

CYNGOR GWYNEDD – Report to Cyngor Gwynedd’s Cabinet

Item title:	Reforming the Council Tax Regime - Welsh Government Consultation: Fairer Council Tax: stage 2
Cabinet Member:	Y Cyng. Ioan Thomas, Finance Cabinet Member
Relevant officer:	Dewi Morgan, Head of Finance
Date of meeting:	20 February 2024

1. DECISION SOUGHT:

1.1 Cabinet is asked to approve the content of the draft response to the Government's consultation on reforming Council Tax in Wales, which is presented in the Appendix.

2. THE REASON WHY CABINET NEEDS TO MAKE THE DECISION:

2.1 The Welsh Government is consulting on Council Tax reforms in Wales, mainly on how far reform should go, and how quickly this should be undertaken. The Cabinet is asked to give its approval to the draft response because of the potential repercussions the proposed changes can have on Gwynedd residents and the Council's budget.

3. INTRODUCTION AND RATIONALE

3.1 Background/ Introduction

3.2 The Co-operation Agreement between the Welsh Government and Plaid Cymru was announced on 1 December 2021. The agreement outlines how the Government and Plaid Cymru would work together over the following three years on policies where there is a common interest.

3.3 One of the commitments in the agreement is council tax reform, which is described in it as one of the least fair forms of taxation – one that disproportionately affects the poorer areas of Wales.

3.4 The Co-operation Agreement sets out the following (in the full policy programme):

9. Council tax reform

Local government finance is another area requiring overdue reform. Council tax is one of the most regressive forms of taxation and disproportionately impacts on poorer areas of the country, therefore exacerbating longstanding geographic inequalities.

Plaid Cymru and the Welsh Government will work jointly to reach a decision on council tax reform to make the system fairer and more progressive.

3.5 In light of the Co-operation Agreement, the Welsh Government's 2021 to 2026 programme for government states:

We will:

Seek to reform council tax to ensure a fairer and more progressive system.

3.6 Prior to the Delivery Agreement, during the 2016-2021 term of the Senedd, the Welsh Government set about creating a research programme supported by the expert-led Local Government Finance Reform Working Group, which included economists, statisticians, tax and benefits experts, equalities organisations and local authority practitioners.

3.7 The results of the research, "Reforming Local Government Finance in Wales", were published in February 2021. This research involved considering different forms of local taxation to fund local government, including Land Value Tax, Local Income Taxes or Council Tax Reform:

[Reforming Local Government Finance in Wales: Summary of Findings](#)

3.8 After considering all the research, the Welsh Government decided in the short to medium term to go down the route of reforming the current system rather than introducing an entirely new tax regime.

3.9 An initial consultation ("phase 1") was held in the field during 2022. The consultation sought views on the following:

- Revaluation of property, creation of new bands and tax rates
- Setting up rolling revaluation cycles
- How property extensions/improvements are considered
- Taxpayers' appeal rights, improving transparency and sharing more data.

3.10 The Government have also committed, *"In redesigning the system, in terms of the choices we make about the tax bands and tax-rates, we would not seek to increase the total amount of Council Tax raised overall from Council Taxpayers than is currently raised, although some taxpayers would see changes."*

4 CURRENT PROPOSALS

4.1 Since 1993, Wales is the only country in the UK to have revalued domestic properties for council tax so that bills were based on property values in 2003. This revaluation became effective from 2005 onwards. Currently, there is no statutory requirement to regularly update property valuations in the future.

4.2 The current consultation ("phase 2") makes specific proposals for reform in a number of areas tested in the original consultation in relation to some of the discount and exception categories. Consultation questions can be found in the Appendix.

4.3 Around 1.5 million domestic dwellings in Wales are liable to pay Council Tax. All properties are currently placed in one of nine tax bands, A to I, based on property values as at 1 April 2003. This is because, the last time Council Tax was updated in Wales, the changes came into force on 1 April 2005. As part of those changes, the Welsh Government added a new tax band (Band I) for the highest value properties. Council Tax in England and Scotland is still based on property values in 1991 and eight tax bands.

4.4 As part of the work since the first consultation, the Welsh Government has asked the Valuation Office Agency to undertake a property revaluation exercise. According to the Government, *"the Agency prepares current values for all 1.5 million dwellings in Wales by using the latest technology that is internationally accredited by industry experts."*

Three options are offered:

4.5 Option 1 – revaluation only (i.e. small scale reform)

This would be minimal change focussing on ensuring the property values are up-to-date. In this approach, the current system which is already in place would be kept largely the same:

- 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 the moment.

4.6 Option 2 – change the relative size of the Bands (modest reform)

This would be a modest reform consider a modest scope of reform, addressing the outdatedness of the current system and also its regressive nature. In this approach:

- the 9 band structure would be retained and updated 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.

4.7 Option 3 – more bands (wider reform)

In the third approach, the benefits of reform would be expanded, making the system more progressive:

- 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.

5. TIMETABLE

5.1 As well as consulting on these methods, the Welsh Government is also consulting on the pace of any change:

- fastest timeframe: small, modest or wider scale reform by 1 April 2025
- slower reform: small, moderate or wider scale reform, starting in 2028
- phased reform: small- or moderate-scale reform in 2025, moving to wider reform during the term of the next Senedd.

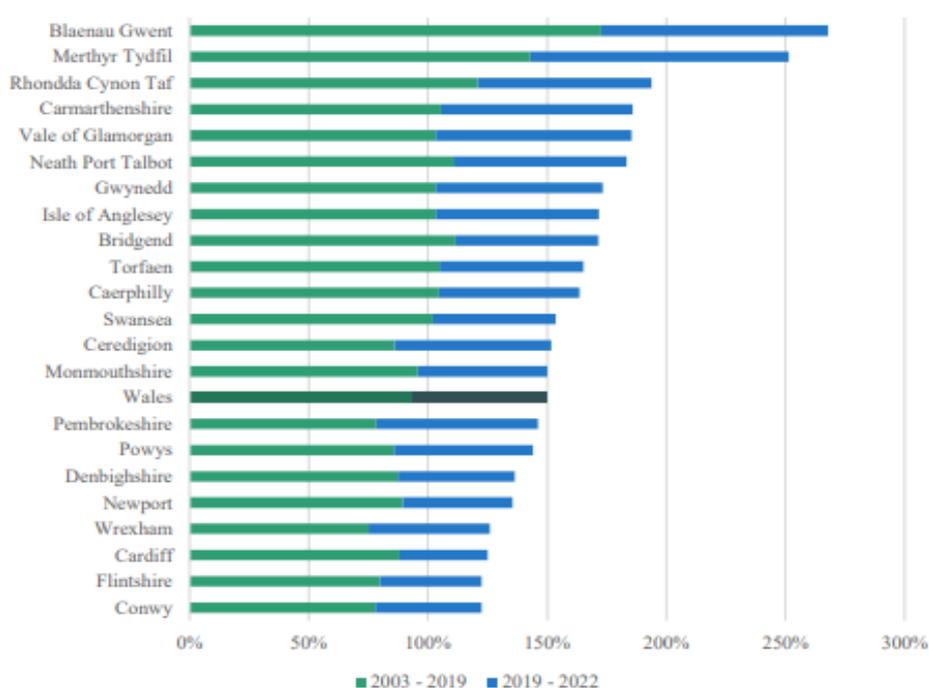
5.2 The Valuation Office Agency would have to undertake an exercise to revalue properties. By law, all property must be revalued on a common valuation date (the Antecedent Valuation Date). This date would apply to all properties, until the next revaluation exercise.

5.3 By law, a draft valuation list of new bands for each property must be published on 1 September, 7 months before the following 1 April in the financial year when a new Council Tax system would take effect. In other words, if a new valuation list comes into force on 1 April 2025 the Valuation Office Agency will have to publish the draft valuation list on 1 September this year – in just over 6 months.

6. THE IMPACT ON GWYNEDD

6.1 On average, the price of properties in Wales has increased by around 150% between 2003 and 2022. However, progress across Wales has not been consistent, as can be seen in the graph below from the Institute for Fiscal Studies (IFS) report:

Figure 2. Change in estimated average property value by LA, Q1 2003 onwards



Source: Authors' calculations using HM Land Registry (2022).

6.2 As seen above, Gwynedd has seen the 7th highest increase throughout Wales during the period, and is around 170%. The result is that a higher than average number may move up at least one band in Gwynedd than in some other areas.

6.3 Currently, the distribution of Gwynedd properties by Council Tax band is as follows:

Band	Property values on 01/04/2003	Tax rate compared to band D	% of properties (Gwynedd)	% of properties (Wales)
A	Up to £44,000	6/9	14.83%	14.49%
B	£44,001 to £65,000	7/9	25.39%	20.77%
C	£65,001 to £91,000	8/9	20.31%	21.77%
D	£91,001 to £123,000	9/9	17.24%	16.29%
E	£123,001 to £162,000	11/9	13.32%	13.49%
F	£162,001 to £223,000	13/9	6.42%	8.22%
G	£223,001 to £324,000	15/9	2.02%	3.71%
H	£324,001 to £424,000	18/9	0.33%	0.88%
I	Above £424,000	21/9	0.14%	0.38%
			100.00%	100.00%

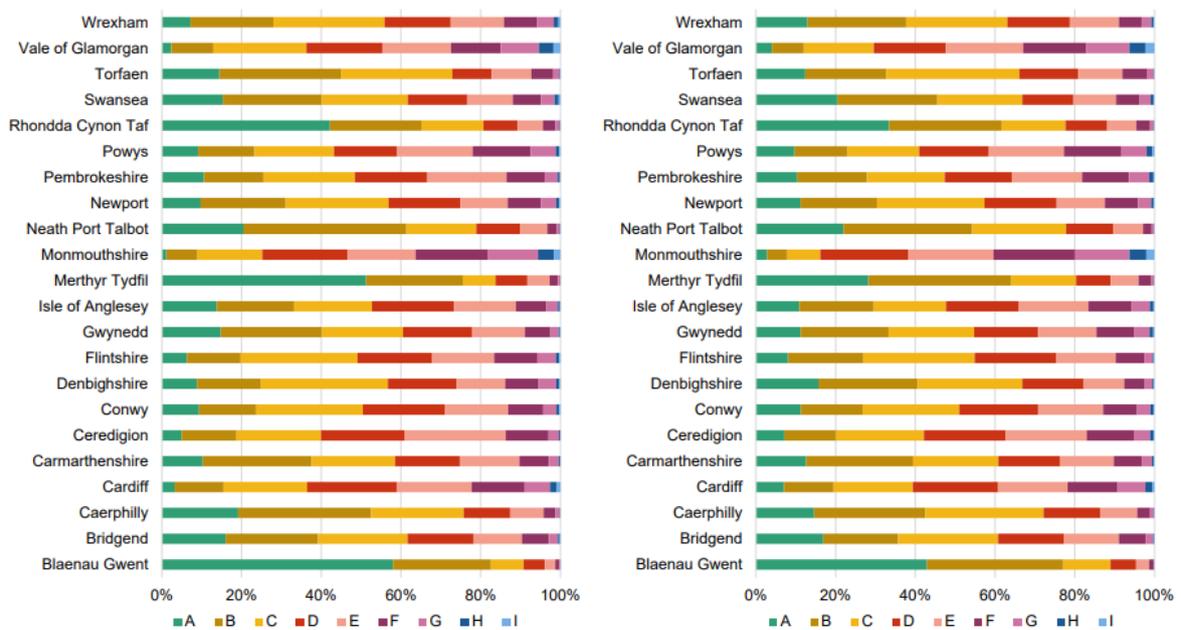
6.4 **40% of Gwynedd properties are currently in band A or B, with almost 78% in band D or below.**

6.5 The Institute for Fiscal Studies has undertaken further studies, based on the information they have received from the Office of National Statistics, which shows what percentage of households would be in each band if revaluation were to take place. Here are their conclusions for Gwynedd property bands should revaluation take place in accordance with what is set out in the advisory document:

Band	Current	After revaluation
A	14.83%	11.25%
B	25.39%	22.00%
C	20.31%	21.52%
D	17.24%	16.01%
E	13.32%	14.67%
F	6.42%	9.41%
G	2.02%	3.92%
H	0.33%	0.86%
I	0.14%	0.36%

6.6 **Due to the changes in house prices within Gwynedd since the last revaluation, the number of properties in band A or B would fall to 33%, and the number in band D or below would fall to 70%.**

6.7 The impact of this on the whole of Wales can be seen in the picture below:



Current Distribution

Proposed Classification

6.8 The advisory document does not specify how the Council Tax bills of the "new" bands under Option 2 would compare with the current regime, but the IFS has used the following example:

Band	Tax rate compared to band D (current)	Example of a revised version (IFS)
A	6/9	5/9
B	7/9	6/9
C	8/9	7.5/9
D	9/9	9/9
E	11/9	12/9
F	13/9	15/9
G	15/9	18/9
H	18/9	22/9
I	21/9	27/9

6.9 That is, Band A to C would pay less than now, but bands E to I pay more, with the increase gradually greater (band E going from 11/9 to 12/9 from band D, but band I going from 21/9 to 27/9).

6.10 Using Option 3, which is more bands, very few properties would take advantage of the new band at the bottom, and only 0.18% of the properties in Gwynedd would be in the new high bands, J and K.

Band	Current	Approach 3
A1		1.84%
A	14.83%	8.35%
B	25.39%	20.78%
C	20.31%	20.49%
D	17.24%	17.66%
E	13.32%	14.51%
F	6.42%	9.67%
G	2.02%	4.63%
H	0.33%	1.50%
I	0.14%	0.41%
J		0.12%
K		0.06%

6.11 The Institute for Fiscal Studies study clearly shows what the financial impact of the changes would be on Gwynedd households. At the date of the data used, there were 61,507 households in Gwynedd:

Change in bill	Number of households affected		
	Approach 1	Approach 2	Approach 3
<-£1,000	68	35	23
-£1,000 to -£500	384	743	5,263
-£500 to -£250	2,989	8,144	13,535
-£250 to -£100	5,932	18,455	9,110
-£100 to -£50	0	433	0
-£50 to 0	29,188	7,574	4,379
£0 to £50	0	0	4,942
£50 to £100	0	4,624	3,562
£100 to £250	10,749	6,716	4,755
£250 to £500	8,158	3,731	6,901
£500 to £1,000	3,097	8,019	5,174
>£1,000	942	3,033	3,863
Total households	61,507	61,507	61,507

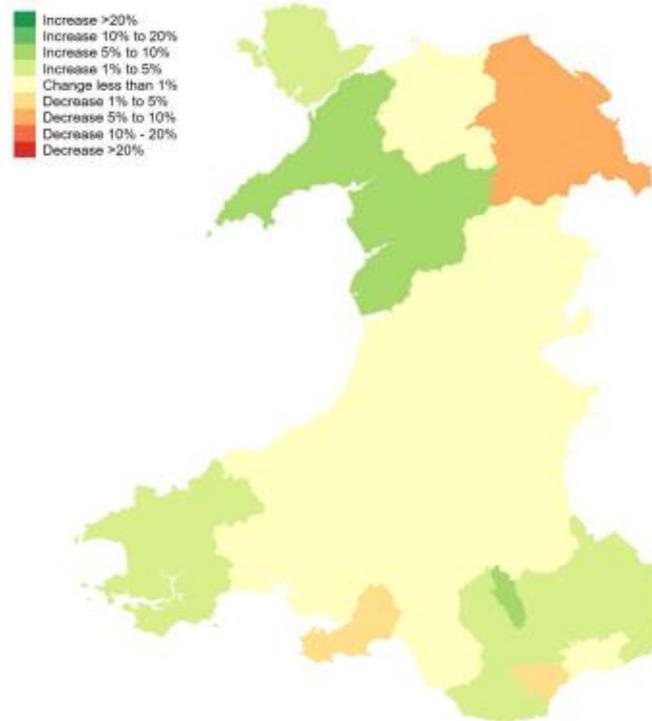
Source: IFS – *Assessing the Welsh Government’s consultation on reforms to Council tax*

6.12 This table shows around 9,000 households would pay over £500 more Council Tax under method 3, with almost 4,000 paying over £1000 more. However, under Option 2 over 11,000 households would be over £500 more and it could be seen that Option 3 was better for Gwynedd residents than Option 2:

	Option 1	Option 2	Option 3
Pay Less	15%	45%	45%
Pay roughly the same*	47%	12%	15%
Pay more	37%	42%	39%

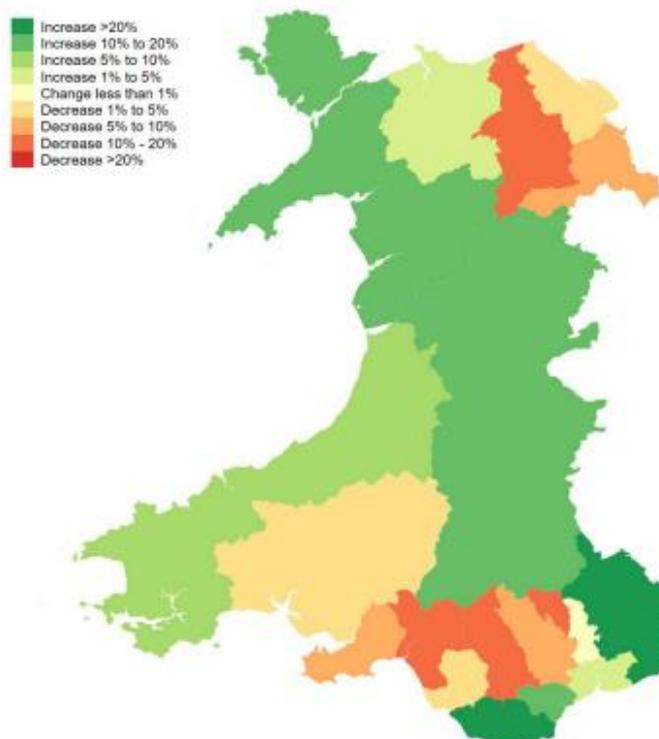
*Less than +/- £50

6.13 To put the difference in more starkly, the map below shows the change in average bills for each local authority in Wales should Option 1 be adopted, introducing only a revaluation. As can be seen, Gwynedd will have more increase in its taxbase (i.e. the number of properties once converted to the equivalent of Band D) than more or less any other county in Wales:



Map 1: Change in Taxbase on revaluation basis only

6.14 If Option 3 were introduced, Gwynedd would still see a 10% to 20% increase in its taxbase, but it would not be as exceptional, and two authorities (the Vale of Glamorgan and Monmouthshire) would see even more increases.



Map 2: Change in Taxbase based on second pricing and introduction of new bands (wider reform)

7. CONCLUSION

- 7.1** In summary, therefore, it appears that significantly more Gwynedd taxpayers (between twice and four times as many) will lose than would gain under any of the reforms proposed. Although the figures in the studies that have been carried out so far are on a theoretical basis, overall there is a strong possibility that around 40% of people in Gwynedd will pay hundreds of pounds more tax as a result of the reforms.
- 7.2** It should also be noted that any overall increase in the Council's taxbase (i.e. the number of properties equivalent to Band D) means a corresponding reduction in the grant received by the Government. The Government's argument is of course that the Council receives more Council Tax so it does not need as much of a grant to meet its spending needs, but collecting Council Tax is increasingly difficult.
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Views of the local member

Not a local issue

Views of statutory officers

Monitoring Officer:

No observations to add in relation to propriety.

Head of Finance:

Author of the report.

DRAFT CONSULTATION RESPONSES

Question 1

What Council Tax band are you currently in? Please choose an option, you may wish to refer to your latest Council Tax bill or you can check your Council Tax band by looking up your address or postcode..

Not applicable.

Question 2

Which council area do you live in?

Cyngor Gwynedd

Question 3

The Welsh Government has shown 3 possible approaches for how to design a fairer Council Tax system. We want to ask you about your appetite for reform.

Do you think we should aim for:

- Approach 1: minimal reform
- Approach 2: modest reform
- **Approach 3: expanded reform ✓**
- other (detail)

Comments:

We support the principle of a fairer tax system, and given three options on offer we believe that there is a need to move forward to having a system that meets the aspiration of reducing the inherent inequities currently in the council tax system. The background information offered in the advisory document suggests that Method 1 and Method 2 would negatively affect people living in rural and coastal areas disproportionately and unfairly.

Any of the three approaches suggested will affect negatively people who have seen an increase in the value of their homes but whose income has not increased proportionally to this. There is a real risk that people in some rural areas will not be able to afford to pay the tax and will be forced to leave areas they have lived in all their lives.

Question 4

The Welsh Government has described when the changes could be made to the Council Tax bands and tax-rates. Again, we want to ask about your appetite for reform:

Do you think we should make changes based on:

- the fastest timetable: minimal, modest or expanded reform by 1 April 2025
- **slower reform: minimal, modest or expanded reform starting in 2028**
- staged reform: minimal or modest reform in 2025, moving to expanded reform in the next Senedd term
- Other (detail)

Comments:

We do not believe that reform within the April 2025 timeframe is realistic given the work that needs to be carried out by the Valuation Office Agency as the experiences of the authority suggest that the Agency does not have the necessary capacity to cope with the detailed work required and the substantial appeals that will be submitted. The Government need to be transparent about the appeals regime and give the regime more visibility. Our understanding is that a taxpayer appeal would be tantamount to an appeal on the tax at the county level, not for individual properties.

As noted in our response to question 3, we believe that Approaches 1 and 2 are more unfair on rural areas than Approach 3 so if reform is to take place, Approach 3 should be aimed for immediately and not introduced following a transitional period (i.e. Method 1 or 2 initially) as that would provide no support.

Question 5

Do you agree there should be an overall time-limit on Exemption F to discourage properties being left empty and exempt from Council Tax for an indefinite period?

A Class F exemption is currently granted for property that has not been occupied since the death of a former resident if the only person liable for paying Council Tax would be the deceased's personal representative, and no probate or letters of administration have been granted.

Yes

Question 6

What do you consider is a reasonable period for obtaining probate or letters of administration?

- 2 years
- **3 years ✓**
- 4 years
- Other (detail)

Comments:

Some difficult, sensitive cases following an individual's death mean that probate cannot be dealt with within the usual time, and generally no reason can be seen for deliberately delaying probate. However, we have a concern about properties being left empty with several years, and while this is not necessarily done to avoid the tax, it continues to create social problems. We therefore consider that a limit needs to be set, and that 3 years is a reasonable one.

Question 7

We found overwhelming support to change the title 'severely mentally impaired' and we propose the following options for a new title:

- Option A: significant brain impairment
- Option B: significant brain condition

Which title do you think should replace the term 'severely mentally impaired'??

We were using the terms "Serious Learning Difficulties or Mental Health Disorders" for a time on Council documents before the Welsh Government insisted that a standard form be

used with the wording 'severe mental impairment'. Two options are offered, namely Option A: significant brain impairment or Option B: significant brain condition.

Of these two, we would favour Option B.

Question 8

Do you agree with the definition proposed to describe a person with an impairment or significant brain condition?

This is the definition: " Significant (and permanent) mental condition or change that impacts on the brain's ability to function.."

- **Yes** ✓
- No
- Any other opinion (detail)

Comments:

We believe that the issue is thorny and difficult to define, and it is not necessarily one that experts in local government finance will be best placed to answer.

Question 9

Do you have any views on the qualifying criteria for a person with a significant brain impairment or condition to be entitled to an exemption or disregard?

The current qualifying criteria is that a person is entitled to a relevant benefit and medical certification from a registered practitioner.

- Option A: remove the requirement that a person must be entitled to a relevant benefit in order to qualify for exemption or disregard, but retain the need for medical certification.
- **Option B: when a person is able to give proof of clinical diagnosis, the requirement that a person receive a relevant benefit may be removed at the discretion of the local authority.** ✓
- Other (detail)

Comments:

Unfortunately any change like this is potentially going to be subject to abuse. We do not think it is fair to expect local taxation officers to use their discretion in an area as thorny as this, and medical certification should be obtained as a minimum.

The experience of taxation officers shows that the requirement for evidence of a relevant benefit is an important one. In practice, following publicity campaigns, some taxpayers or their representatives contact the Council to enquire about this exemption but do not claim the benefit – although they may qualify. This is therefore a way to enable Council officers to signpost taxpayers to the relevant benefit.

Question 10

We would like to know your views on the effects that these proposals would have on the Welsh language, specifically on opportunities for people to use Welsh and on treating the Welsh language no less favourably than English.

What effects do you think there would be? How could positive effects be increased, or negative effects be mitigated?

There is a risk that significant increases to Council Tax bills in rural areas due to increases in house prices (often as a result of an area being attractive as locations of second homes and holiday cottages and not as a result of any action by the individual taxpayer) could have a negative impact on these areas. We are concerned that many Welsh people in Gwynedd will have to sell their properties as they could not pay the higher tax as their income is low despite an increase in the value of their asset.

Question 11

Please also explain how you believe the proposed policy approach could be formulated or changed so as to have positive effects or increased positive effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language, and no adverse effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language

In carrying out a re-valuation, the Welsh Government is putting pressure on the Valuation Office Agency not to treat rural areas as "wealthy" as incomes are not low in these areas.

Question 12

We have asked a number of specific questions. If you have any related points which we have not specifically addressed, please use this space to record them

Consideration should be given to offering an exemption or discount for property adapted for a disabled person's purposes, rather than the current tax band reduction regime. This is because a number of adjustments are now common for many taxpayers, whether they are disabled or not (e.g. a "walk-in" shower). We believe this discount needs to be related to the person, not the property.