

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	2 March 2016
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	Devolution of Additional Powers to the Council
REPORT NUMBER	CG/16/050
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

To explore how additional powers devolved from the Scottish Government to the Council could be used to facilitate delivery of the Council's priorities and contribute to the delivery of the Regional Economic Strategy.

2. RECOMMENDATION(S)

It is recommended that Council:

- a) Note the contents of this report; and
- b) Instruct the Head of Economic Development to provide an 'options appraisal' of the devolution of existing and proposed (via the Scotland Bill) powers and the different levers that could be available to the Council.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4. OTHER IMPLICATIONS

This section must include any legal, resource, personnel, property, equipment, sustainability and environmental, health and safety and/or policy implications.

5. BACKGROUND/MAIN ISSUES

5.1 Background

At its meeting in December 2015, the Council approved Securing the Future of the North East Economy – a 20-year Vision for the Well-being

of the Place & Our People, a new economic strategy for the city and the region.

It proposes four key Programme Areas to deliver the longer term vision for the economy: investment in infrastructure, inclusive economic growth, innovation and internationalisation. Within these programmes, actions include:

- Submission of a City Region Deal to fast track development of infrastructure;
- Development of an investment plan that will look at alternative financial models that can be used to invest in and deliver regional infrastructure needs;
- Delivery of City Centre Masterplan projects;

The City Region Deal is a mechanism to support delivery of a number of the priorities in the regional economic strategy. The Council has been developing these proposals with the UK and Scottish Governments, in partnership with Aberdeenshire Council and the private sector. On 29 January 2016 it signed a Heads of Terms Agreement on the Deal. This confirms the commitment by the two governments to jointly invest £250m in supporting proposals under innovation, digital and transport connectivity and supporting the Aberdeen Harbour Expansion. All of the Aberdeen City Region Deal partners stated their commitment to exploring the most appropriate financial models to deliver the proposals.

At its meeting on 16 February 2016, the Finance, Policy and Resources committee considered the report “City Deal “Heads of Terms” Agreement” and agreed the following amendment to the recommendations contained within the report:

“Instructs the Chief Executive to bring a report to the next meeting of Council on 2nd March 2016 detailing how the Aberdeen City Region Deal can be strengthened to meet our economic objectives through the use of additional powers devolved from the Scottish Government to the Council. The City Region Deal is not just about accelerated investment; giving Aberdeen further decision making tools in fiscal and non-fiscal areas such as Non-Domestic Rates, Council Tax setting, Air Passenger Duty, Tourism Charge and Land and Buildings Transaction Tax to name but a few will help change the way we work to stimulate growth within the economy of Aberdeen and the wider North East.”

5.2 Policy Drivers

City Centres tend to be home to the most productive jobs, and Gross Value Added (GVA) per head in Aberdeen City and the surrounding region is £36,000, above both Scottish and UK levels of £22,000 and £24,000 respectively.

In Aberdeen, while the city is home to a large share of regional jobs, and the consequent tax contribution to the UK and Scottish governments, the surrounding council areas provide accommodation for the workers that generate these taxes, but provide revenues, primarily in the form of Council Tax, to the neighbouring council areas.

There are 190,000 people working in the city¹, and using commuter flows based on the 2011 Census, about 56,000 commute in from Aberdeenshire, 4,000 from Angus and Moray and 10,000 from the rest of Scotland/ UK/ globally.

The regional economy depends on efficient connectivity into Aberdeen, and infrastructure investment is critical to delivery of the economic objectives of the city. Investment in the public infrastructure has not kept pace with the economic growth delivered by the City and region in recent decades and to enhance regional competitiveness, different financial levers will need to be considered in the context of how the Council delivers infrastructure and the 'fiscal' relationships within the larger economic geographies.

Current UK Tax System

There are a wide variety of taxes currently in existence which fall within the responsibility of either the UK or Scottish Governments and from 2016/17 both governments in the case of Income Tax. The main taxes are presented below:

Description	UK Government	Scottish Government
<i>Direct Taxes</i>		
Income Tax	x	x
National Insurance	x	
<i>Indirect Taxes</i>		
Value Added Tax	x	
Excise Duties (Alcohol, Tobacco and Fuel)	x	
Betting & Gaming Duties	x	
Vehicle Excise Duty (Road Tax) & Road Levy Duty	x	
Air Passenger Duty	x	
Insurance Premium Tax	x	
Landfill Tax	x	
Scottish Landfill Tax		x
Climate Change Levy	x	
Aggregates Levy	x	
<i>Capital Taxes</i>		
Capital Gains Tax	x	
Inheritance Tax	x	
Stamp Duty Land Tax	x	
Stamp Duty on Shares	x	
Land & Buildings Transaction Tax (LBTT)		x
<i>Company Taxes</i>		

¹ 2014 Business Register & Employment Survey

Corporation Tax	x	
Petroleum Revenue Tax	x	
Bank Levy	x	
National Non Domestic Rates		x
Local Taxes		
Council Tax		x

5.3 The Scotland Act 2012

To increase fiscal autonomy and strengthen accountability, the Scotland Act 2012 introduced a number of new financial powers for the Scottish Parliament from April 2015:

- Land and Buildings Transaction Tax (LBTT) – previously Stamp Duty Land Tax (SDLT), a tax on land and buildings transactions
- Scottish Landfill Tax – previously Landfill Tax, a tax on waste disposal to landfill
- Borrowing and Cash Reserve – allows the Scottish Government to borrow for capital purposes in addition to that for revenue purposes and to operate a cash reserve.

In addition, from April 2016 the Scottish Parliament can set a Scottish Rate of Income Tax each year for Scottish Taxpayers.

5.4 The Smith Commission

Following the referendum on Scottish independence in September 2014 the UK Government established the Smith Commission to consider what further powers should be devolved to the Scottish Parliament. Its report, published on 27 November 2014, set out a Heads of Agreement between the five main political parties on powers to be devolved, arranging them into three pillars:

- pillar 1: providing a durable but responsive constitutional settlement for the governance of Scotland
- pillar 2: delivering prosperity, a healthy economy, jobs, and social justice
- pillar 3: strengthening the financial responsibility of the Scottish Parliament

5.5 Pillar 3: Strengthening the financial responsibility of the Scottish Parliament

This considered a range of taxes and recommended the following:

- Income Tax – to remain a shared tax with the UK and Scottish Parliament sharing control with the Scottish Parliament having the power to set rates and bands.
- Air Passenger Duty – the power to charge tax on air passengers leaving Scottish airports be devolved to the Scottish Parliament including the ability to make its own arrangements regarding the design and collection of any replacement tax.

- Aggregates Levy – subject to legal issues being resolved, the power to charge tax on the exploitation of aggregate in Scotland be devolved to the Scottish Parliament, again with the ability to make its own arrangements around the design and collection of any replacement tax.
- Value Added Tax (VAT) – receipts raised in Scotland by the first 10 percentage points of the standard rate of VAT be assigned to the Scottish Governments budget with all other aspects remaining reserved to the UK Parliament.
- The following taxes to remain reserved to the UK Parliament – National Insurance Contributions, Capital Gains Tax, Inheritance Tax, Corporation Tax, all taxes in relation to oil and gas receipts, all aspects of Fuel Duty and Excise Duties.

5.6 The Scotland Bill 2015

The recommendations of the Smith Commission referred to above are contained within the Scotland Bill 2015 which is currently progressing through the UK Parliament.

Discussions have been ongoing between the UK and Scottish Governments with the aim of achieving Royal Assent ahead of the Scottish Parliamentary elections in May 2016.

It is worth noting that the UK and Scottish Governments on 23rd February 2016 confirmed that a deal had been reached on the financial basis for new powers to be devolved as part of the Scotland Bill. Details of the deal were to be published thereafter to allow scrutiny by Holyrood to begin. The reaching of this deal was a key milestone in the progression of the Bill.

5.7 Scottish Local Government Partnership (SLGP)

In January 2016 the SLGP published a Joint Devolution Policy Statement “A Scottish Local Government Partnership call for further devolution of powers from the Scottish Parliament”.

The policy statement follows the principle that Councils are best placed, along with local communities and businesses, to know what is required and what will deliver the best outcomes for their area and calls for a range of powers to be made available and for each area to use them to deliver local and national priorities, including:

- **“Fiscal Devolution and Financial Powers:** SLGP Councils should be given greater levels of fiscal autonomy, initially through greater freedoms and flexibilities of the existing Local Government tax powers of Council Tax and Non Domestic Rates. This would incentivise economic growth and ensure effective public services.

The range of powers could include the return of Non Domestic Rates setting and income retention to Local Government control, the extension of full business rates flexibility and retention, and the

ability to control levels of Council Tax. This would allow our member Councils to consider the scope for measures which would incentivise economic growth determined by local circumstances, for example discounts to start-ups and businesses in disadvantaged areas.”

The statement also states, “The Partnership believes our member Councils should have greater local influence over:

- **Scotland’s Fiscal Framework:** The SLGP, as significant contributors to Scotland’s Gross Value Added, should have greater local influence on Scotland’s Fiscal Framework to minimise any volatility to Scottish public sector finances. For example, the devolution of tax powers from Westminster will result in Scotland’s increased reliance on less predictable tax revenues.”
- The SLGP is looking to the Scottish Government for a commitment to champion further devolution to Local Government and urges that the powers transferred to the Scottish Parliament by the Scotland Bill be proactively used to benefit local people through giving Councils greater powers and authority.

5.8 Other Research and Discussion

5.8.1 The Council is a member of the Scottish Cities Alliance. Its recent paper, “Empowering Scotland’s Cities: Delivering Prosperity and Equality for Scotland’s Seven Cities, highlights the Smith Commission and subsequent Scotland Bill creates an opportunity to make step changes in local democracy and community empowerment and asks that Holyrood passes on to local areas all Non Domestic Rates and a proportion of the fiscal retention being granted to it by the Scotland Bill as well as the freedom to raise local taxes.

In response, and recognising that cities are the engines of Scottish economic growth, the Alliance is currently undertaking research the devolution of powers to Scotland’s cities. The objective of the study is to define the new powers needed for Scotland’s cities to thrive and make the case for changes to these powers. This will include the need for cities for city Councils to adapt further in response to financial challenges and to explore locally-generated revenues through levers such as council tax and/ or business rates, and infrastructure investment in cities, including housing, transport and digital priorities.

5.8.2 In November 2013, Aberdeen & Grampian Chamber of Commerce published a research study commissioned by this Council advising on:

- The impact of the existing financial settlement for Aberdeen City Council on the contribution Aberdeen makes to Scotland and the UK; and
- How a different or better funding settlement could benefit the City of Aberdeen and the remainder of Scotland.

It is not intended to cover the findings of the study in detail in this report but it is important to recognise that the study highlighted that with the funding settlement calculations unlikely to change the Council should enter into discussions and consider a number of options around alternative funding sources/methods.

More recently, Aberdeen & Grampian Chamber of Commerce has published its 2016 Scottish Parliament Election Manifesto, "Strong and sustainable, A plan for the North-East" which sets out its "recommendations to foster a progressive economy through changes in policy and the use of fiscal instruments".

5.8.3 The First Minister has recently announced plans to fund local authorities using a combination of income tax and a reformed council tax. The plans would see the structure of council tax change to create a greater link between property value and the amount paid. In addition, local authorities would receive a share of income tax collected in their area as an incentive to increase economic growth.

5.9 Alternative Taxation Sources

In looking at the existing taxation systems it would be useful to consider alternative taxation or income raising powers that currently are either not utilised or do not exist. As an example, the Council could consider a Tourism Levy and the implementation of this locally, which could then be targeted into specific market sectors or complement existing spend levels to improve the economic outputs of the region.

Tourism is a key sector of Aberdeen economy. Over 1.5m trips to the region annually generate £420m spend, supporting more than 11,000 jobs in the city within 550 businesses. It is a key sector of the city's economy and is prioritised in the regional economic strategy.

The promotion and marketing of the City and the north east will be supported by the development of a new Destination Marketing Organisation (DMO), VisitAberdeenShire, that will begin operating on 1 April 2016. The Council will support the new company with an investment of £570,000 for 2016/17. However, and in the context of continuing financial pressures, the Council will be supporting the new company to explore alternative revenue generation potential in the form of a tourism levy.

Tourism promotion is frequently funded by this instrument across Europe, through a charge on people staying in hotels, that is reinvested back into tourism infrastructure, public realm, events and/ or marketing. Initial estimate based on current/ planned hotel rooms, average occupancy levels, suggest that a £1 levy per person per night could realise £2.7m annually.

5.9 Conclusions and Recommendations

The devolution of fiscal and other powers from the UK to the Scottish Parliament is ongoing and will continue in the coming years. In light of this, the argument for further devolution of powers from the Scottish Parliament to Local Government has been gaining pace and will continue to be discussed and debated through a variety of forums.

It is therefore recommended that the Council instructs officers to be proactive in seeking opportunities to participate in and influence future discussions on the devolution of powers to the Council and to undertake a cost-benefit analysis of the various options to devolve further powers to the Council.

6. IMPACT

Improving Customer Experience –

There are no implications arising directly from this report. However, any changes to the Council's funding may well impact on customers and would need to be considered at the appropriate time.

Improving Staff Experience –

There are no implications arising directly from this report. However, any changes to the Council's funding may well impact on staff and would need to be considered at the appropriate time.

Improving our use of Resources –

There are no implications arising directly from this report. However, any changes to the Council's funding would clearly affect resources and would need to be considered at the appropriate time.

Corporate –

It is a priority of the Council to support the long term financial and economic sustainability and growth of the City using the resources available to it.

In agreeing the recommendations of this report, opportunities for joint working with partner organisations will become available.

Public –

This report may be of interest to the public as it relates to funding.

7. MANAGEMENT OF RISK

No direct risks have been identified in relation to this report. However, any future proposals to change to the Council's funding will have risks

associated with them which would need to be considered at the appropriate time.

8. BACKGROUND PAPERS

A Survey of the UK Tax System, Institute for Fiscal Studies Briefing Note BN09, Published November 2014.

Preparations for the Implementation of the Scotland Act 2012, Audit Scotland, Published December 2014.

Report of the Smith Commission for Further Devolution of Powers to the Scottish Parliament, Published 27 November 2014.

SLGP Joint Devolution Policy Statement, A Scottish Local Government Partnership call for further devolution of powers from the Scottish Parliament, Published January 2016.

Discussion Document “Empowering Scotland’s Cities: Delivering Prosperity and Equality for Scotland’s Seven Cities”, Scottish Cities Alliance.

2016 Scottish Parliament Election Manifesto “Strong and sustainable, A plan for the North-East”, Aberdeen & Grampian Chamber of Commerce.

9. REPORT AUTHOR DETAILS

Sandra Buthlay, Accounting Manager

sbuthlay@aberdeencity.gov.uk

01224 522565