

The Capping of Council Tax Rises in Wales

Y Pwyllgor Deisebau | 07 Mai 2019

Petitions Committee | 07 May 2019

Research Briefing:

Petition number: **Petition P-05-875**

Petition title: **The Capping of Council Tax Rises in Wales**

Text of petition: Conwy Council are seeking to levy a staggering 11 per cent council tax increase this coming tax year upon households. Other councils in Wales are also raising council tax by inflation busting levels.

I call upon the Assembly to cap council tax rises to the rate of inflation for two years. With child poverty and household debt rising the staggering increases in council tax cripple households.

Additional Information

Conwy Council has raised council tax by 5 per cent year on year but this year is seeking a staggering 11 per cent rise.

With too many low income households struggling it would be crushing to have this outrageous increase.

We are paying MORE for LESS and less services.

The same story across Wales.

A two year inflation only rise in council tax in Wales would give hard pressed households a breathing space

1. Background

The Welsh Government provides the majority of funding for local authorities through the Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates (NDR). Local authorities may also apply for other specific grants.

The remaining funds for local authority services are raised by the authorities themselves. The most significant element of these funds is council tax. There are also a number of other possible income generation methods, such as discretionary charges for leisure services, parking and trade waste.

Further details on local authority funding can be found on the Senedd Research blog, [in brief](#), and on the [Welsh Government's website](#).

2. Council tax banding and valuations in Wales

Council tax is a tax on domestic properties based on a system of valuation bands related to capital values. It was introduced in 1993 following the enactment of the [Local Government Finance Act 1992](#). This abolished the previous system of community charges, which had itself replaced domestic rates before it.

In order to be subject to council tax, a property needs to conform with the statutory definition of a dwelling contained [in Section 3 of the Local Government Finance Act 1992](#) (LGFA 1992). Dwellings in Wales are allocated one of nine Bands (eight in England) from A to I. The chart below shows the council tax to be paid for properties in each Band.

Table 1: Council Tax bands in Wales

Band	Value at 1 April 2003
A	up to £44,000
B	£44,001 to £65,000
C	£65,001 to £91,000
D	£91,001 to £123,000
E	£123,001 to £162,000
F	£162,001 to £223,000
G	£223,001 to £324,000
H	£324,001 to £424,000
I	more than £424,000

[GOV.UK](#)

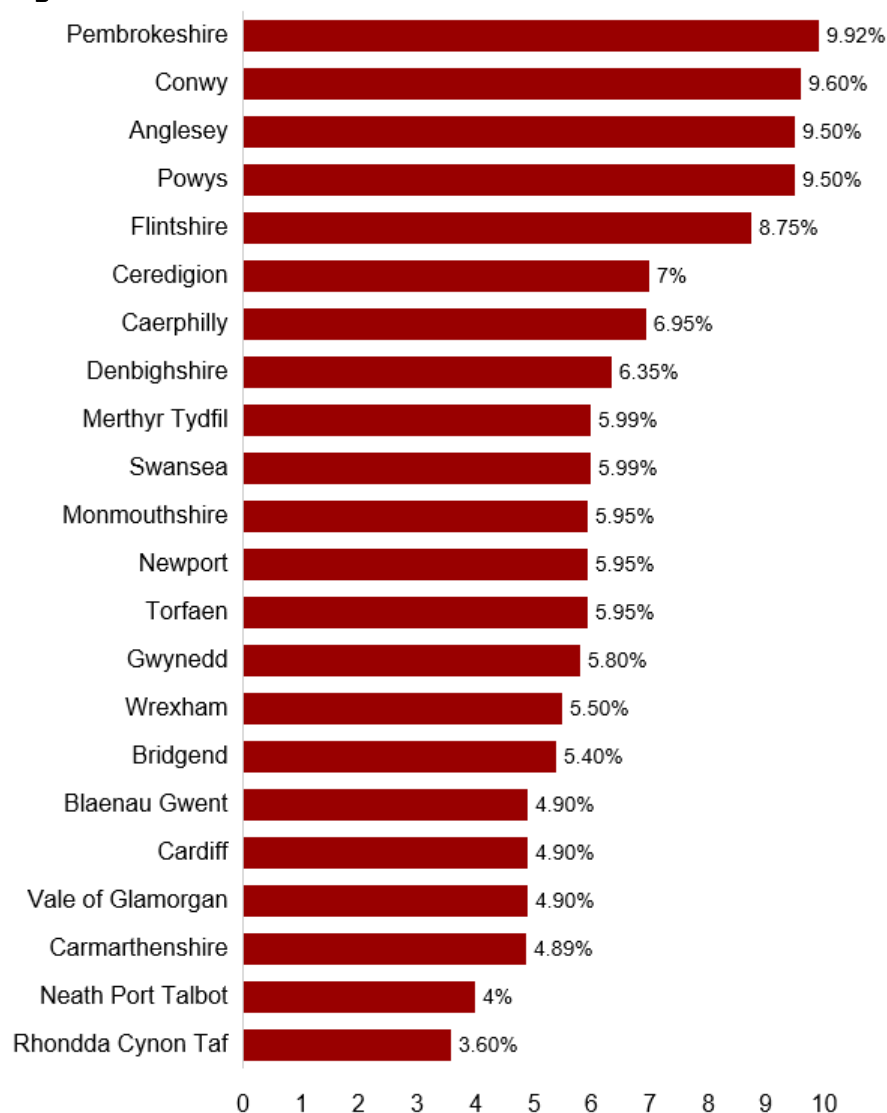
3. Council tax increases

Council tax has increased by an average of 6.2 per cent (or £77) for 2019–20. Police increases average 9.1 per cent (or £22). These increases combine to produce an average band D rise of **6.6 per cent (or £99)**.

In comparison, in 2018–19, council tax increased by an average of 5 per cent (or £60) for Band D properties. Combined with Police increases of 5.3 per cent (£12), there was an average band D rise of 5.1 per cent (or £72).

According to [StatsWales data](#), Pembrokeshire Council will see the highest increase in council tax levels for 2019–20, which is expected to rise by 9.92 per cent. Conwy Council is expected to raise its council tax by 9.6 per cent. A [BBC Wales article](#) (accessed 24 April 2019) illustrates the percentage increase in council tax by local authority in Wales for 2019–20:

Figure 1: Council Tax rises 2019–2020



Councillor Anthony Hunt, Leader of Torfaen Council and WLGA spokespersons for Finance told the [Equality, Local Government and Communities Committee in October 2018](#) that:

No-one wants to put council tax up, especially in an era where services are being cut back, because it inevitably leads to the accusation that people are paying more for less but, unfortunately, that's the inevitable reality of austerity.

4. Council tax limits and the legislative framework

While there is no official limit on how much a local authority can raise its council tax, there was thought to be an **informal 5% limit** in existence set by Welsh Ministers. This may have originated from statement by the then [Finance Minister, Sue Essex AM, in 2007](#) who stated that:

I have told unitary and police authorities that I expected them to set budgets that require council tax increases of no more than 5 per cent for the next financial year.

However, the current Minister for Housing and Local Government, Julie James AM in her response to the petition states that 'the Welsh Government **has not specified thresholds** for council tax increases'.

While there are currently no thresholds in place, Welsh Ministers do have the ability to limit (cap) excessive increases in the **Budget Requirement** of local authorities and Police and Crime Commissioners in Wales.

4.1 Legislative framework

The relevant legislation is the Local Government Finance Act 1992 ("the LGFA 1992").

Section 52B of the LGFA 1992 gives Welsh Ministers the power to take action against a local authority if they consider that the budget requirement set out by the local authority for the upcoming year is 'excessive'.

A "budget requirement" is the amount equal to how much the local authority's expected spending (i.e. expenditure incurred during the year in performing its functions, grant monies that will have to be repaid to Welsh Ministers, allocation of funds to financial reserves and contingencies) exceeds its expected income (i.e. monies which the authority expects to receive that year, subject to certain exceptions).

- Section 52B provides that they must produce a set of principles that will be used to determine whether the budget requirement is excessive. Section 52B provides that these principles must (as a minimum) contain a comparison of the budget requirement for the year under consideration with that of an earlier year.

- Section 52C provides that the Welsh Ministers may publish a report which sets a “notional amount” for a local authority’s budget, to be used as the basis of any comparison between the year under consideration and any previous year. Notional amounts may be set by the Welsh Ministers in certain circumstances such as where there has been a change in function or boundary – thereby allowing a valid comparison can be made with the budget requirement for the year under consideration. It may also be used to set a notional amount where there was no budget requirement set for an earlier year.

Following determination using the principles required by section 52B, if the Welsh Ministers are of the opinion that the amount calculated by an authority as its budget requirement for the year is excessive, section 52D enables the Welsh Ministers to “designate” or “nominate” the local authority in question.

Designated Local Authorities

- Section 52E provides that if a local authority is *designated*, the Welsh Ministers must notify the authority of the amount which they propose should be the maximum amount calculated by the local authority as its budget requirement of the year, and set out the maximum amount which the Welsh Ministers propose the authority could calculate as its budget requirement for the year without the amount calculated being excessive.
- The local authority can then either:
 - accept the designated maximum amount provided by the Welsh Ministers; or
 - challenge the decision of the Welsh Ministers.
- If an unsuccessful challenge to the maximum amount is made by the local authority, the Welsh Ministers are able to issue a mandatory order to the local authority to ensure that the authority complies.

Nominated Local Authorities

- Section 52L provides that if a local authority is *nominated*, the Welsh Ministers must notify the authority of the amount which they would have proposed as the target amount of budget requirement for the year under consideration if they had *designated* the authority.

After a local authority has been nominated, the Welsh Ministers can decide whether to:

- (a) *designate* the authority (following the procedure in section 52E outlined above); or
 - (b) determine an amount that they propose should be the notional amount calculated by the authority as its budget requirement for the year.
- If the local authority receives notification from the Welsh Ministers of a proposed amount, the authority has 21 days to either:

- accept the amount proposed by the Welsh Ministers; or
 - challenge the proposed amount and request that the Welsh Ministers reconsider their determination.
- If the amount proposed is challenged by the local authority and the reasons given for the challenge are agreed with, the Welsh Ministers may reconsider their decision.

4.2 Interpretation of the legislation

While the provisions in Chapter IVA of the LGFA 1992 do not specifically mention council tax, the title of the chapter which they fall under is called “Limitation of Council Tax and Precepts”. A [House of Commons Briefing Paper on Council tax capping](#) published in 2004 (specifically Chapter III) provides some background as to why this section of the legislation provides Ministers with the power to cap council tax.

Welsh Ministers have previously outlined how they might be prepared to use the powers available to limit increases in council tax if these were deemed excessive. For example, in her [statement on the Provisional Local Government Settlement for 2014–15](#) (16 October 2013), the then Minister for Local Government (Lesley Griffiths AM), said:

In enabling Local Authorities to make local decisions about council tax, I am offering them flexibilities in managing their budgets which are not available to their counterparts in England where restrictive freezes apply. However, I have made it very clear I am prepared to use capping powers available to me in the event of excessive increases.

A similar statement was made in 2015 by the then Minister for Public Services, Leighton Andrews AM, stating in his [letter accompanying the Final Local Government Settlement 2015–16](#):

I am prepared to use the capping powers available to me should I consider any proposed increase in council tax to be excessive. I also expect every authority to take account of all the available funding streams in considering service provision and setting its budget and Council Tax.

Welsh Government Ministers since 2016 have set a different tone however, with the previous [Cabinet Secretary for Finance and Local Government, Mark Drakeford AM](#) stating in response to a written question in Plenary that the:

Setting of council tax is a matter for each individual authority. In setting council tax levels, I expect authorities to ensure they are able to sustain local services and balance this with considering the pressures on the finances of hard-pressed households.

The Minister for Housing and Local Government, Julie James AM, in her response to this petition reiterated the above position, noting that:

All local authorities are facing difficult decisions regarding the provision of the services on which we all rely. Council tax is a significant source of funding for local services and it is **important that local**

authorities have the freedom to set their own council tax; they are independent statutory authorities responsible for managing their own financial affairs.

Every effort is made to ensure that the information contained in this briefing is correct at the time of publication. Readers should be aware that these briefings are not necessarily updated or otherwise amended to reflect subsequent changes.