



# WLGA Evidence

11th November 2022

## Local Government and Housing Committee: Council Tax Reform

### **Welsh Local Government Association - The Voice of Welsh Councils**

The Welsh Local Government Association (WLGA) is a politically led cross party organisation that seeks to give local government a strong voice at a national level.

We represent the interests of local government and promote local democracy in Wales.

The 22 councils in Wales are our members and the 3 fire and rescue authorities and 3 national park authorities are associate members.

### **We believe that the ideas that change people's lives, happen locally.**

Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and achieving these connections, we can build a vibrant local democracy that allows communities to thrive.

**Our ultimate goal** is to promote, protect, support and develop democratic local government and the interests of councils in Wales.

### **We'll achieve our vision by**

- Promoting the role and prominence of councillors and council leaders
- Ensuring maximum local discretion in legislation or statutory guidance
- Championing and securing long-term and sustainable funding for councils
- Promoting sector-led improvement
- Encouraging a vibrant local democracy, promoting greater diversity
- Supporting councils to effectively manage their workforce

### **Introduction**

This is an important and timely inquiry, and this briefing paper is mostly based on our response to the Welsh Government's consultation on "A Fairer Council Tax". This was discussed in some detail by the leaders who attended the WLGA Executive Board on the 30 September and has been considered by the Society of Welsh Treasurers and the Local Taxation Group; the latter made up of the revenues officers who will have to administer the transition to a new system.



Overall, there is broad support for the proposals to make the system of domestic local taxation fairer and it shows Wales at its best; consulting to make changes that would be more progressive relative to other parts of the UK. Apart from Northern Ireland we are the only country to have introduced a revaluation of council tax since it was introduced in 1993.

### **The potential impact of a council tax revaluation and revised council tax bands on local government finances and administration.**

In our consultation response to the Welsh Government, we agreed with the conclusion of the report commissioned from the Institute of Fiscal Studies (IFS) that council tax should be revalued and reformed. The primary reason is that the current system is out of date. No other system of taxation is based upon values that are nearly 20 years out of date. It weakens the credibility of the finance system. If the taxbase is not based on contemporaneous information, it weakens the social contract and the reputation of local government in respect of the communities that members represent.

We are worried that the exercise may be seen as a ‘revenue raising’ and will work with Welsh Government on the communications side. Furthermore, we believe the timing of the revaluation should be given careful consideration in terms of the prevailing economic conditions (and other factors) that may exist at the time

The current banding system is highly regressive in respect to property values and consequently incomes. The current banded structure has advantages in terms of ease of administration but the inequality of the proportion of tax paid relative to the values of the property is well documented. It is starkly exemplified by those properties at the opposing ends of the banding scale A and I. In the current banding system 57% of properties are in the bottom 3 bands but only 5% of properties are in the top 3 Bands (G to I). Most properties are in Band C. There is a long ‘tail’ in the distribution of properties not fully captured in 9 bands.

Ideally the system should be based on continuous valuations. This could be explored more. As the IFS note, this is currently a feature of the system in Northern Ireland and was recommended in an IWS paper authored by Gerry Holtham. If this isn’t a practicable solution because of legislative constraints, then there should be more bands.

The IFS model 12 bands and perhaps a maximum of 15 should be explored to capture the long tail at the higher end of the distribution. Another source of regressivity is the proportional relativities between bands and this might be made more understandable if based on simple percentages rather the ‘ninths’ referred to under the current arrangements



The case for transitional arrangements was one of the issues discussed at the WLGA Executive Board on the 30 September 2022 and highlighted by leaders. If the banding remains broadly the same, then consideration should be given to limiting the number of bands that one household might rise to one in any one year as happened at the previous revaluation. Otherwise, a ‘capped’ increase, for example, of 10% in any one year assuming that the element of local decision can be ‘controlled for’ in the calculation. This should be funded outside the system and should be easy to understand from a taxpayer point of view, and easy to administer.

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

We agree with the Welsh Government that revaluations should be at least every 5 years, and where possible this should be written into law. A five-year revaluation allows for a reactive tax base sensitive to the financial climate without being too frequent and burdensome.

With more frequent revaluations there would be no need for the provisions that have the potential to reband properties at the point of sale, where significant work has been carried out. Existing owners who have invested in the property see no increase in their council tax, yet it can come as a shock to any new owners. A fairer option would be for property improvements to take effect at each revaluation, provided that happens every 5 years.

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

This list of discounts has clearly been developed over a long period of time and covers several circumstances; the number of categories has also grown since their introduction in 1993. We understand a working group has been convened around this issue. The group seeks to identify how each discount and exemption currently works, if they are appropriate and fit for purpose, if there is an evidenced case for change and whether Welsh Ministers have existing powers to make any changes. Proposals for changes to discounts and exemptions will be guided by the conclusions of the working group and will be consulted on in greater detail in due course.

In our response to the Welsh Government’s consultation, we did state that it should have full flexibility to set the statutory single adult and empty property discounts nationally. Setting it locally would cause too much disparity between local authorities and give rise to complaints around a perceived postcode lottery. Setting it nationally ensures fairness.



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

CTRS should continue to be means tested and we understand the design of the scheme is the subject of a working group. The overriding principles should be that the scheme is simple to administer and be understandable to recipients of the discount. The approach taken to notification letters is an example of onerous process. Much has been said about the simplified approach of a banded scheme, yet these are anything but simple, they are not easily understood and include significant ‘cliff edges’ for recipients. The current system works well and just needs improving to ensure it continues to support vulnerable households and maximises data sharing opportunities between Local Authorities and Department for Works and Pensions.

Welsh Ministers should have a duty to set a national scheme to be administered locally by councils, which allows the Welsh Government to make in-year changes if required. Recent events such as the pandemic have shown us that the regulations are unable to adapt to changes that occur throughout the year. This is because the regulations are laid and approved and then the local authority is required to adopt that scheme by 31st January each year. No changes can take effect until the following set of regulations are laid. By Welsh Ministers setting a national scheme then they can make changes (with necessary consultation etc) and can react more effectively to any arising situation.

A review of the CTRS cannot be effective without the associated funding being revisited. The £244m Welsh Government allocates each year to local authorities falls way short of the actual cost of the scheme. Whilst accepting it is a joint responsibility and the rising costs of the scheme should have a bearing on council tax setting, rising caseloads and an ongoing national cost of living crisis is only going to make this situation worse.

**Other issues we raised in the consultation response**

**Lack of committal alternative**

A fairer council tax system would make sanctions less likely, however alternative powers were going to be discussed once the loss of committal had taken effect. Following on from the pandemic we understand that Welsh Government is awaiting responses to their commissioned research and will be interested in the findings. Local Authorities find themselves in difficult situations with certain ‘won’t pay’ debtors and all too often end up writing off significant amounts of debt which comes at the costs of all taxpayers.



**Greater data sharing powers**

Better data sharing, especially between the WRA / LA's/ HMRC would benefit all involved in public service delivery. Maybe as part of this government's commitment to 'make council tax fairer' this should be properly explored. We have seen over the last 2.5 years how quick local government can rise to a challenge (business grants, self-isolation payments, winter fuel, cost of living payments) and we would be happy to support any working groups to develop better working arrangements between all public bodies.