

CABINET

Date of Meeting	Tuesday, 16 th January 2024
Report Subject	Council Tax Reform – Welsh Government Phase 2 Consultation
Cabinet Member	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
Report Author	Chief Officer (Governance)
Type of Report	Operational

EXECUTIVE SUMMARY

This report provides Cabinet members with information on a phase 2 Welsh Government consultation seeking views on the ongoing council tax reform programme. The phase 2 proposals centre on:

- The scale and pace of potential council tax banding/revaluation reforms
- Reform of the Class F council tax exemption for properties which are unoccupied where the previous occupier has died, and no grant of probate or letters of administration have been made.
- Clarity over the appropriate terminology and criteria for the Class U council tax exemption for households where the occupier is certified as being 'severely mentally impaired'.

RECOMMENDATIONS

1	Cabinet is asked to consider the Welsh Government (phase 2) proposals to reform Council Tax and authorise senior officers to respond to the consultation, as set out in appendix 1 to this report.
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REPORT DETAILS

1.00	EXPLAINING THE (PHASE 2) COUNCIL TAX REFORM PROPOSALS																																												
1.01	<p>In September 2022, Welsh Government (WG) carried out a phase 1 consultation on proposals to reform council tax. The proposals include:</p> <ul style="list-style-type: none"> • Completing a council tax revaluation • Designing a new system of tax bands and rates that is more progressive. • Improving the framework of discounts, disregarded persons, exemptions, and premiums • Improving the Council Tax Reduction scheme. 																																												
1.02	<p>WG now propose to complete a council tax revaluation of all 1.5m domestic properties in Wales to rebalance the tax system to reflect latest property values, especially since the last revaluation exercise was undertaken in 2003. WG also consider the current system needs major reform as the council tax places a higher tax burden, proportionately, on those with lower levels of wealth.</p>																																												
1.03	<p>Welsh Government intends the reforms to be revenue-neutral, not a revenue-raising exercise, but as with any revaluation exercise, not everyone would remain the same property band, and there would be households who are winners or losers, notwithstanding others could remain in the same band.</p> <p>At a local authority level, there would also be winners and losers too as any changes in the overall tax base levels would need to be reviewed through compensatory and adjusted changes in the re-distribution of Revenue Support Grant to ensure each local authority still has sufficient overall income to fund local services.</p>																																												
1.04	<p>The phase 2 consultation proposals set out three options for change, and which also set out the scale of each option, and how quickly they could be implemented. For ease of reference, the approaches are defined as ‘minimal’, ‘modest’, or ‘expanded’ versions of reform.</p>																																												
1.05	<p>As local context, to the proposed changes, the table below shows the current distribution of council tax properties in Flintshire by band.</p> <table border="1"> <thead> <tr> <th>Band</th> <th>A</th> <th>B</th> <th>C</th> <th>D</th> <th>E</th> <th>F</th> <th>G</th> <th>H</th> <th>I</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Ratio</td> <td>6/9</td> <td>7/9</td> <td>8/9</td> <td>9/9</td> <td>11/9</td> <td>13/9</td> <td>15/9</td> <td>18/9</td> <td>21/9</td> <td></td> </tr> <tr> <td>Num Props.</td> <td>4,496</td> <td>9,608</td> <td>20,891</td> <td>13,308</td> <td>11,074</td> <td>7,789</td> <td>3,220</td> <td>595</td> <td>221</td> <td>71,202</td> </tr> <tr> <td>% of Props.</td> <td>6.3</td> <td>13.5</td> <td>29.3</td> <td>18.7</td> <td>15.6</td> <td>10.9</td> <td>4.5</td> <td>0.8</td> <td>0.3</td> <td></td> </tr> </tbody> </table>	Band	A	B	C	D	E	F	G	H	I	Total	Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9		Num Props.	4,496	9,608	20,891	13,308	11,074	7,789	3,220	595	221	71,202	% of Props.	6.3	13.5	29.3	18.7	15.6	10.9	4.5	0.8	0.3	
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In summary, 49.1% of all domestic properties are currently in the lower bands (A to C), 18.7% are in the average Band D, and 32.1% are in the upper bands (E to I).

1.06 For the council tax revaluation reforms classed as ‘**minimal**’ reforms, a council tax revaluation may take place based on the retention of the current nine band property system (bands A to I) and using existing charging ratios.

This would ensure properties are revalued to reflect latest market values with revised property value thresholds applied across the existing nine bands, but with no changes to the banding charge ratios. As this approach is seen as the easiest reform to introduce, the earliest opportunity to revalue all domestic properties could be implemented from April 2025.

This option would bring property values up to date, but as with any revaluation exercise, some properties would be subject to a banding reduction, some will stay the same, and others will see a banding increases.

Undertaking a full revaluation could still be seen as progressive reform, and a step in the right direction to longer term reforms, especially as England and Scotland have not undertaken a similar exercise since the introduction of the council tax system thirty years ago.

Also, as in the previous revaluation exercise of 2005, a transitional relief scheme would be expected to be introduced to cushion the impact for those whose bills increase due to their property value moving upwards by more than one band.

The proposed changes to the banding thresholds using the existing nine tier banding system would be along the lines of:

Current

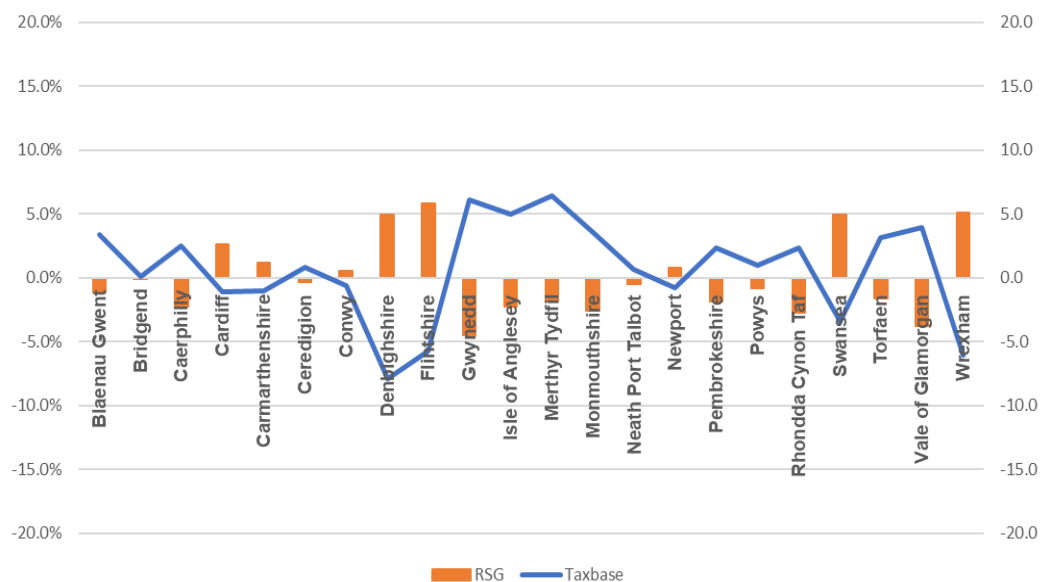
Proposed ‘minimal’ reforms

Band	Value threshold	Band	Value threshold
A	Up to £44,000	A	Up to £112,000
B	£65,000	B	£155,000
C	£91,000	C	£211,000
D	£123,000	D	£278,000
E	£162,000	E	£376,000
F	£223,000	F	£516,000
G	£324,000	G	£748,000
H	£424,000	H	£987,000
I	over £424,000	I	over £987,000

The Institute of Fiscal Studies have been commissioned by Welsh Government to undertake quantitative modelling of the potential impact of any revaluation. The IFS confirm the data is purely for illustrative purposes and could change prior to any implementation of any revaluation exercise, because the Valuation Office Agency is continuing to refine its estimates of April 2023 property value.

In terms of the ‘minimal’ reforms, the IFS research indicates the Council Tax Base in Flintshire would reduce and Revenue Support Grant would increase to take account of the redistribution of grant funding for areas where changes in property values since the last revaluation are comparatively lower than the average.

In other words, what we would lose in the Tax Base and with overall Council Tax income would be compensated through additional RSG.



1.07

For the ‘modest’ reforms, a council tax revaluation would continue to take place based on the retention of the nine-band property system but with changes to the banding ratios. The banding ratios for A to C bands would be lowered, Band D would stay the same, and Bands E to I would be subject to higher tax rates.

This option presents a slight move towards increased fairness in the system but would result in winners and losers as some households would pay less, some would stay the same, and some would be expected to pay more, even if households remained in the same band following revaluation.

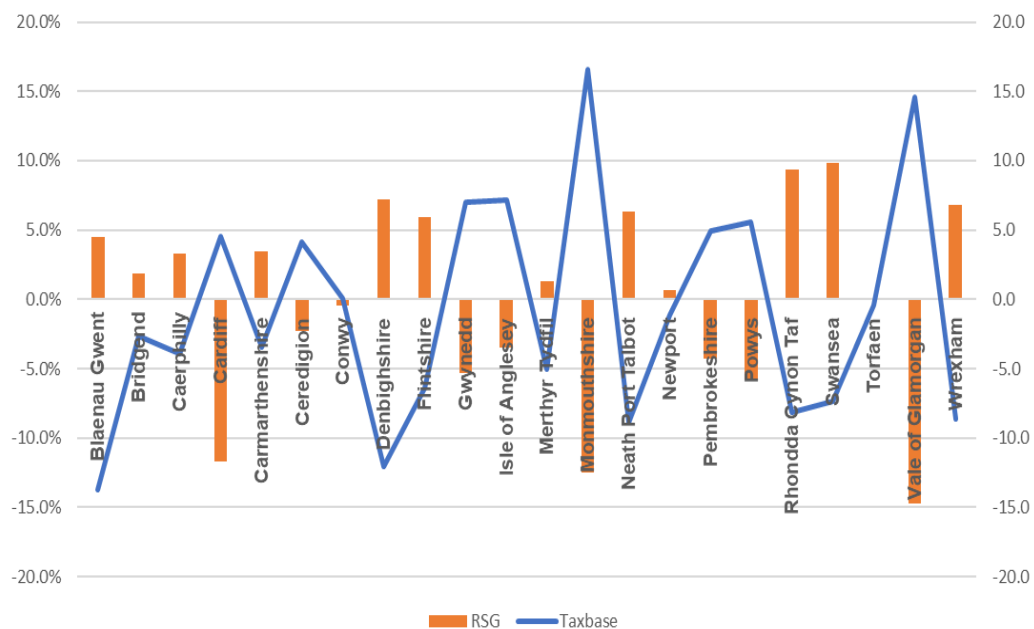
However, it is important to consider that as nearly 23,000 of domestic properties in the County are currently placed in the upper bands (E to I), the modest reforms would increase the banding ratios/tax rates for many households.

Current

Proposed 'modest' reforms

Band	Value threshold	Tax Rate	Band	Value threshold	Tax Rate
A	Up to £44,000	6 / 9	A	Up to £112,000	5 / 9
B	£65,000	7 / 9	B	£155,000	6 / 9
C	£91,000	8 / 9	C	£211,000	7.5 / 9
D	£123,000	9 / 9	D	£278,000	9 / 9
E	£162,000	11 / 9	E	£376,000	12 / 9
F	£223,000	13 / 9	F	£516,000	15 / 9
G	£324,000	15 / 9	G	£748,000	18 / 9
H	£424,000	18 / 9	H	£987,000	22 / 9
I	over £424,000	21 / 9	I	over £987,000	27 / 9

Modelling undertaken by the IFS, indicates the impact of the 'modest' reforms would continue to represent an overall reduction in the Flintshire Council Tax Base, with a higher proportion of RSG to compensate for reduced levels of Council Tax.



1.08

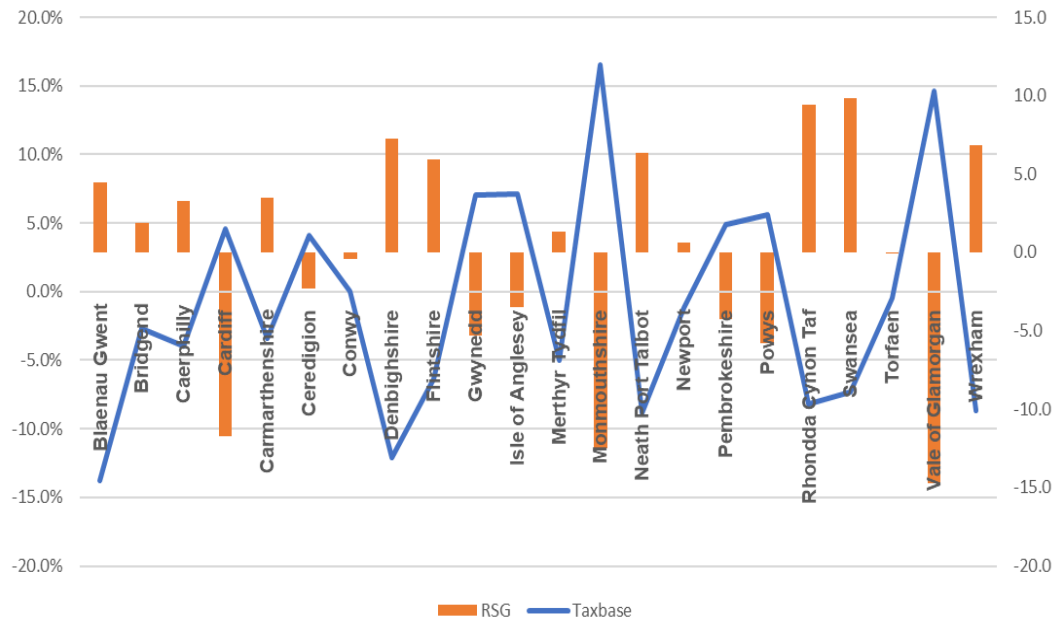
For the 'expanded' reforms, a council tax revaluation could take place based on a revised twelve-band property system. In other words, one lower band would be added below the current Band A, and two above the current highest Band I.

This approach would be seen as the most progressive, but with it, the biggest impact on households subject to council tax. It would add additional bands to the current structure (from 9 to 12) and redraw the band widths. The changes in tax rates would result in those in the lowest bands paying much less, and those in the upper bands paying more – and in some cases, considerably more. This option is perceived to make a significant step towards fairness within the tax system.

Band	Value Thresholds
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A1	up to £80,000
A2	£80k - £110k
B	£110k - £150k
C	£150k - £200k
D	£200k - £270k
E	£270k - £360k
F	£360k - £480k
G	£480k - £650k
H	£650k - £880k
I	£880k - £1.2m
J	£1.2m - £1.6m
K	over £1.6m

Whilst this approach is seen as the most progressive, the IFS predict more regional variations in terms of the likely changes to the tax base and RSG.



1.09 WG is also seeking views on three options for the pace of reform.

Option 1 – April 2025

This is the fastest pace of change. This is the original date the Valuation Office Agency has been working towards as part of the national revaluation of domestic properties.

All those households who would benefit from any reform would see it reflected in revised council tax bills from this date, although as in the previous revaluation exercise, a transitional relief scheme would cushion the impact on those whose property moves upwards by more than one band.

	<p>It is predicted on a national scale the impacts could be anything from 320,000 properties under minimal reforms to 700,000 under the expanded reforms.</p> <p>Option 2 – Defer until 2028</p> <p>This option suggests the deferral of any changes to the system until the next Senedd term, with 2028 being the earliest implementation date. This option means that no changes will take place to bands or bills, for a period of at least 4 years.</p> <p>Option 3 – incremental approach</p> <p>This option would allow any decided approach (minimal or modest) to be implemented from April 2025 and larger scale reform, such as the expanded approach could take place later, sometime in the next Senedd term.</p> <p>This option allows for change to be managed over a longer period and for the effects of change, to be effectively managed and measured.</p>
1.10	<p>In other reforms outlined in the phase 2 consultation paper, Class F exemptions apply to unoccupied properties where probate or letters of administration have not yet been granted.</p> <p>Behind each case, there is usually a bereaved family trying to organise the affairs of a family member who has died. The exemption applies for up to 6 months after probate is granted, but prior to this, there is no time limit on the period in which the exemption can be applied. This can result in some properties remaining exempt from council tax for very lengthy periods, or for an indefinite period.</p> <p>The number of Class F exemptions will vary from time to time, but there are currently a total of 360 domestic properties in the County that have been unoccupied since the former resident's death, where the only person liable for council tax would be the deceased's personal representative, and where probate or letters of administration have not yet been granted.</p> <p>In most cases, probate or letters of administration are granted quickly and the average timeline, across England and Wales, from submission to grant is 14 weeks.</p> <p>After probate has been awarded, the beneficiaries of the estate, or other family members, usually re-occupy the property or take steps to dispose of the property before it is re-occupied by the new owners.</p> <p>However, in a small number of cases, the Class F council tax exemption can last for extended periods. For example, there are currently 17 properties that have been exempt for periods more than 3 years, and in 3 cases, council tax exemptions have been in place for periods more than 10 years.</p> <p>Welsh Government are now looking to reform the Class F exemption by introducing a time-limit for this exemption. It is proposed that once a maximum time-period is exceeded, the property would become liable for</p>

	<p>council tax and the tax to be paid would be applied to the deceased's estate by the executor for the property.</p> <p>The aim of imposing a time limit is seen to act as an incentive for probate to be applied and executed within a reasonable timescale to stop properties being left empty and unoccupied for very lengthy periods. This change could be effective from 1 April 2026.</p>
1.11	<p>In other proposed changes, the Class U exemption applies to anyone who is certified as being 'severely mentally impaired' within the meaning of the legislation.</p> <p>Welsh Government consider the terminology used to describe the exemption is outdated, and the term is now inappropriate. There are no proposals to remove the exemption or to make it a time limited exemption, but reform proposals consider the benefits of changing the title of the exemption to "significant brain impairment" or 'significant brain condition' as it would better align with the social model of disability.</p> <p>Currently a person must be entitled to a qualifying benefit and provide medical certification to receive the exemption. The consultation proposes removing the qualifying benefit requirement condition. This change could be effective from 1 April 2026.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>Local authorities in Wales would see changes in their local tax-bases and changes in revenue in each area if Welsh Government undertake the national revaluation as set out in any of the three proposals. In other words, the 'minimal', 'modest' and 'expanded' reforms would each have a redistributive impact on the Revenue Support Grant (RSG) which is allocated to each local authority using the complex funding formula.</p>
2.02	<p>Following a national revaluation, if a local authority tax-base decreases it would receive proportionately more in RSG to compensate for lower council tax revenue. On the other hand, if the tax base increased it would result in less RSG.</p> <p>The possible approaches presented would all change the amount of revenue which can be raised in each council area, and this would have a redistributed effect on the RSG allocations.</p>
2.03	<p>The RSG is allocated using a detailed formula which takes account of local ability to raise financial resources, so that grant funding is fair across Wales.</p>
2.04	<p>While there would inevitably be wide ranging effects on the tax-bases across Wales because of any revaluation, WG also advise there should be no significant overall changes in funding for council services.</p>
2.05	<p>The national revaluation of council tax bandings would be an extensive exercise and resourced through the Valuation Office Agency, though the effects of the revaluation would result in additional workloads within the</p>

	Revenues, particularly to administer any transitional rate relief scheme, deal with increased levels of customer enquiries, and provide advice and support to residents, particularly those who may struggle to pay increased levels of council tax in cases where properties are re-banded upwards.
2.06	Proposed changes to Class F and Class U exemptions would result in minimal additional workloads. The time limitations for Class F would inevitably result in the collection of increased council tax levels for the small number of cases where probate is not awarded within the agreed time periods. The Class F proposals would also prevent some properties from being left empty for long periods and encourage executors/next-of-kin not to delay applying for probate or letters of administration.

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT
3.01	WG is considering embarking on a national revaluation exercise with all three options to address the perceived unfairness in the current system and to bring property bands up-to-date and to ensure households are paying council tax at the correct rate, proportionate to their property values.
3.02	As with any revaluation, including the last exercise in 2005 (using property data from 2003), there will be a significant number of winners and losers. Those who are expected to pay more, and who move up by more than one property band would be expected to be eligible for transitional rate relief to cushion the financial impact over a longer period.
3.03	At a national level, the purpose of a national revaluation is not to raise additional income overall from council tax, but to redistribute the overall tax-take more fairly and evenly, considering any changes in the tax-bases for each local authority.
3.04	Based on latest research and modelling work commissioned by WG, irrespective of whether the 'minimal', 'modest', or 'expanded' versions of revaluation reform are used, the Institute for Fiscal Studies (IFS) is predicting the tax base in Flintshire for a 2023 revaluation could result in a drop in the overall tax base due to some regions across Wales seeing bigger increases in property values than other parts of Wales, particularly North East Wales, where there has been much slower growth.

4.00	CONSULTATIONS REQUIRED/CARRIED OUT
4.01	The phase 2 WG consultation follows on from a previous consultation in September 2022 and builds on the commitment of Welsh Government to create what they believe to be a fairer and more progressive council tax system.
4.02	The phase 2 consultation is open until 6 February and the purpose of this report is to provide cabinet with the opportunity to comment on the consultation proposals and to endorse the responses as prepared by the senior officer in the Revenues service.

4.03	The implementation date for any changes, including the national revaluation of domestic properties subject to council tax, could take effect from April 2025. Other changes relating to the reform of Class F and Class U exemptions would be effective from April 2026.
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5.00	APPENDICES
5.01	Appendix 1 to this report sets out the recommended responses to the key questions within the consultation paper.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Welsh Government Phase 2 Consultation on a Fairer Council Tax: https://www.gov.wales/consultation-fairer-council-tax-phase-2-html</p> <p>Institute for Fiscal Studies – Assessing the Welsh Government’s consultation on reforms to council tax: https://ifs.org.uk/publications/assessing-welsh-governments-consultation-reforms-council-tax</p>

7.00	CONTACT OFFICER DETAILS
7.01	<p>Contact Officer: David Barnes, Revenues & Procurement Manager Telephone: 01352 703652 E-mail: david.barnes@flintshire.gov.uk</p>

8.00	GLOSSARY OF TERMS
8.01	<p>Council Tax Bands are set by the government’s independent Valuation Office Agency, not by the Council. The bands are currently based on what a domestic property might have been sold for in April 2003, not on today’s prices. The VOA takes account of the size, age, character and locality of property using sales data around the valuation date to arrive at the correct valuation band for each property.</p> <p>Council Tax Base: is a measure of the Councils ‘taxable capacity’ considering the number of domestic properties subject to council tax (in the relevant property bands and ratios and then re-calculated at equivalent band D’s). The Council Tax Base also considers the number of properties subject to council tax after factoring in statutory discounts, discounts, and exemptions.</p>

Progressive - A progressive tax is a tax rate that increases as taxable income increases. It imposes a lower tax rate on low-income earners and a higher tax rate on those with a higher income.

Revenue Support Grant: is paid to each Council to cover the cost of providing standard services less the council tax income at the standard level. RSG also considers the level of the Council Tax Base. The Revenue Support Grant is allocated to each local authority using a detailed and complex formula which takes account of local ability to raise financial resources.