The Aberdeen City Context

Aberdeen is a unique place in Scotland. Though the City has benefited from the prosperity brought by the oil and gas industry, now that the rest of the UK economy is recovering from recession, Aberdeen is experiencing a decline due to the drop in the price of oil. This is compounded by pressures on infrastructure, connectivity, housing and skills. The effects of this include job losses, falling property prices and loss of custom.

Despite this decline, Aberdeen City continues to make a significant exchequer contribution to Scotland and the UK and this is expected to continue into the future. At a Scottish level, for example, almost 8% of Non-Domestic Rates was raised within Aberdeen in 2015/16.

Through our Regional Economic Strategy the City / Region is continuing to support the oil & gas industry, but also taking a more sustainable, diversified approach by attracting non-oil business. The City Council is also leading the largest regeneration programme ever seen in Aberdeen to support vastly improved transport, connectivity and investment in the city centre.

Place Vs Council

The Council’s income is mainly through ring-fenced government grant and Non-Domestic Rates and, to a lesser extent, from locally set Council Tax. Through the grant distribution mechanism, Aberdeen City Council receives the lowest level of funding per head of population of any Scottish Council. As a result of the historically low level of funding, in order to deliver services, there has been pressure to maximise other sources of income, including increases in the Council Tax, with the City already having the highest rate of Council Tax in Scotland. In any future changes to taxation in Scotland, the Council would be seeking assurance that the overall levels of income are sufficient to deliver services. This means, organisationally, that the share of “national” taxation must be adequate and fair and that the “effectiveness” characteristics of the system of taxation are maximised i.e. collection rates, cost to administer and predictability of income.

However, the role of a property taxation system in helping to directly regulate the housing market, as well as mitigate increasing poverty, partly as a result of the downturn in employment, is important to the place of Aberdeen. Specifically, this means having flexibility to vary rates in a targeted way to encourage investment, development and, ultimately, to make housing more affordable. This flexibility needs to be enabled through specific powers, as well as made achievable through the availability of alternative sources of income to the Council.
Aberdeen City Council supports the principles outlined in the Scottish Cities Alliance statement on “Empowering Scotland’s Cities” June 2016. Of particular relevance is the approach outlined in the statement to setting a diverse tax system across Scotland; the relationship between the various tiers of government over the setting and use of fiscal levers; and the power to adopt local taxes and fiscal levers designed to help drive local economies. The statement calls for additional powers to be granted to local authorities to increase their sources of income through a basket of measures and, consequently, increase the Council’s ability to flexibly target expenditure and tax incentives to tackle the challenges which the City faces. This basket could include control and retention of some Land and Buildings Transaction Tax; further control and retention of Non-Domestic Rates; and the ability to set local taxes such as a Tourism tax.

As further context and to with specific reference to the housing challenge in Aberdeen, future projected growth in Aberdeen’s population is set against a continued shortage of housing within the City to attract and house new workers. This shortage of housing supply has resulted in an overheated housing market.

Whilst there are signs of the temperature cooling in the local housing market (although this is fluctuating), as a result of the downturn in the oil industry, the chart below gives a comparison, with other areas, of housing price increases by looking at the house price indices. The high cost of housing has consequences for both first time buyers trying to enter the market and those wishing to move within this housing market.

**Index for average house price by quarter, Aberdeen City, Aberdeenshire and Scotland, Q1 2010-11 to Q1 2016-17**
There has also been a cumulative increase in rent from 2010 to 2014 at a markedly greater rate than for other areas of Scotland. The cumulative increase for Aberdeen City and Shire was 39.8% this is more than 4 times the cumulative increase for Scotland over this period.

**Cumulative % change in Average (mean) Rents from 2010 to 2014 (years to end-Sept), by Broad Rental Market Area - 2-Bedroom Properties**

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**Council Tax (Substitution of Proportion) (Scotland) Order 2016**

1. **Overall, do you support the principles of the Government’s plans to reform Council Tax?**

   - In general terms Aberdeen City Council is supportive of Council Tax reform, however, the amendments proposed by the Scottish Government in the draft SSI, being limited to the multiplier, fail to address all of the deficiencies in the existing Council Tax arrangements. The reforms are a step in making the tax less regressive in nature.

   - Aberdeen City Council believes that the Council Tax changes being proposed to nationally redistribute funds raised by the changes across council areas breaks the fundamental link between local taxation and local spending priorities by using Council Tax revenue to fund national priorities. The proposal to redistribute funds raised locally between other authorities undermines the principal of local taxation and breaks the link between local taxation and accountability.
• Aberdeen City Council welcomes the removal of the Council Tax freeze and the ability to increase Council Tax charges to fund local spending priorities if desired. Whilst this should represent a return of control to councils, the imposition of restrictions such as caps weakens the link between local taxation and accountability. It retains a strong control for national government over local government finances at a time when policy direction is advancing the benefits of local empowerment. Future proposals in relation to local taxation should have no such restrictions.

• Aberdeen City Council believes that the lack of revaluation of properties since 1991 is increasingly resulting in anomalies in the charges levied on individual properties and that a failure to undertake a full revaluation is a significant missed opportunity. It is widely recognised that in order for property taxes to remain relevant and equitable that regular revaluations are essential. In addition, given the disclosure requirements of councils to its citizens, there is no meaningful correlation between the Bands and the current price of properties today. It is fair to say that virtually every property in Aberdeen sold on the open market would sell for the Band G bracket or above. We suggest consideration be given to a Band revaluation as well as considering how selling prices can be reflected in bands on a regular basis.

2. To what extent will the Government's proposed reforms make the system of Council Tax fairer?

• Notwithstanding this, the principle of increased Council Tax charges for those in higher banded properties is a welcome amendment to improve the distribution of the Council Tax burden.

• The extension of the Council Tax Reduction scheme and increase in Child Premium goes some way to alleviate the burden of increased charges for those residents in high banded properties with limited ability to pay.

• The fairness of the local property tax system could be further enhanced by addressing:
  o The lack of a revaluation fails to address the increasingly outdated valuation banding model with property values dating from 1991, with the opportunity missed to use readily available software to undertake revaluations in a short period.
  o Discounts, exemptions and disabled relief categories based on status which are not related to ability to pay and have remained relatively unchanged since the introduction of council tax despite significant changes in the composition of households and specifically the increase in the number of single person discounts claimed.
  o The potential to increase the number of bands to address the issue of the significant gap in the value of properties between Bands A and H, and the wide range of valuations within Band H properties.
• As we have set out above, the question of the Council Tax’s fairness to taxpayers should not be posed in isolation to the fairness of the overall basket of taxes and how these impact on the place of Aberdeen. Aberdeen has the highest level of Council Tax in Scotland and receives the lowest level of grant funding per head of population of all 32 local authorities in Scotland. This not only compounds the impact of the proposed multiplier changes on Aberdeen residents, but also exacerbates the effect of the proposed distribution of that additional income across other local authorities.

• In addition, the cost of living is relatively more expensive in Aberdeen than for Scotland generally. This includes housing costs where, even without a revaluation, the City has above average percentage of properties in Bands E to H. Whilst the proposals are likely to add, disproportionately, to living costs of Aberdeen City residents, it also has an impact on the ability of the City to attract skilled workers both in the private sector and into “key worker” roles in public services. The ability to provide council tax rebates/discounts, or even tax breaks within the Land and Building Transaction Tax, for key public sector workers would go some way to increasing the disposable income of these workers. This would be in addition to the work being done currently by a range of public partners to create dedicated key worker housing.

• This effect extends into the City’s ability to retain our under-graduate population. It is vital for the future of the economy that the City of Aberdeen not only attracts graduates to the City, but retains those who graduate from either of our 2 universities and North East College. Once a student graduates and takes up employment they become liable for Council Tax like other citizens. As a consequence it becomes difficult for them to continue to share accommodation with others who remain as students as the Council Tax position for that property changes and becomes due (all residents have to be full time students). As a consequence, graduates have to find alternative accommodation. In a city like Aberdeen it is less attractive to remain here rather than move to another location where housing costs (private rents and cost of purchasing) are lower. We believe that consideration is required to potentially phase in the Council Tax costs liability for the first year or apply a taper system of some sort.

• In terms of fairness, the intended use of the additional monies raised cannot be ignored. Should the proposals be implemented, a clear evidence based approach to the reinvestment of the resource should be taken. As well as the efficacy of any additional investment in improving outcomes for children, the means of allocating resource should be examined to determine the most appropriate measures of need. For example, Aberdeen has had a 35% increase in the number of data zones falling within the 15% most “Education Deprived” (SIMD 2016). This may be more meaningful than the single measure of entitlement to free school meals.
3. **To what extent will the changes be straightforward for local authorities to implement?**

- Aberdeen City Council is extremely concerned that the Scottish Government has not yet addressed the issue of the arrangements for joint Council Tax, Water and Wastewater billing and whether the amendment to the multiplier for Council Tax will also apply to Water and Wastewater. If dual multipliers are to be maintained, this will present an additional and significant challenge for software suppliers and be extremely challenging to implement in the time available.

- Whilst software suppliers have advised that main software amendments should be deliverable it should be noted that they have also indicated that any further changes will be very challenging and will present a risk to council’s ability to issue Direct Debit statements of changes and Council Tax bills within the required timescales.

- The changes being proposed will result in additional administration costs for Councils and it is important that this is recognized and that sufficient funds are made available to support it over the long term.

- The changes in relation to CTR will result in the historic linkages between the process of Housing Benefit and CTR being broken, resulting in significant increases in the combined administration of them.

- Whilst this question seeks commentary on the ease of implementation within councils, we cannot ignore the significant risk to claimants, and the potential impact on collection rates. In addition to the fact that the changes will result in confusion, the requirement to claim for CTR for the first time ever for a number of individuals and the probability that in the future they may have to complete separate forms for housing benefit and CTR as the links start to be broken, will add to public concern. The significant increase in tax to be paid in the higher banded properties may result in additional difficulties in collecting the tax due.

4. **Do you support the Government’s planned changes to Council Tax reductions?**

- The extension of the Council Tax Reduction scheme to support low income households in Bands E and above is welcomed.

- Aberdeen City Council believes that the Scottish Government needs to acknowledge and provide financial support to ensure that the CTR system can cope with the anticipated increase in the CTR caseload both in relation to the increases in payments made and the administration.

- Aberdeen City Council believes that the Scottish Government must recognise and fund efforts of local authorities in promoting uptake of Council Tax Reduction, particularly for customers who have not previously
qualified for the scheme or for customer groups, such as pensioners, where take-up is traditionally low. This will be critical in ensuring that the protections in place for low income households are delivered.

5. **Please add any other comments on any aspect of the proposed reforms.**

- Aberdeen City Council believes that the Scottish Government must undertake a publicity campaign to advise Council Tax payers in Bands E to H of the increase in charges from April 2017, clarifying that the amendments to multipliers are a Scottish Government and not a local authority decision and of its decision to reallocate funds raised in any council area to other council areas to support its national policy. Given that Councils are statutorily required to demonstrate accountability for taxes raised locally and the associated spend, and given that the income from the CT bandings increase will be re-distributed, will the government provide the accountability narrative to Councils individually or do something at a national level?

- Aberdeen City Council believes that Councils should not be restricted to a single local tax and should have the discretionary power to raise income from a range of supplementary taxes appropriate to their local area e.g. environmental taxes or tourism tax. Aberdeen City Council would also support the consideration of localising other existing taxes e.g. LBTT, airport duty, etc. Such an approach would provide a more sustainable mix of alternative sources of income.

- We propose that consideration be given to providing the ability to provide discounts to specific areas within the authority’s boundary. The Council could potentially provide Council tax discounts to defined regeneration areas and allow incentives to potentially create more mixed tenure developments. On a wider scale, locally determined discounts could be considered to offer greater flexibility around Non-Domestic rates to incentivise businesses to locate in specific areas.

- The financial impact of the changes in Council Tax bandings on local government settlements are still unknown. It is vital that the proposed distribution methods must be fully consulted upon, and the impacts on councils taken into account in the implementation plans.

- Failure to properly address the issue in relation to Water and Wastewater could result in significant issues in relation to fairness. Possible suggestions of reducing charges for lower bandings to maintain the overall sum paid to Scottish Water will result in significant increases in Bands E-H and will particularly be unfair to asset rich cash poor households in this group.

Overall Aberdeen City Council sees this as a missed opportunity to undertake a more fundamental revision of the local taxation system as recommended by the Commission on Local Tax Reform.