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Council Tax Reform Update

Summary

1. This paper summarises the latest position on the work to create a fairer council tax system, to prompt discussion about the DSG's role in supporting its delivery.

Views sought

2. DSG are asked to formalise initial views on the DSG's remit, particularly throughout 2024 but also beyond this year, in relation to council tax reform. This includes discussing the scope (in and out) of potential work of the group and how this might differ depending on the way forward announced post-consultation.

Related papers

3. Phase 2 [consultation](#) and IFS [report](#) (including the data [Appendix](#)).

Background

4. The Welsh Government's Programme for Government and the Co-operation Agreement with Plaid Cymru commit to a fairer and more progressive council tax, building on extensive considerations in the previous Senedd term and published in a [Summary of Findings](#). Since then, the Welsh Government has taken a phased approach to consultation and engagement, with [Phase 1](#) proposals published in July 2022 and further detail released in [Phase 2](#) in November 2023.
5. The extensive evidence confirms a fairer and more progressive council tax would reduce wealth inequality and contribute to a more equal Wales. Local government groups have been regularly engaged in the progress through the Finance Sub Group, the Local Tax Reform Working Group and other fora.
6. The scope of the programme includes:
 - a revaluation of all 1.5 million domestic properties in Wales. The tax bands are nearly twenty years out-of-date, based on 2003 information.
 - creating new bands and choosing new tax rates for each band, to create a more progressive tax. This may include adding bands at the top and bottom ends of the scale to distribute properties in a more detailed way, and consideration of a Transitional Relief Scheme.
 - future-proofing the fairness and accuracy of the system by putting rolling revaluation cycles on a statutory footing.
 - reviewing the suite of discounts, disregarded persons, exemptions and premiums to ensure they remain relevant to today's policy ambitions.

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- reviewing the Council Tax Reduction Scheme.
7. Parts of the reform programme can be achieved through subordinate legislation (revaluations and changes to bands) and parts require new provisions in primary legislation (rolling revaluation cycles, flexibility around discounts and reductions). A [Local Government Finance \(Wales\) Bill](#) has since been introduced to the Senedd, with Royal Assent anticipated in later summer 2024.

Initial Analysis

8. The Phase 2 consultation closing on 6 February seeks views on both the **scale** and **pace** of reform. Each approach involves a property revaluation exercise undertaken by the Valuation Office Agency.

Scale of reform

9. The consultation proposes 3 approaches to designing the council tax bands and tax-rates at a national level:

Approach 1

“In the first approach, we would aim for minimal change focussing on ensuring the property values are up-to-date. In this approach, we would keep the current system which is already in place largely the same:

- we would revalue properties for the purposes of placing them into a more modern version of the current 9 bands (keeping the same percentage of properties in each band as there are currently), and update the band thresholds to create an up-to-date system that reflects modern property values, but
- retain the 9 bands and the tax-rates charged for each band that we have at present

The result would be a small move in the direction of fairness. The system would become more up-to-date and accurate under those rules. About 8 out of 10 households would see bills reduced or experience minimal change.

But the tax would remain fundamentally unfair, with only the modest improvement on the system as originally introduced in 1993. Some properties would move up bands, some would move down bands, and most would stay in the same band.”

Approach 2

“In the second approach, we could consider a modest scope of reform, addressing the outdatedness of the current system and also its regressive nature. In this approach we would:

- retain the 9 band structure and update it with current property values (as Approach 1), but also
- change the tax-rates charged for each band so that bills for households in lower band properties would fall, and bills for those in the highest band properties would rise

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The result would be a greater move in the direction of fairness, but the structure of the tax would remain fundamentally unchanged with 9 tax bands. Some properties would move up bands, some would move down bands, and most would stay in the same band. About 7 out of 10 households would see bills reduced or experience minimal change.”

Approach 3

“In the third approach, we would expand the benefits of reform, making the system more progressive. In this approach, we would:

- increase the number of bands from 9 to 12
- add 3 new bands, 1 at the bottom and 2 at the top
- redraw the new 12 bands so that the width of each band is broadly consistent across the whole structure
- change the tax-rates charged for each band, with a lot less paid by those in the lowest bands, and more paid by those in the top bands

The result would be a decisive move in the direction of fairness, with a more significant reform in the structure of the tax.

People living in the lowest value properties would see bills fall, and those in the most expensive properties would see bills rise. Again, some properties would move up bands, some would move down bands, and most would stay in the same band, but those reductions would be greater, especially for those living in the lowest value properties. Conversely, the rise in bills for those in more expensive properties would be sharper than in either of the other approaches. About 7 out of 10 households would see bills reduced or experience minimal change.”

10. Based on the preliminary results of preparatory revaluation work of the Valuation Office Agency, Annex A provides an indication of the modern property values which relate to the 3 approaches. The data behind these is expected to mature as the work progresses.

Pace of reform

11. The consultation proposes 3 choices for the speed of implementation:

“We could aim for the fastest pace of change, bringing in a fairer Council Tax system at the earliest opportunity on 1 April 2025. This could be the minimal, modest or expanded version of reform. Those whose bills fall would see the benefits straight away in 2025, but we would aim to smooth the transition for those whose bills increase over a few years, through a transitional relief scheme, possibly to 2029.

We could defer making changes until the next Senedd term. This could be the minimal, modest or expanded version of reform, and the earliest date could be from 2028. From that time, we would still wish to smooth any bill increases over a few years through a relief scheme, and those whose bills fall would see the full benefits as soon as the changes are implemented. A slower reform timeline means there would be longer to wait until any decreases and increases in Council Tax bills are introduced

We could implement in stages, starting with minimal or modest reform in the first step (the earliest a first step could be is 2025), moving to implementing the expanded version

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of reform in a second step (and that second step could be sometime in the next Senedd term).”

Other workstreams

12. The reviews of the discounts and exemptions, and the Council Tax Reduction Scheme are ongoing, and may in future have implications for the settlement distribution. However, Royal Assent of the Local Government Finance (Wales) Bill is required to enable regulation changes, and any future changes proposed will be subject to further consultation.

Re-distributional effect

13. Annex B provides the IFS’ initial assessment of the changes in tax-base and grant allocations for each local authority resulting from its examples of the 3 approaches, plus a proportional system (though this has been ruled out by the Welsh Government). These outcomes are based on initial VOA property valuation data from August 2023 which is expected to mature as the work progresses, and aggregate local authority billing data from 2021. The IFS does not have access to the Welsh Government’s settlement model.
14. Both the Phase 1 and Phase 2 consultations explain in general terms the redistributive effects of a changing council tax base on the Revenue Support Grant. The 3 potential approaches to reform would change the amount of revenue which can be raised in each council area. As the settlement formula takes account of local ability to raise resources, so that grant funding is fair across communities, where a council’s ability to raise council tax decreases as a result of reform, the council would receive proportionately more Revenue Support Grant, and vice versa. However, there are choices around the extent and speed of redistribution, including whether the detailed workings of the formula would need to be tweaked or improved.
15. There are residual effects of a revalued and more progressive system on the value of Council Tax Reductions, which may warrant a review of the CTRS IBA in the settlement formula. The effects will differ depending on the design of the system. The IFS estimates (pg. 41 footnote 10) that CTRS entitlements would be lower under less regressive systems, by around £22 million for modest reform and £31 million for expanded reform. The minimal reform would have a marginal effect on CTRS entitlements, increasing by around £4 million. These are useful general trends to discuss, however, the IFS does not have access to the Welsh Government’s precise settlement modelling.
16. As the expert group on this matter, the DSG is asked to lead discussions and make recommendations to the Welsh Government about how to approach the settlement distribution as it relates to council tax reform. The Welsh Government will support the DSG to undertake its work.

Discussion

17. Discussion points could include:

- scope of DSGs remit and guiding principles.
- ways of working, including settlement exemplifications but also whether other types of evidence or viewpoints needs to be gathered, whether support from other experts is necessary, and who might they be.

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- timing, transition, phasing, and measures used in the formula.
- consideration of the non-revaluation elements of the programme (future proposals for discounts and exemptions, the Council Tax Reduction Scheme, appeals, collection assumptions).

**Council Tax Policy & Reform
Welsh Government**

Current council tax bands in Wales, 2023-24 (excluding community council precepts)

Band	Property values April 2003	Average tax excluding discounts & reductions	Tax-rate relative to band D	Tax as % of property value	Number and % of properties
A	Up to £44,000	£1,224	6/9	1.3%	213,200 (14%)
B	£44,001 to £65,000	£1,428	7/9	1.1%	305,500 (21%)
C	£65,001 to £91,000	£1,632	8/9	0.9%	320,300 (22%)
D	£91,001 to £123,000	£1,836	9/9	0.8%	239,600 (16%)
E	£123,001 to £162,000	£2,244	11/9	0.7%	198,500 (13%)
F	£162,001 to £223,000	£2,652	13/9	0.6%	120,900 (8%)
G	£223,001 to £324,000	£3,060	15/9	0.5%	54,600 (4%)
H	£324,001 to £424,000	£3,672	18/9	0.5%	13,000 (1%)
I	Above £424,000	£4,284	21/9	0.4%	5,600 (0%)

Approaches 1 and 2: minimal and modest versions of reform

Band	Property value in April 2023	Number and % of households (same % as the current system)
A	Up to £112,000	211,800 (14%)
B	£112,001 to £155,000	310,800 (21%)
C	£155,001 to £211,000	318,600 (22%)
D	£211,001 to £278,000	236,500 (16%)
E	£278,001 to £376,000	200,000 (14%)
F	£376,001 to £516,000	121,100 (8%)
G	£516,001 to £748,000	54,700 (4%)
H	£748,001 to £987,000	13,200 (1%)
I	Above £987,001	5,600 (<1%)

Approach 3: expanded version of reform

Band	Property value in April 2023	Number and % of households
A1	Up to £80,000	47,000 (3%)
A2	£80,001 to £110,000	151,200 (10%)
B	£110,001 to £150,000	289,000 (20%)
C	£150,001 to £200,000	301,300 (20%)
D	£200,001 to £270,000	266,400 (18%)
E	£270,001 to £360,000	198,900 (14%)
F	£360,001 to £480,000	124,900 (8%)
G	£480,001 to £650,000	61,300 (4%)
H	£650,001 to £880,000	22,700 (2%)
I	£880,001 to £1.2m	7,200 (0.5%)
J	£1.2m to £1.6m	1,600 (0.1%)
K	Above £1.6m	650 (0.0%)

IFS Report [Appendix B5](#): Estimated changes in council tax-base (% , compared to pre-reform position for 2023-24)

Council	1. Minimal	2. Modest	3. Expanded	Proportional (ruled out by WG)
Blaenau Gwent	3.4%	-7.7%	-13.7%	-20.0%
Bridgend	0.1%	-1.3%	-2.7%	-2.1%
Caerphilly	2.5%	-2.1%	-3.9%	-5.8%
Cardiff	-1.1%	4.1%	4.6%	12.8%
Carmarthenshire	-1.0%	-2.0%	-3.4%	-1.9%
Ceredigion	0.8%	4.4%	4.1%	9.2%
Conwy	-0.6%	0.7%	0.1%	3.5%
Denbighshire	-7.9%	-10.4%	-12.1%	-12.0%
Flintshire	-5.7%	-5.8%	-6.4%	-4.7%
Gwynedd	6.1%	7.7%	7.0%	11.7%
Isle of Anglesey	5.0%	7.7%	7.2%	12.5%
Merthyr Tydfil	6.4%	-1.1%	-5.0%	-8.5%
Monmouthshire	3.6%	14.9%	16.6%	33.7%
Neath Port Talbot	0.7%	-5.9%	-8.9%	-12.1%
Newport	-0.8%	-0.5%	-1.2%	1.4%
Pembrokeshire	2.4%	5.6%	4.9%	10.6%
Powys	1.0%	5.8%	5.6%	13.1%
Rhondda Cynon Taf	2.3%	-4.2%	-8.2%	-11.1%
Swansea	-3.4%	-5.4%	-7.4%	-6.0%
Torfaen	3.2%	1.1%	-0.4%	-0.6%
Vale of Glamorgan	3.9%	13.2%	14.6%	30.3%
Wrexham	-6.1%	-7.5%	-8.6%	-7.4%

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IFS appendix B.6: Estimated changes in RSG

Please note: the IFS does not have access to the Welsh Government's Local Government Settlement model, therefore the below effects are based on the IFS' own analysis and are useful for considering broad patterns and trends.

Council	Aggregate (£s millions)			
	1. Minimal	2. Modest	3. Expanded	Proportional (ruled out by WG)
Blaenau Gwent	-1.1	2.8	4.5	7.5
Bridgend	0.0	1.5	1.9	4.3
Caerphilly	-2.3	2.5	3.3	8.1
Cardiff	2.6	-8.1	-11.7	-21.8
Carmarthenshire	1.2	3.0	3.5	5.6
Ceredigion	-0.4	-1.9	-2.3	-3.0
Conwy	0.6	-0.1	-0.4	-0.3
Denbighshire	5.0	6.7	7.2	9.0
Flintshire	5.8	6.3	5.9	7.6
Gwynedd	-4.5	-5.1	-5.3	-5.7
Isle of Anglesey	-2.3	-3.2	-3.5	-4.1
Merthyr Tydfil	-1.8	0.5	1.3	3.3
Monmouthshire	-2.6	-10.4	-12.5	-21.8
Neath Port Talbot	-0.5	4.8	6.3	11.0
Newport	0.8	1.0	0.6	1.5
Pembrokeshire	-1.8	-4.0	-4.3	-5.7
Powys	-0.8	-5.0	-5.8	-9.3
Rhondda Cynon Taf	-2.7	5.8	9.4	16.7
Swansea	4.9	8.4	9.9	12.6
Torfaen	-1.6	-0.3	0.0	1.9
Vale of Glamorgan	-3.7	-12.2	-14.7	-25.7
Wrexham	5.1	6.6	6.8	8.4