

Response to the Senedd Local Government and Housing Committee’s Inquiry into Council Tax Reform

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Introduction

1. This is a response to the Senedd Local Government and Housing Committee’s Inquiry into Council Tax Reform from David Phillips, Associate Director, and Stuart Adam, Senior Economist, from the Institute for Fiscal Studies.
2. David Phillips leads the IFS’s work on devolved and local government finance. Stuart Adam is a senior economist in the tax team. Together with IFS colleagues, they undertook analysis of the rationale for, and the potential impacts of, revaluing and reforming council tax in Wales, which was commissioned by the Welsh Government. The main report ([Revaluation and reform of council tax in Wales: impacts on different councils and household types](#)) was published in spring 2020 and an update of some of the analysis ([Updated analysis of the effects of revaluing & reforming council tax across Welsh local authorities](#)) published in summer 2022. This response draws on this work and we highlight where fuller explanation and analysis is available in them.
3. The views expressed are the views of the authors only. The Institute for Fiscal Studies has no corporate views.
4. We use the following terms:
 - i. A “pure revaluation” is a reform whereby properties are placed in bands based on their up-to-date values, but the structure of council tax (the number of bands and the relative tax rates applied to them) and the proportion of properties in each band across Wales as a whole remains unchanged.
 - ii. A “less regressive system” is a reform whereby, as well as placing properties in bands based on their up-to-date values, the structure of council tax is reformed to reduce the extent to which low-value properties face taxes that are a higher percentage of their value than high-value properties. (Currently, Band A properties attract council tax that is usually more than 3 times as high, as a proportion of their 2003 value, as Band I properties).
 - iii. A “fully proportional system” is a reform whereby properties are taxed at a flat percentage of their up-to-date value.

A. The potential impact of a council tax revaluation and revised council tax bands on local government finance and administration

5. The effect of the revaluation and reform of council tax on local government finance will depend crucially on whether, and the extent to which, councils’ Welsh Government grant funding is updated to account for the changes in their tax bases.
6. For example, if the Welsh Government does not update grant funding at all, in order to raise the same total amount of funding as prior to revaluation and reform, each council would need to

raise the same amount of council tax as before. That would mean councils that see a fall in their council tax base (for example, due to more properties going down than up bands) would need to increase the Band D council tax rate they charge to maintain revenues and overall funding. Conversely, councils that see an increase in their council tax base (for example, due to more properties going up than down bands), would be able to reduce the Band D council tax rate they charge. A further implication of each council raising the same amount from council tax as prior to revaluation and reform is that the average bill faced by their residents would be unchanged too. This means that if grant funding is not updated, revaluation and reform would lead to a redistribution of council tax liabilities *within* councils' areas (e.g. from neighbourhoods where relatively more properties go down bands to those where relatively more go up bands) but not *between* council areas.

7. If the Welsh Government wishes to redistribute the council tax burden across Wales to reflect its revaluation and reform plans – so that councils' funding from the Welsh Government reflect an up-to-date assessment of their residents' ability to pay – it will therefore be important to adjust the Welsh Government funding provided to different councils to reflect changes in their tax bases. In particular, areas where the council tax base is assessed to be higher would need to have their grant funding reduced – they would become more reliant than presently on council tax for their overall funding. Conversely, areas where the council tax base is assessed to be lower would need to have their grant funding increased – they would become more reliant than presently on grant funding for their overall funding.
8. The Welsh Government, in its initial consultation on council tax revaluation and reform, stated that its preference was to fully adjust the grant funding it provides to councils. The changes to grant funding, and the changes to average council tax bills, that this would lead to will depend on the relative changes in property values in different council areas since the last revaluation (based on April 2003 prices) and the nature of any reform to the structure of council tax (for example the number of tax bands and relative tax rates applied to them).
9. Drawing on previous IFS research on the potential impacts of revaluation and reform of council tax in Wales (see references in paragraph 2, above), based on property values as of Q1 2022, and assuming that councils would want to maintain their spending levels, we might expect:
 - i. For a pure revaluation, tax bases would increase for those councils where property values have risen by more than average since 2003. These councils would see reductions in grant funding and increases in average council tax bills. We think this would apply to most councils in South East and North West Wales. Tax bases would decrease, grant funding increase, and average tax bills decrease for councils where property values have risen by less than average since 2003. We think this would apply to councils in North East Wales, as well as Cardiff and Swansea. The magnitude of the changes in grant funding would be less than £2 million for most councils, but could exceed £5 million in a couple of instances.
 - ii. For a less regressive system, in general, tax bases would increase for those councils where property values are higher than average, and/or have risen by more than average since 2003. These would see reductions in grant funding and increases in average council tax bills.
 - The impacts on specific councils (and households) would depend on the specific new banding and tax system chosen though. For the system we modelled (see

references in paragraph 2), which moved roughly two-thirds of the way from the current regressive structure to a fully proportional system, we think that tax bases and bills would increase and grant funding be reduced for Monmouthshire, the Vale of Glamorgan, Cardiff, and Mid, South West and North West Wales.

- Conversely, tax bases would decrease, grant funding increase, and average tax bills decrease for councils where property values are lower than average and/or have risen by less than average since 2003. Again, for the specific system we modelled, we think this would apply to councils in the Valleys and North East Wales. The magnitude of changes in grant funding would be larger for this reform, with many councils seeing changes in grant funding of more than £5 million, and in some cases over £10 million.

- iii. A fully proportional system would see qualitatively similar results to a less regressive system. Quantitatively the impacts would be larger, with bigger changes in tax bases, grant funding and average bills.

Further information on the potential impacts of revaluation and reform on tax bases, grant funding and average bills can be found in our previous reports.

10. As well as leading to a change in the level of tax bases, grant funding and average tax bills across councils, revaluation and reform would also have implications for how much influence councils have on their overall funding at the margin. In particular, councils with smaller tax bases (and lower average bills) following revaluation and reform of council tax (and adjustment of grant funding) would be able to raise less additional revenue from a given increase in their Band D tax rate. This would give them less scope to vary their funding at the margin – for example to offset cuts in grants from the Welsh Government. Conversely, those with bigger tax bases (and average bills) would have greater scope to vary their funding at the margin.
11. There may be several effects of revaluation and reform on the administration of council tax, including, but not limited to:
 - i. Councils would have to update their records of individual properties' tax bands, and potentially their systems for changes to the number of bands and tax rates applied to them.
 - ii. There may be additional appeals against the new bands, which would mostly create work for the VOA but would also require further updates to councils' records on properties' tax bands.
 - iii. Compliance may increase where average bills are reduced, and reduce where average bills are increased. Predicting overall impacts on compliance is difficult though.
 - iv. Councils will likely have to operate transitional arrangements to phase in changes in tax bills for those seeing particularly large changes. This should be designed to be as simple as possible to implement.
 - v. If the Senedd chooses to legislate for them, councils will have to operate 'deferral arrangements', allowing certain groups facing particularly large increases in tax bills (or particularly high bills) to defer council tax payments until sale, death or a fixed time has elapsed. Such schemes have been utilised in other countries to help the "asset rich, cash

poor” whom it is inappropriate to exempt from council tax, but for whom liquidity is a significant problem.

B. The potential benefits and disadvantages of regular property revaluations on local government administration, and the impact on those liable to pay council tax

12. The key benefit of regular property revaluation is that it ensures that the tax applied to different properties reflects up-to-date relative property values, rather than relative values decades old. This helps avoid the unfair situation whereby two taxpayers living in properties of equal value get very different council tax bills simply because their properties used to be worth very different amounts decades ago. It also helps avoid the situation where councils’ grant funding is based not on the current relative property value of their residents’ property, but the value decades ago.
13. Related to this, if revaluations happen frequently, rather than decades apart, we would expect the changes in relative value to be smaller. This would mean that revaluations would lead to smaller, more manageable changes in tax bases, tax bills and grant funding. And it would reduce the need for transitional arrangements (even if they are required, fewer households would be subject to them).
14. Legislating for regular revaluations has several benefits.
 - i. First, it should make it more likely the revaluation actually takes place – an active decision is required to *not* do it. Frequent, regular revaluations should also be less controversial as they would become routine, minor adjustments rather than major changes that require ad hoc active decisions and political will-power.
 - ii. Second, it helps property buyers and occupiers plan for the future. In particular, if they know a revaluation is planned for the future, and the property they are buying is in an area where values have gone up a lot, they will know the council tax on that property may increase. This may affect how much they are willing to pay for it. Conversely, if they did not expect council tax to be revalued and it was, they may have ‘overpaid’ for that property given its now higher occupation costs.
 - iii. Third, councils and the VOA can also best plan for future revaluations if they are legislated for.
15. Regularly revaluing properties for council tax does entail some costs though.
 - i. First, there are the costs of the revaluation exercise itself. It is worth noting, however, that modern methods of valuation (e.g. using computerised statistical modelling) are likely cheaper to implement than traditional methods.
 - ii. Second, there are costs associated with the implementation of the revalued council tax bands, including transitional arrangements. However, as discussed above, such arrangements are likely to apply to fewer households if revaluation is done regularly.

C. The effectiveness of the framework for council tax discounts and exemptions, and how the system could be developed and improved

16. Council tax includes a range of discounts, exemptions and premiums – some of which are mandatory, and some of which are discretionary.
17. The biggest single discount is the ‘single person discount’. This provides a 25% reduction in council tax bills for households with only a single eligible adult living in it. It originated in attempts to make council tax a hybrid between domestic rates and the poll tax, its two predecessor taxes. The idea was that, if council tax is half property tax and half poll tax, single people should pay only half as much of the poll tax part as couples – a reduction of a quarter of the total.
18. This structure has potentially significant distortionary effects. Under council tax, unlike the poll tax, the reduction for single-adult households depends on the value and tax band of the property. Less council tax is payable in total if a single person occupies an expensive, high-banded property and a couple a cheap, low-banded property than the other way around. This encourages inefficient use of the housing stock, with single-adult households living in bigger properties, and multi-adult households living in smaller properties, than they otherwise would. With property scarce, a discount that makes it scarcer for those who most need space does not look like sensible policy.
19. One option would be to remove the single person discount entirely. But if it were decided that one wanted to retain a single person discount (to maintain the idea of council tax being a ‘hybrid’ tax system or for some other reason), a simple improvement is available. Rather than the discount being based on the tax band of each property, it should be the same for all properties. For example, it could be set at 30% of the council tax payable on a Band A property. Because the cash value of the discount would not depend on the value of the property, it would no longer incentivise single people to live in bigger houses than they otherwise would.
20. Other discounts, premiums and exemptions can have similar distorting effects to the property market. For example, the exemption for students encourages households consisting only of students to live in larger properties than would otherwise be the case. Sometimes these distortions are the precise goal of the policy – to disincentivise certain types of use of property (for example, as second homes, or as long-term empty properties).
21. Discounts for properties adapted for use by disabled people, which take the form of a 1-band reduction in bill, rather than a percentage reduction like other discounts, add unnecessary complexity. If it is decided to retain these discounts, they could be replaced by percentage reductions – this is likely easier to understand and to administer.

D. The case for changing the Council Tax Reduction Scheme which supports the most vulnerable low-income households, and scope for improving the system.

22. The most striking thing about the CTRS in Wales is that it has not followed the path of localisation and cuts adopted in England. IFS research on [the impacts of localised council tax support schemes](#), published in 2019, found that the reforms in England had reduced working-age households’ total entitlements by 20%, but that councils were failing to collect one-quarter of the extra tax that they were asking for, as many of the 1.3 million households newly required to pay tax were going into arrears. While decisions about what to localise, where to find savings and how much support to provide to whom are ultimately political ones, these findings suggest

that the cuts made in England created posed compliance and financial challenges for both residents and councils.

23. Beyond that, we have little to say about the scope for improving the CTRS. Clearly non-take-up is one significant issue, and so directing efforts to improve that would be worth considering. We are aware of series of reports by Policy in Practice examining aspects of the CTRS in some detail.
24. At a national level, in principle there would be a good case for integrating CTRS into universal credit. But that is not within Welsh control, and would have been better done a decade ago when universal credit was being designed and CTRS was being devolved.