



Eich cyf/Your ref: P-06-1330

Ein cyf/Our ref: RE-00107-23

Jack Sargeant MS
Chair – Petitions Committee
Senedd Cymru
Cardiff Bay
Cardiff
CF99 1SN

27 March 2023

Dear Jack,

Thank you for your letter regarding the petition P-06-1330 about the Welsh Government's plans to reform council tax. I welcome the opportunity to outline the plans in more detail and reaffirm my commitment to tackling wealth inequalities in our communities through our reforms.

Council tax provides a significant annual revenue stream of over £2bn, which helps to fund some of our most essential public services – educating our children, caring for our loved ones, keeping communities safe, and recycling our waste, to name a few. While it has many advantages as an efficient local tax, we believe the system could be more progressive in its design and that it could be modernised, having existed in its current form since 1993.

Aims

The Programme for Government and the Co-operation Agreement commit to a fairer and more progressive council tax. The aims are for a reformed system which:

- Has a less regressive tax burden on households;
- Has in-built regular updates to keep the tax fair in the future, using modern data-driven technology;
- Continues to fund vital services that benefit everyone, but helps those in need;
- Is more transparent for taxpayers to interact with; and
- Remains a tax that connects people with local communities.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Background research and scope

The scope of proposed reforms is based on extensive considerations over the previous Senedd term (2016-2021). The Welsh Government published a [Summary of Findings](#) in February 2021, which brought together a comprehensive suite of research conducted by various experts, to set out the potential options for reforming local government finance in Wales. It concluded that council tax is a highly efficient and stable revenue stream for public services, with low administrative costs, and due to its longevity, it is generally well understood. However, the band and tax rate structure is regressive, requiring significant mitigating actions for less well-off households. The tax-base is twenty years out of date and the legislation predates devolution. Other approaches considered, such as land value tax and local income tax, were found to bring benefits in terms of being more progressive ways of raising local revenues, but with major implementation obstacles or administrative drawbacks, meaning implementation would be a two-term endeavour.

Our ambition therefore is to achieve meaningful reform to council tax over the course of this Senedd term – developing the system so that it is more progressive and contributes to the delivery of other commitments in our Programme for Government, particularly towards a more resilient, equal and a more prosperous Wales. I conducted a [Phase 1 consultation](#) last summer seeking views from members of the public and stakeholders on the broad scope of changes, including:

- 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.
- 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.
- reviewing the Council Tax Reduction Scheme as the main support scheme for low-income households.
- continuing in parallel to explore alternative approaches for longer term consideration, such as a local land value tax or unbanded systems.

A summary of the responses has been [published](#) and I intend to outline detailed proposals for a reformed system in a Phase 2 consultation later this year.

Revaluation and new bands

There are around 1.5 million domestic dwellings in Wales liable for council tax. Each property is placed in one of nine tax bands, A to I, on the basis of property values on **1 April 2003**, the last time the council tax-base was updated in Wales. The Welsh Government is considering a revaluation of all 1.5 million properties in Wales to update and rebalance the system to reflect today's property values.

Having undergone a revaluation exercise in 2003, Wales is the only part of the UK which has revalued its council tax base since the tax was introduced. We are therefore in a better position than England and Scotland where council tax is charged on the basis of property values from 1991, however, this does not provide a rationale for standing still.

It is unfair and inaccurate to continue basing council tax bills on property valuations from twenty years ago. The homes we live in are an important indicator of wealth and affordability. The composition and distribution of the tax-base has changed since 2003. Without an exercise to revalue the 1.5 million domestic properties in Wales, we are constrained in our ability to make fundamental changes to council tax which could help to make the system fairer and more progressive.

A revaluation would enable the Welsh Government to create new bands and choose new tax rates for each band, to create a fairer tax. This could include adding bands at the top and bottom ends of the scale to distribute properties in a more detailed way. While most properties will have increased in value over the last 20 years, this doesn't necessarily mean that council tax bills will increase. The system we design will remain a relative one. We are committed to analysing the impact closely, and where necessary, targeting transitional arrangements for people who may need time to adapt to any changes.

Impact on Local Authorities

The reforms outlined would change the nature of the tax-base in each local area. The ability of each local authority to raise council tax from its tax-base differs significantly between high and low tax-base areas. The Phase 1 consultation therefore recognised that annual local government funding settlements for local authorities would need to be distributed on the basis of the most up-to-date information about local tax-bases. The long-standing principle of grant redistribution is one which local government collectively supports.

The setting of budgets and council tax remains a matter for each authority, taking account of all the sources of funding available to it and its local priorities for service delivery. I do not intend to remove the autonomy of local authorities to set annual council tax levels in their areas. That function is a key expression of local democracy in action. The Welsh Government understands that authorities will still need to make difficult choices in setting their budgets and council tax each year and, in doing so, they will need to engage meaningfully with their local communities as they consider their priorities. Welsh local authorities are able to use the revenue they generate through council tax for any purpose in line with their local priorities. Authorities in Wales are not required to ring-fence the income for particular services.

I continue to engage with leaders in local government and have had very productive and positive discussions about how the reform work is taken forward. This is a task of significant scale taking a number of years to complete, with much of the operational and technical work being undertaken by the Valuation Office Agency. Local authorities will also need to be directly involved in implementing any reforms.

Changes to bills

I have made clear the aim of reform is not to raise more revenue in total from council taxpayers in Wales. The purpose of reform is to make the system fairer, more progressive, and reflective of economic circumstances. We recognise that to make the system more progressive, some people will need to contribute more. The reason for valuing property for tax purposes is because it is an immovable fixed asset which links a taxpayer to the place where they live and use services, and it is a reliable broad indicator of relative wealth and income between households. However, council tax also has significant elements which take account of ability to pay, including the suite of discounts, exemptions and reductions – nearly half of households in Wales receive some form of reduction on their bill. In reviewing aspects of the system, we remain open to all ideas and will consider how best to reflect ability to pay going forwards.

We will consider the need to mitigate the impact for households which may be adversely affected by the reforms. However, there will be no immediate changes to the bills people receive. Council tax bills for the year ahead have been set by local authorities in the usual way.

Cost of living

The petition highlights many people are struggling with the rising cost of living. Delivering a reformed council tax is a substantial undertaking, however, the evidence and experts agree it is one of the most beneficial actions the Welsh Government can take to reduce wealth inequalities. But as council tax reforms would not happen for a number of years yet, it is not an immediate solution to the current cost-of-living crisis faced by many households today.

I hope this information helps the Committee's consideration of the petition.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive style with a large initial 'R'.

Rebecca Evans AS/MS

Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

