of Glasgow City Council has forced through at least £28.9million of cuts. The list goes on. The length and breadth of Scotland the axes are falling. Yet both these parties have argued that setting and implementing austerity budgets doesn't mean they're not anti-austerity!

Indeed SNP councillor Alasdair Rankin, the finance leader for the Edinburgh City Council administration, even went so far as to argue that these cuts were in some way desirable, describing them as being aimed at building a "leaner, fitter and more agile" council, which would be more "user-friendly for residents and the business community".

The reality? These cuts will continue to get worse. With most wage rates effectively stagnating—or worse, facing real term falls—already hard pressed families and individuals will find things getting worse, and as always seems to be the case under the austerity management of 21st century Scotland, it will be the most vulnerable in our communities who will be hardest hit.

At the end of the day, the SNP and Labour councillors have all broadly agreed on their story. They frequently appear arguing that a simple managerial exercise; that they have no option but to pass austerity budgets because of Holyrood. The problem with that is that they have both in turn been in charge at Holyrood!

Whilst we need more powers, Holyrood does already have the power to implement policies to not only avoid council austerity altogether, but to do so in a manner which fundamentally redistributes wealth from the rich to the poor in a progressive and equitable manner.

Whilst these parties perform their Punch-and-Judy routine attacking each other for cuts they themselves are complicit in, neither have ever made use of these powers to implement the measures necessary to avoid these cuts—and it doesn't take a radical move to do so!

The Scottish Service Tax is the Scottish Socialist Party's answer to the claims that nothing can be done to avoid these cuts. The proposition is simple, the case undeniable. Holyrood has full legislative power over Scottish local government, and that includes the Council Tax.

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The SSP has consistently argued that Holyrood should scrap the Council Tax and replace it with a local income tax – or 'Scottish Service Tax' – based on six bandings:

The first £0-£10,000 would go tax free

Income between £10,000 and £30,000 would be taxed at 4.5 per cent

Income between £30,000 and £40,000 would be taxed at 15 per cent

Income between £40,000 and £50,000 would be taxed at 18 per cent

Income between £50,000 and £90,000 would be taxed at 21 per cent

Income above £90,000 would be taxed at 23 per cent

For an example, on an income of £14,000 a year, the first £10,000 is under Band 1, so you would pay no tax on that. The following £4000 would be taxed at 4.5 per cent, under band 2, giving you a total bill of £180 each year under this example.

Under these proposals we would find that not only would the vast majority be either substantially better off, or at least no worse off in terms of tax burden—significantly improving the intended effect of the council tax freeze; but the total revenue raised nationally would be sufficient not only to avoid cuts, but to actively invest in the future of our public services.

There is a new SSP pamphlet currently being written with further information and statistics on the Scottish Service Tax.

Scottish Socialist Party MSPs and Local councillors never have and never will vote for a single cut. Moreover we can stand proud in a record of having consistently advocated clear and effective alternatives to austerity that remain well within the scope of the powers of Holyrood and of local councils.

Councillors are not meant to be elected to make cuts. Councillors are meant to stand up for our communities, not push them down. If you want to see the job local councillors are meant to do, just look at Jim Bolland, the SSP councillor in West Dunbartonshire and you'll see the difference a representative on our side can make: standing up with working people, to protect communities, not to attack them.

We have a clear alternative to austerity, and a clear way to deliver it. It's time to challenge austerity not just at a Holyrood or Westminster, but also at home. No cuts. Not Now. Not Ever.

## **Discussion**

**Eric** asked how the Service Tax would be redistributed.

**Donny** said that Syriza had started to collect tax in Greece, but that the wealthy people who controlled property and decided on their own incomes were able to sabotage this. This was why it was necessary to take direct control of the wealth.

**Luke** pointed out the problem of tax avoidance. How do you gather the information about rich people's income? Does it depend on people being honest? The dominant ideology encourages tax avoidance.

**Kate** said that you could hide your income but not your property. Would it not be better to extend the council tax bands.

**Allan** thanked Calum for his presentation. He thought though property tax could be considered either as an alternative or addition to the Service Tax. Furthermore, there should be an open and transparent register of all property ownership in Scotland. Front companies owned large areas of Scottish land; whilst even a former council house in Muirhouse had been uncovered this week as a front address for various Moldovan criminal organisations. Failure to provide evidence of real owners should result in property confiscation.

**Brian** suggested other ways of raising local revenue, including a supermarket levy and a tourist tax placed on hotels, etc.

**Kate** agreed that there should be a National Register of all property.

**Calum** said that most council tax was not raised by council but came from central government at Holyrood. A Service Tax would be collected on the same basis as Income Tax, but would be distributed to councils on the basis of need.

The issue of tax avoidance does need to be raised. The UK government actively encourages this through offshore tax havens like the Isle of Man, Channel Islands and Cayman Islands. These were subject to British authority and could be challenged. Money could also be taxed as it moves around. The proposed Toibin Tax is one such proposal. Transfers of money between the UK and EU could also be brought under control and taxed. One of the reasons for greater tax avoidance has also been the cutback on civil servants responsible for dealing with this.

Henry George had been the originator of the Land Value Tax. Such a tax could still be usefully used today. However, the SST should be the primary local tax. Although there is strong relationship between large property ownership and ability to pay, this relationship is even clearer with the SST, which is form of income tax. For example, people living in currently lower rated properties in London could find their property increasing in value as a result of the new Crossrail link, and be unable to afford the new rates.

When the SST was first drawn up, this was a reflection of the powers then given to Holyrood. As more powers become devolved then the chances for progressive taxation could be increased.

**Eric** said that both Norway and Finland publish people's tax returns every year.

**Calum** said that submissions to the Holyrood review, including the SSP's Service Tax, could be read online.

## 2. Jubilee Scotland, Ashley Erdman

**Ashley** said that Jubilee Scotland campaigns to end debt slavery in the world. It sees the role of governments as providing basic human needs and targets unjust and unpayable debts.

JS is currently running a campaign to get the EU to cancel the Greek debt. Debt is being used to enforce austerity and bring the Greek economy under the direct control of banks and corporations.

Countries in Latin America and Africa have long faces such impositions, and resistance is growing. Argentina refused to pay the debts.

There is a Greek Audit Committee which is identifying debt that is illegal odious and unpayable.

Debt can be reversed, The mass campaign against TTIP has already had a real impact.

JS has a petition to end Greek debt which can be found at:-

<http://www.jubileescotland.org.uk/campaigns/drop-greek-debt/>

### Discussion

**Luke** said that the money goes from the banks to Greece to bail out the banks. Massive interest payments are made to the banks in the process. The needs of ordinary people are just ignored.

**Kate** asked if JS is calling for the cancellation of all debts?

**Ashley** said that a lot of the debt was tied up in arms deals, environmentally damaging projects and undermining human rights. This why it is important to have transparency and a proper audit of debts.

**Donny** said that the Greek government had just been elected on an anti-austerity vote. The EU was attempting to override this. German banks are demanding debt repayment, but the German government has never paid Greece any reparations for the massive deaths and destruction brought about by the German occupation in the Second World War.

**Steve** said that even Golden Sachs had identified a structural imbalance in the EU which favours the dominant powers. Recently Ecuador decided to conduct its own audit into debt to decide what was legitimate and what would not be paid back.

**Ashley** agreed that Debt Audit is the answer.

**Donny** pointed out that the US banks had deliberately extended loans to low income earners in the USA to feed the property market. Yet, they are taking no responsibility for their actions and trying to displace all blame on to those they duped.

**Allan** said the way the banks operated was like someone going to a casino, placing massive bets which they then lost and then demanded that others pay up!

? asked what proportion of debt is odious.

**Vanni** said the Audit had only been set up in April. So far there was only an Interim Report, which showed illegitimate debt.

**Pat** said ?

**Brian** said he couldn't agree more. Local councils were paying interest to the Treasury at rates way above those the banks were charged for loans.

The Greek debt is an attempt at blackmail.

**Kate** asked if debt non-repayment would not lead to anarchy?

**Steve** highlighted the importance of the Audit Commission in identifying the cause of debts.

**Ashley** pointed out how some equity companies had bought up debts at knock-down rates from governments and were not trying to subject people to the full amount.

Despite its problems the UN is a better organisation for seeking redress than the IMF.

### **3.The RBS and Local Council Debt, Steve Rushton**

**My** name is Steve Rushton. I've travelled up to be involved RIC before and after the indyref, last time at the anti-fracking conference.

I am a member of Debt Resistance UK. We are activists, campaigners and researchers that challenge the role debt plays in the flawed and unjust neoliberal system. One of the things we're currently working on includes a citizens' debt audit into Local Government finances. We have found that councils are paying banks massive rates of interest, through Lenders Option Borrowers Option (LOBO) loans, when they could be borrowing from the public loans board at half the rate. This is costing councils millions extra. LOBOs also contain embedded derivatives, which could possibly be argued to be illegal, and there could be issues with conflict of interest on brokering these deals.

The Royal Bank of Scotland RBS is one of the banks central to these LOBO loans and we will be protesting outside their AGM. I would like to invite people to this event.

The description might still change as we're talking to other groups organising protests outside to host a joint event on how RBS could be turned into a socially useful community bank and how it should stop sponsoring carbon intense projects. But all this is of course also relevant for democracy in local authority budgeting! The other thing is that I would like to meet up and create the opportunity to share DRUK's research. For example, Edinburgh City Council has recently responded to a Freedom of Information request providing their LOBO loan contracts worth £275million, and we have Freedom of Information requests or data for several other Scottish councils too.

We hope that accessing this information would eventually lead to a citizens' debt audit, where we work out what public debt should be paid and what not and develop more democratic ways of financing local governments. This is inspired by work that has been going on for years on a local level in Spain and on a national level in Greece, where an official process to determine the legitimacy of their national debt is currently underway (an audit helped Ecuador reject billions of its debts in 2005)

### Discussion

**Luke** pointed out how in order to get through its policy of council housing privatisation the government had not allowed councils to borrow money for housing upkeep, despite the fact that money could have been raised by future rental income.

Councils are allowed to borrow money. However, Treasury lending through the lower interest Public Works Loans Board is deliberately restricted, so councils have to go to the private banks for higher interest LOBO funds.

Osborne is behind this to help his City friends.

Sometimes private banks front load their loans with a low interest element for a number of years before hiking up interest rates later.

**Brian** asked if other public bodies resort to LOBO funding.

**Steve** said that universities were also involved. The whole scheme acts as subsidy for the financial sector.

### Radical Independence Campaign Edinburgh Branch 19 July 2015 at 03:43

Hi everyone at RIC Edinburgh,

Hope the summer is treating you well. It was great to attend your meeting the other week - here is some more information about LOBO loans as we (Debt Resistance UK or DRUK for those who weren't there) promised. Sorry it's taken a while, a Channel 4 documentary on the subject is coming out tomorrow Monday 8pm and it's been hectic!

Just to recap: LOBO stands for Lender Option, Borrower Option, and they are loans councils have taken from banks, often at interest rates double than what councils could get borrowing from the central government. LOBOs are not just bad deals in terms of money, they are also risky swaps - and derivative financing is prohibited from local authorities following a case from 1989 where Hammersmith and Fulham nearly went bust speculating. We also have some evidence that there have been conflicts of interest and possibly hefty kickbacks going on between treasury advisors to councils and brokers who arranged the LOBOs.

Edinburgh has just under £275 million in LOBOs. The most recent ones are from RBS since it was nationalised - which means that the bank is now lending taxpayer money back to Edinburgh on an over 6% interest rate! These loans have an "inverse floater" interest rate that is basically the higher the lower interest rates generally are. And at the moment, they are very low, which

makes this bet a really bad choice.

The Channel 4 documentary is worth watching if you get a chance, but we are concerned that it will put the blame too much on Councils. What we think is that LOBOs are a symptom of a financial system that doesn't work in the interests of people and Councils have fallen prey to vested interests and corruption in the financial sector. Like I said in the meeting, our work is inspired by the movements for citizens' debt audits around the world and we believe there needs to be a decentralised, democratic response to the power of finance.

Which is to say, please make use of this research and let's stay in touch about how to challenge these deals or if you want any more info!

The link to Edinburgh's disclosure is here:  
[http://www.edinburgh.gov.uk/homepage/175/foi\\_disclosure\\_log?month=&year=2015&keywords=LOBO&action=Search](http://www.edinburgh.gov.uk/homepage/175/foi_disclosure_log?month=&year=2015&keywords=LOBO&action=Search)

And our website is [lada.debtresistance.uk](http://lada.debtresistance.uk)

Solidarity,  
Fanny from DRUK