

THE COMMISSION ON LOCAL TAX REFORM

INTRODUCTION

Aberdeen City Council welcomes the opportunity to provide evidence to the Commission. Whilst accepting that the Commission's call for evidence was structured around 3 core questions, we felt it would be helpful to provide the Commission with an insight into the Aberdeen context in addition to answering the 3 core themes. This context will describe a picture of a strong economy and the pressure that brings to bear on the people and place of Aberdeen and we pose some questions around the role of property taxation in this context.

THE ABERDEEN CONTEXT

The Economy

Aberdeen City region is a UK success story. It embraced oil and gas following its discovery in the North Sea in 1969 and, has since built around the industry, supporting growth through housing, transport, infrastructure and education. It is estimated that economic output in Aberdeen City and Shire from October 2013 to September 2014 was approximately £12,293M. It 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, over 7% of Non Domestic Rates is raised within Aberdeen (rising to almost 8% in 2015/16) and at UK level, North Sea Corporation Tax receipts in 2012/13 represented circa 10% of all Corporation Tax. The reality of this economic activity is that it does put pressure on the city and region's infrastructure.

High economic activity (see tables below) generate significant tax income from earnings.

Average Gross Weekly Earnings 2014

	Employees	Full-time	Part-time
Aberdeen	£624.9	£763.1	£229.7
Dundee	£498.2	£598.6	£239.1
Edinburgh	£553.9	£662.1	£222.2
Glasgow	£515.2	£626.1	£214.3
Scotland	£484.1	£600.0	£204.7

Economic Activity Rate 2013/14

	Males	Females	Total
Aberdeen	86.7%	75.8%	81.4%
Dundee	73.5%	68.1%	70.7%
Edinburgh	78.7%	74.9%	76.8%
Glasgow	75.1%	69.5%	72.3%
Scotland	82.2%	73.2%	77.6%

Unemployment December 2014

	No. of Claimants	Unemployment Rate
Aberdeen	1,523	1.0%
Dundee	3,397	3.4%
Edinburgh	6,068	1.8%
Glasgow	15,067	3.6%
Scotland	79,763	2.3%

However, against this background there are 22 datazones in the City which are amongst the 15% most deprived in Scotland, including 12 for "income" deprivation.

The Population Growth

Table 1 below shows that in Aberdeen City the population grew between the 2001 and 2011 census by 10,668 or 5%, these figures compare with a population increase in Scotland of 4.6%.

Table 1: Population Change, 2001-2011

	2001	2011	Change	%
Aberdeen City	212,125	222,793	+10,668	+5.0%
Scotland	5,062,011	5,295,403	+233,392	+4.6%

NRS 2014

As the table below shows it is projected that the population of Aberdeen City will increase by 63,818 in the 25 year period between 2012 and 2037. This increase represents a projected 28.4% rise in the population of Aberdeen compared to a population increase in Scotland of 8.7% by 2037. The projections indicate that Aberdeen will have one of the largest increases in population in Scotland during this period. The impact for the Council will be further pressure on services and the need to plan to meet these future needs especially for housing.

Table 2: Population Projections

Population projections Aberdeen and Scotland				
	2012	2037	Change	Percentage Change
Aberdeen	224,970	288,788	63,818	28.4%
Scotland	5,313,600	5,789,371	475,771	8.7%

NRS 2014

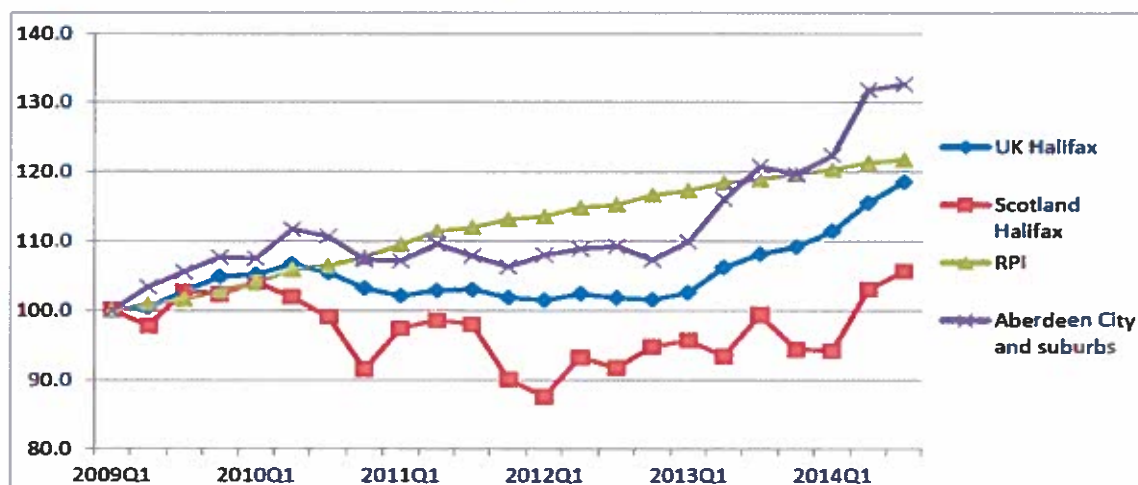
Related to this, Aberdeen accounted for 12.4% of all National Insurance registrations of migrant workers in Scotland during 2013/14.

An Over-Heated Housing Market and its Impact

This future projected growth is against a current situation where there is 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.

As well as house prices increasing overall in Aberdeen, chart 1 below gives a comparison with other areas of housing price increases by looking at the house price indices. As shown in the chart the gap between house prices in Aberdeen and Scotland and the UK has been maintained over this period. This would point to the Aberdeen housing market continuing to perform well and to sustaining high house prices compared to other areas in the country. The above has consequences for both first time buyers trying to enter the market and those wishing to move within this housing market.

House price indices for Aberdeen City and suburbs, Scotland, UK, and Retail Price Index from 2009Q1 to 2014Q3 (2009Q1=100).



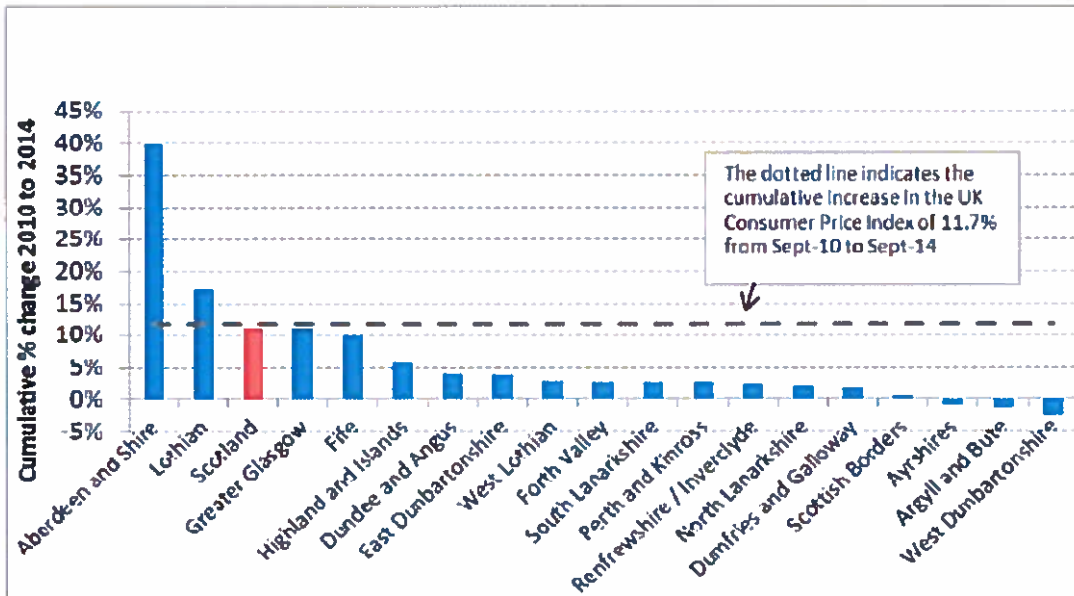
As can be seen from the table from the SHS data, the percentage of private rent households has increased rapidly from 8% in 1999/2000 to 17% in 2011/12. This increase in private rentals is matched by a decrease both in the percentage of owner occupiers and that of social rent tenants. The bulk of these decreases can be attributed to the decline in homeowners, whose percentage proportion has, after a long period of increase, decreased markedly in the last few years from 65% in 2007/08 to 57% in 2011/12. The proportion of social rent tenants decreased from 30% 1999/2000 to 26% in 2011/12, mostly due to right to buy.

	1999-2000	2001-2002	2003-2004	2005-2006	2007-2008	2009-2010	2011-2012
Owner Occupied	60%	61%	64%	62%	65%	60%	57%
Social Rented	30%	28%	27%	25%	24%	24%	26%
Private rented	8%	9%	8%	11%	9%	15%	17%
Other	2%	2%	1%	1%	2%	1%	1%

SHS 2014

The chart below from the Rent Service Scotland shows the cumulative increase in rent from 2010 to 2014 and gives a comparison with other Broad Rental Market Areas in 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.

Chart 7: Cumulative % change in Average (mean) Rents from 2010 to 2014 (years to end-Sept), by Broad Rental Market Area - 2-Bedroom Properties



The information collected on private sector rents is used by Rent Services Scotland to set the Local Housing Allowance for the areas of Scotland. Chart 7 below shows that in terms of LHA Aberdeen City and Shire have the highest weekly allowance for 1 and 2 bedroom properties and the second highest for 3 and 4 bedroom properties when compared to the four major city areas.

Whilst the “effectiveness” characteristics of a system of taxation are important organisationally to Aberdeen City Council , for example: collection rates, cost to administer, predictability of income, the role of a property taxation system in helping to regulate the housing market is important to the place of Aberdeen.

Anti-poverty Agenda

Living in a city like Aberdeen is expensive and for those on low incomes, it can be particularly difficult to cope. Low income households continue to face greater costs pressures than the population as a whole and it is vital that we ensure that people have enough money to meet basic needs. Surprisingly for many, 43% of households in Aberdeen City earn less than <£25k per annum. Against a backdrop of an over heated housing market and the impact of welfare reform (as detailed below), then there are a set of conditions in Aberdeen which are unique.

A summary of losses per year in each local authority area directly resulting from welfare reforms between 2010 and 2015: ABERDEEN CITY TOTAL LOSS: £62,592,184

	Claimants at Feb 2012	Total claimed at Feb 2012	Losses so far	Annual losses from April 2013	Annual losses from April 2014	Annual losses from April 2015	Total losses 2010-15
Disability Living Allowance	9980	£37,209,432	£148,838	£5,328,011	£5,276,955	£8,541,736	£19,295,539
Income Support	4,420	£229,840	£70,662	£223,857	£454,878	£693,242	£1,442,639
Employment support Allowance	3,670	£16,893,157	£67,573	£213,259	£433,343	£660,422	£1,374,597
Capacity Benefit	5,760	£19,765,325	£79,061	£249,517	£507,019	£772,707	£1,608,305
Jobseekers Allowance	3,590	£11,721,637	£46,887	£147,974	£300,683	£458,246	£953,790
Carers Allowance	1,130	£3,235,326	£12,941	£26,892	£41,505	£56,804	£138,142
Attendance Allowance	4,930	£16,140,426	£64,562	£134,159	£207,060	£283,384	£689,166
Housing Benefit	15,860	£54,357,295	£1,230,821	£2,710,815	£3,416,784	£4,145,242	£11,503,663
Child Benefit	21,720	£31,509,421	£4,612,727	£3,926,093	£4,390,581	£4,869,068	£17,798,469
Tax Credits	13,300	£52,628,100	£1,471,500	£1,471,500	£1,471,500	£1,471,500	£5,886,000
Benefit Cap	250 affected	£0	£0	£380,375	£760,750	£760,750	£1,901,875
Total		£243,689,958	£7,805,571	£14,812,454	£17,261,058	£22,713,101	£62,592,184

Impact on the Supply of Key Public Service Workers

The chart below illustrates the impact of the housing market conditions on the supply of public sector workers. The following are the 2012 median salaries:

Health professional	£27,923
Teaching and Education	£34,054
Skilled trades	£24,128
Care & leisure	£13,680

When compared against the average private sector rent of £1,122.23, it's clear to see that no public sector worker, earning at the median level, can afford the monthly private sector rent in Aberdeen.

Income Profile

ASHE Salaries 2012: Monthly Rent Affordability



Retention of Our Under-Graduate Population

As a full time student your liability for Council Tax is reduced or removed completely (council tax exemption). It is vital to the future of the economy of the City of Aberdeen that we not only attract graduates to the City but retain 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 not only find alternative accommodation either on their own or sharing with other non-students thereby sharing all costs. In an expensive City like Aberdeen it is less attractive to remain here rather than move to another location where housing costs (private rent levels and costs of purchasing) are lower.

Our response to question 2 in particular sets out some of the reforms, to the existing property taxation system, which we believe will help address some of the issues we have set out in this section.

Question 1: To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?

Fairness

It is generally recognised that council tax is regressive in nature i.e. those living in lower banded properties will tend to contribute a greater proportion of their income than those living in high value properties. This is particularly so in a city like Aberdeen with a significant proportion of high value properties and a huge gap between rich and poor, and where the cap on council tax banding at band H exacerbates the gap in relative proportions of income met by the higher earning residents.

COUNCIL TAX BASE	BAND A	BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H	TOTAL
01-Sep-14	DBR									
		Up to	27,001 to	35,001 to	45,001 to	58,001 to	80,001 to	106,001 to	212,001	
Value of dwelling (as at 1991) (£)		27,000	35,000	45,000	58,000	80,000	106,000	212,000	and over	
Total Dwellings		22,057	28,075	18,642	14,484	13,915	8,214	7,256	865	113,508
Exemptions		(2,145)	(1,857)	(1,135)	(1,507)	(396)	(168)	(110)	(17)	(7,335)
Chargeable Dwellings		19,912	26,218	17,507	12,977	13,519	8,046	7,146	848	106,173
Disabled (DBR)		(5)	(28)	(39)	(29)	(35)	(28)	(38)	(4)	(206)
Effective Disabled	5	28	39	29	35	28	38	4		206
Adjusted Chargeable Dwellings	5	19,935	26,229	17,497	12,983	13,512	8,056	7,112	844	106,173
25% Discount - Single Discount		12,242	12,932	6,374	4,691	3,834	1,810	1,066	82	43,031
Second Homes		566	498	398	545	340	122	105	8	2,582
Dwellings empty for > 6 months (50%)		180	94	69	102	64	31	22	6	568
Dwellings occupied entirely by disregarded persons		3	13	9	11	11	10	9	12	78
Council Tax Reduction Scheme		3,433	4,080	1,401	443	229	68	27	0	9,681
No Discounts		3,511	8,612	9,246	7,191	9,034	6,015	5,883	736	50,233
Equivalent Total Dwellings	5	9,634	14,534	12,864	10,595	11,888	7,386	6,724	811	74,439
Ratio To Band D	0.56	0.67	0.78	0.89	1.00	1.22	1.44	1.67	2.00	
Band D Equivalents	3	6,423	11,304	11,434	10,595	14,530	10,669	11,206	1,621	77,784
Contributions in lieu										6
Tax Base										77,790

Whilst accepting that the banding and the capping of the upper limit to some extent is an attempt to achieve a balance between ability to pay and level of consumption of services, consideration should be given to the extent to which that balance has shifted over the years. For example, using Aberdeen City's council tax rates, a Band A property value of £27,000 is 12% of the value of a Band H property (£212,001). However, a Band A property pays 33% of that of a Band H property.

Band A	up to £27,000	£820.26
Band B	£27,001 – £35,000	£956.97
Band C	£35,001 – £45,000	£1,093.68
Band D	£45,001 – £58,000	£1,230.39
Band E	£58,001 – £80,000	£1,503.81
Band F	£80,001 – £106,000	£1,777.23
Band G	£106,001 - £212,000	£2,065.65
Band H	More than £212,001	£2,460.78

The current council tax system, in common with any property based tax, does not necessarily take into account a person's real income for taxation purposes. Property is to some extent a proxy for wealth and values do not always accurately reflect a householder's relative income and ability to pay. This links to consideration of measures to retain an element of fairness (reduction scheme, rebates, benefits etc.).

If a property based system remains then it could be more fairly linked to personal or household income. In this way it could help to meet issues brought about by welfare reform. There should also be greater autonomy locally to provide council tax reductions or discounts because of local conditions and/or circumstances.

Effectiveness

In terms of effectiveness then council tax, in common with other forms of property based taxes would tend to be a very efficient tax system. An efficient tax base must be easy to administer and easy to collect. The current system has the following attributes which demonstrates an effective, if not fair, tax:

- The collection rate is good (>96% in Aberdeen);
- low cost to administer (<2% of receipts);
- Provides a stable and predictable income to Councils. Property does not move and that gives some degree of certainty over the level of income and increases the ability to collect the charge;
- The current system also allows collection of Scottish Water and Sewerages charges (approx. £35 million per annum) in one payment thereby reducing collection costs.

Potential Current System Changes

If the current system of council tax is to be retained there are a number of changes that should be considered and tested to determine if they can achieve better outcomes for customers locally. Below are some of the broad areas that could be considered:

1) Support An Anti-Poverty Agenda Through Further Discounts

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 to have similar abilities locally to offer greater flexibility around Non-Domestic Rates – again the ability to incentivise businesses to locate in specific areas (such as regeneration areas) through locally determined discount levels;

2) Offer A Targeted Set Of Tax Breaks To Help Tackle The Shortage Of Key Public Sector Workers

In light of the pressure we face in Aberdeen in terms of the over-heated housing market and the pressure this is bringing to bear on the ability of all public sector partners to recruit to key 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. Tax breaks could be provided in the form council tax reduction/discount for a period of time, LBTT etc. Indeed for a property worth £200,000 (the average price roughly in Aberdeen) this could provide a tax break, if council tax was discounted by 100% for a year, of over £3,000;

3) Help To Regulate An Over-Heated Housing Market

The current banding system has not been reviewed in almost a quarter of a century. There have been no band revaluations or material review of the number of Bands. 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.

The ability to vary council tax increases between differing bands would be helpful. This may be collar and capped (say a minimum of 0% a maximum of 5% for example) to stop aggressive increases for higher valued properties;

The potential to have more bands in Scotland with values that are more akin to today's prices. In future, property band placings could move as properties are bought and sold although it is acknowledged that properties that fall around two band margins could distort selling prices but this would probably be marginal;

The ability to annually uplift bands through locally calculated house price indices to ensure bands are future proofed (otherwise over time all properties will move into higher bands);

4) A Tapering approach to liability for students moving out of further education into employment locally

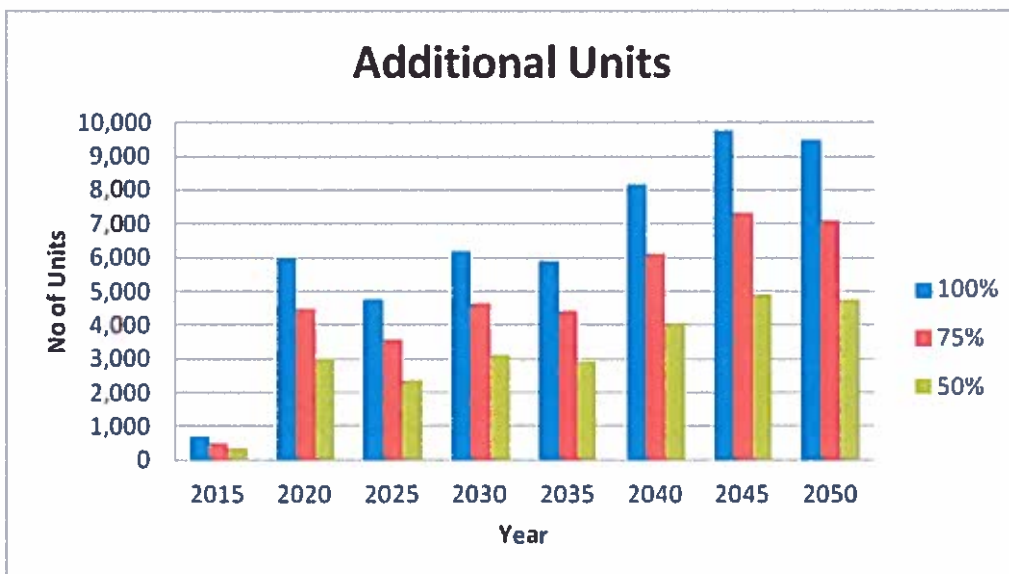
Consideration is required to potentially phase in the council tax (or equivalent) costs liability for the first year or applying a taper system of some sort.

5) Removing Barriers To The Retention Of Council Tax Buoyancy

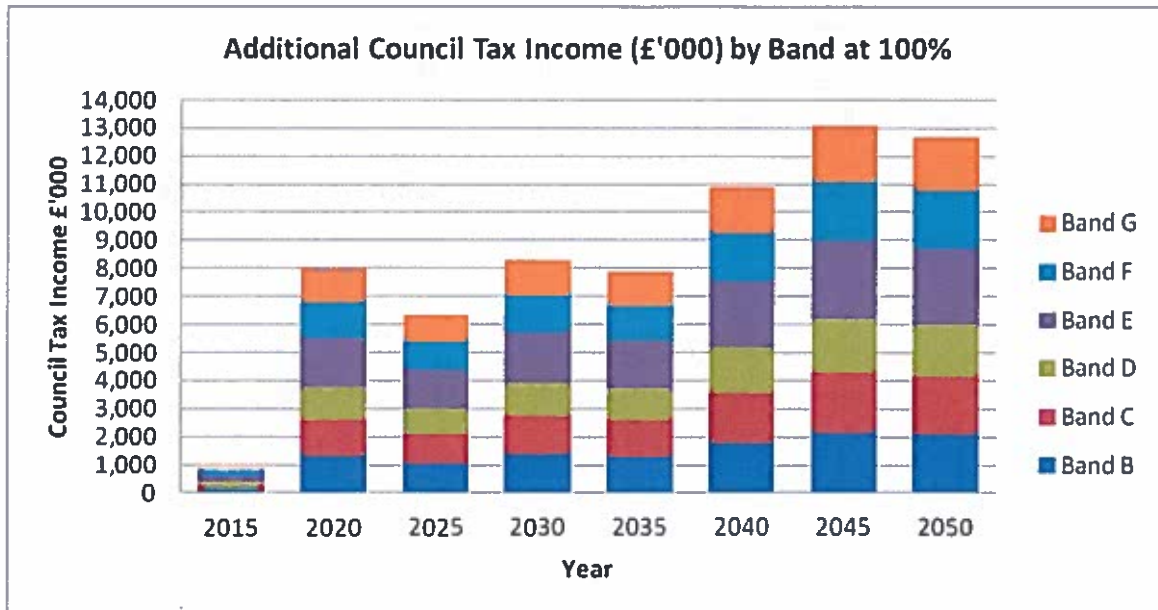
The policy of the Scottish Government, over a number of years has been to freeze council tax nationally. Buoyancy in property taxation income is either the product of an increase in the number of properties being taxed and/or an increase in the actual tax rate set. We have continued locally to receive the benefit of buoyancy arising from an increase in the number of properties but have not received the benefit of price increases. There were an additional 671 Council Tax dwellings in Aberdeen City as of 31st March 2015 compared to 31st March 2014 equating to a gross Council tax change of £1,035,991.41 (taking no account of any discount, exemption or Council Tax Reduction awarded).

In light of anticipated population growth and housing supply increases described in the earlier Aberdeen context section, it is essential that we are allowed to enjoy the buoyancy benefits in order to cope with the increase pressure this population growth will put on the place.

The graph below shows the number of additional housing units which could be required annually, if the population were to increase according to the projections indicated Comparative figures are also shown should the levels of housing required be at 75% or 50% of that predicted.



If 100% of the units were built and sold, then Council Tax Income would increase as shown below, assuming the split between bands remains the same as currently:



Question 2: Are there any alternatives to the current system of council tax that you think would help reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?

Going back as far as the Layfied Commission report this debate has largely been about a balance between property tax and income based tax. The questions have always been a balance between:-

- Local democratic accountability for tax and spend;
- Central control over priorities and responsible local fiscal management;
- Costs of administration and collectability;
- Levels of income generation.

Of course, the whole landscape of taxation is changing within Scotland as a result of The Scotland Act and the implementation of proposals within the Smith Commission. It would be important to review the nature and balance of local taxation in light of the changes to the level of national taxation power being given to the Scottish Government.

To fully develop an alternative tax based system would require a great deal of analysis that cannot be supplied or dealt with through this consultation process. However some alternative themes could potentially be further explored:

- i. An alternative property based tax that can be adjusted for occupancy levels. For example, the tax could be calculated by property but then adjusted for the number of occupants (so a marginal increase as the number of people within the property increase) but again this doesn't reflect the occupiers ability to pay – however a discount scheme could be introduced to mitigate this;
- ii. An income based tax which is levied over and above the current national tax rate. Clearly this would have complications in relation to the new proposed system within Scotland and again would potentially hit lower income earners disproportionately unless the tax rate was banded on a sliding scale;
- iii. Taxes related to alternative bases and set locally e.g. sales tax, tourism tax, and environmental tax. Again these would be down to individual choices and mean that income levels could vary.
- iv. A "per head" flat charge. Clearly this has been attempted previously – the community charge (poll tax) was unsuccessful as it proved very unpopular, and inefficient in terms of collection rates/costs due to the.
- v. A combination of 2 or more of the above alternatives perhaps linked to the funding of specific services. This may be used to increase the extent of revenue raised locally, and to maintain a level of equity between ability to pay and consumption of services.

Question 3: How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?

Aberdeen City Council has the following 3 major income streams (other than fees and charges which are made at the point of delivery) which it received in 2014/15:

- Non Domestic Rates £193.8 million (44% of its annual funding);
- General Revenue Grant £137.0 million (32% of its annual funding);
- Council Tax £103.6 million (24% of its annual funding).

It can be seen that Aberdeen currently generates 68% of its funding locally and this figure increases to over 71% when local charges are also included. However, the level of non domestic rate is set nationally and the council tax freeze policy of Scottish Government has effectively capped the level of taxation. A high level of funding for the city council is generated through local taxation but without the power to vary the rates of taxation. The power to vary tax rates simply gives the council more control over its finances. At present there is no direct link between the level of council tax and expenditure on specific services, rather the council tax simply contributes towards the overall level of funding of the totality of services provided by the Council.

The council's local priorities are shaped by the cost drivers which it faces and demand either comes from households or businesses. As such, all Council services are provided to meet the needs of these two stakeholder groups. This demand provides the basis for then understanding the secondary demand drivers flowing from these primary elements. For example, the secondary drivers would include school places (i.e. number of school children), social work demographics, waste collection and disposal costs, roads maintenance costs etc. These drivers in essence provide the determination of the local priorities and in turn where the council is required to allocate resource. The local taxation systems, council tax and non domestic rates, simply take into account local volumes, for example, number of properties and number of businesses Whilst there is some correlation between property volume and occupancy and the provision of local services e.g. refuse collection, street lighting etc. that is not the case for other locally provided services e.g. education.

A more appropriate question would be to consider how the decision making systems of the council, including the budget allocation decisions, consider the local community's views on what the priorities for the area are. Aberdeen retained an "anti-poverty" fund when the Fairer Scotland funding was unring-fenced. This is currently £1.6million per annum. Whilst overall responsibility rests with the Aberdeen Community Planning Partnership, funding is allocated by a specific board on which community representatives have a majority. The fund's priorities are employability, health and wellbeing, maximising income, strong and safe communities and projects which focus on those areas of the city with identified multiple deprivation. The impact of the funded projects are independently assessed

annually. This is a good example of how local communities are influencing the spending decisions of the council. The Aberdeen community planning partnership is keen to undertake of this type of participatory budgeting across the partnership.

Question 4: We would like to keep this conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.

Further dialogue would be appropriate via various forums, for example:

- Local Authorities via the Scottish Local Government Partnership;
- Professional bodies including CIPFA and the IRRV;
- Scottish Cities Alliance;
- Homes for Scotland;
- Community Planning Board;
- Regional forums, such as North East Property Group.

The general public - Locally, we could also develop some new approaches to inform citizens about the taxation system as it currently operates and support communities to be more informed about the Commission and what it is trying to achieve – presently most people will struggle to participate in the consultation as they don't understand the current system.

22.6.15

