

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Thursday, 03 November 2022</b>
Relevant Scrutiny Committee:	All Scrutiny Committees
Report Title:	A Fairer Tax Consultation
Purpose of Report:	To inform Cabinet and seek endorsement of the response made to the Consultation.
Report Owner:	Executive Leader and Cabinet Member Performance and Resources
Responsible Officer:	Head of Finance/s151 Officer
Elected Member and Officer Consultation:	<p>Leader of the Council</p> <p>Chief Executive</p> <p>Director of Corporate Resources</p> <p>Operational Manager Accountancy</p> <p>Operational Manager Exchequer</p> <p>Operational Manager Legal Services</p>
Policy Framework:	This is a matter for Executive decision by Cabinet
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>• Welsh Government is undertaking a two stage Consultation on reforming the Council Tax system in Wales.</li> <li>• Stage 1 of the Consultation seeks broad views with detailed proposals to follow.</li> <li>• The key issues are the need for property revaluation with the last revaluation back in 2003 and the number of bands with the existing arrangements being viewed as regressive.</li> <li>• The Council is supportive of the need for reform and is engaged in the Consultation.</li> <li>• There is a clear need to move towards more regular revaluations to maintain the credibility of the system and additional bands to increase fairness.</li> <li>• The Council is generally content with a number of the other features of the existing system in respect of discounts, reductions and premiums and the national Council Tax Reduction Scheme.</li> </ul>	

## **Recommendation**

1. Cabinet is recommended to consider and endorse the response to the Consultation set out in Appendix 1 of the report.

## **Reason for Recommendation**

1. To inform Cabinet of the response to the Consultation and seek any additional comments to feed into the consultation.

## **1. Background**

- 1.1 The Welsh Government (WG) is undertaking a two-phase consultation on reforming council tax in Wales. Phase 1 was launched on 12 August with Welsh Government seeking broad views on a range of design principles. The Phase 1 consultation closed 4 October and Phase 2 with detailed proposals will follow. The response to the consultation has been issued, and this report seeks endorsement of the same. If there are any additional comments as a consequence of the consideration of this report by Cabinet, those comments can be submitted to WG.
- 1.2 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 rebalance the system to reflect today's property values.
- 1.3 Without a revaluation, the Welsh Government is constrained in its ability to change the council tax system to make it more progressive. A revaluation would allow Government to reconfigure the bands, add more bands at the top and bottom end of the scale if needed, and choose more progressive tax rates.
- 1.4 It is also unfair and inaccurate to continue basing council tax bills on property valuations from 2003, almost twenty years ago, and this contributes to wealth inequalities. The homes residents live in are an important indicator of wealth and affordability. The composition and distribution of the tax-base has changed significantly since 2003.
- 1.5 The consultation outlines a roadmap to delivery of initial reforms whilst continuing in parallel to work on other ideas for longer term consideration, such as a local land value tax. The roadmap proposes initial changes in 2025. There is a great deal of work to do for Welsh Government in co-designing a fairer system with local government.
- 1.6 No household will see an immediate change to their bill as a result of the consultation. The aim of this exercise is not to raise more revenue. The purpose of the reforms is to make the system fairer, rebalancing the liability for council tax between people who can afford to pay more and easing the burden on people on lower incomes, as well as targeting council tax support more effectively.

- 1.7** The system currently places a higher tax burden, proportionately, on those with lower levels of wealth, making it a strongly regressive system. The amount of council tax charged for band I properties is three and a half times as much as band A, yet homes in the top band could be worth at least nine times as much as those in the bottom band.
- 1.8** There is a long history of local taxes being based on property rather than income. Property is a good broad indicator of people's wealth relative to one another and it links people to the community where they live, pay local taxes and receive local services. Taxes on income can have far higher levels of tax avoidance, as some sources of income are more easily hidden or moved by those with the means to do so.
- 1.9** Council tax is an important revenue stream for essential services like schools and social care – services we cannot do without, but it is important contributions made by the people of Wales to be fair.
- 1.10** Welsh Government is not proposing to use this as an exercise to raise money. It intends to collect the same amount of council tax as currently collected. Even though house prices have increased for everyone, the system designed will remain a relative one. There will still need to be homes in lower tax bands compared to others. Just because a house value has gone up, does not mean the council tax band would change as a result of reforms.
- 1.11** The setting of 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. None of the proposals in the consultation are intended 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.
- 1.12** The reforms outlined would change the nature of the tax-base in each area. The Partnership Council for Wales and its subgroups will consider the impact of reform on local government.
- 1.13** There are a range of discounts and exemptions that can apply to specific situations and the Council Tax Reduction Scheme is a means-tested way to reduce bills. The consultation proposes that, were the Welsh Government to undertake reforms, it would consider targeted transitional arrangements for those who may need time to adapt to any changes.
- 1.14** There is a need to avoid distortions that can occur when revaluations are postponed over many years, and views are sought on how often revaluations should take place to maintain the fairness of the system.

## **2. Key Issues for Consideration**

- 2.1** The Consultation commenced on 12 July 2022 and the full 41-page document is linked to the report as a Background Paper.
- 2.2** The Consultation covers the broad areas covered in the background section above. The document has five sections and concludes with the consultation questions which feature throughout:

- Vision
  - The Council Tax System
  - The Band and Tax Rates
  - Discounts, disregarded persons, exemptions and premiums
  - The Council Tax Reduction Scheme
- 2.3** The document is a clear comprehensive guide to the existing system and a help guide in its own right.
- 2.4** The Council's responses to the Consultation are set out in Appendix 1. A number of the key considerations are summarised below.
- 2.5 Overall system design.**
- 2.6** The initial four questions cover the overall system design; the need for revaluation, the number of bands, transitional arrangements and resource distribution through Revenue Support Grant. A core element of the system is that there is a balance between the tax raising capabilities of a local area and the need for Revenue Support Grant. The Council's response does therefore recognise that were tax band changes and revaluation to drive a greater tax take in the Vale of Glamorgan, then there would be an equal reduction in Government support.
- 2.7 Revaluation Cycle**
- 2.8** In that there has been such a great period time between the last revaluation, 2003 and the proposed one for 2025, it is important that there is an appropriate cycle going forward to ensure the current situation does not recur. A five year cycle would ensure the credibility of the system without being overly burdensome and ensure improved properties are also addressed in a more timely fashion than currently the case.
- 2.9 Management of debt and transparency**
- 2.10** The Council is happy with the current provisions for managing debt and has worked with other Welsh local authorities on a shared Protocol.
- 2.11 Discounts, Reductions and Premiums**
- 2.12** Similarly, the Council is also of the view that there is ample flexibility in the existing range of discounts, reductions and premiums albeit some of the language is in need of updating. There is a desire to keep the system as a straightforward as possible, both for taxpayers to understand and for the Council to administer.
- 2.13 Council Tax Reduction Scheme**
- 2.14** The existing scheme operates well and there is a single national scheme which is in contrast to England where there are local schemes and something of a 'post code lottery' for support for those on low incomes.
- 2.15** Impact on the Welsh Language

- 2.16** It is not considered that there are any impacts on the Welsh Language at the Phase 1 stage of the Consultation.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** The delivery of the Council's Corporate Plan and well-being objectives is significantly influenced by the available finance to deliver services. This report provides an update on changes to a key source of revenue, amounting to a third of all available resources at this time.

### **4. Climate Change and Nature Implications**

- 4.1** No direct implications arising from this report.

### **5. Resources and Legal Considerations**

#### **Financial**

- 5.1** There are no immediate financial impacts arising from the Consultation.
- 5.2** However, longer term, possibly from 2025 should the initiative go forward, there are likely to be changes in the balance of funding for the Vale of Glamorgan and all other Welsh local authorities. There will be an increase or decrease in the Council Tax yield and an offsetting adjustment to Revenue Support Grant. It should not impact on the overall level of resources supporting the Council's budget.

#### **Employment**

- 5.3** As detailed in the body of the report.

#### **Legal (Including Equalities)**

- 5.4** There are no immediate legal implications arising from the Phase 1 Consultation.
- 5.5** Following a Phase 2 consultation the Council will be required to implement any changes, as they are introduced by Welsh Government in line with Welsh Government Regulations and primary legislation.

### **6. Background Paper**

Consultation Document - A Fairer Council Tax

<https://gov.wales/sites/default/files/consultations/2022-07/consultation-wg45022.pdf>

## Consultation Questions

### Question 1

*The council tax bands are currently based on property values from 1 April 2003, almost twenty years ago. Do you agree there should be a council tax revaluation in 2025, with property values based on 1 April 2023, to maintain the credibility of the system and distribute the tax burden more fairly? The purpose would not be to raise additional revenue through this exercise.*

We fully support the proposal for a revaluation of the same and agree that it is important that the tax burden is shared more fairly. Naturally, we recognise that the growth in house prices has been greater in the Vale of Glamorgan than many parts of Wales and that consequently that there will be a greater overall burden on the residents of the Vale.

### Question 2

*Do you agree the Welsh Government should consider adding more council tax bands (for example at the top and bottom ends of the scale) and refit the bands to help make the system more progressive?*

The system of local government finance in Wales should recognise that those who can afford to pay more should do so and that the system should also where possible reflect consumption of services. Even without having the evidence put forward in the consultation there has been a wide awareness that the system is currently very regressive and does need reform. We, therefore recognise that there is a need for additional bands at both the top and bottom of the current arrangements. The basic fundamentals of the banding system are relatively simple and we would expect to see no more than two or three additional bands to preserve the simplicity. We do also recognise that there will also need to be some significant realigning of property values to the bands to shift the burden appropriately and have a system that can actually be considered progressive.

### Question 3

*The Welsh Government is committed to considering transitional arrangements if needed to smooth the effects of reforms. What factors should we take into account when designing these arrangements?*

We have supported the principles of revaluation and having a more progressive system and this will have an adverse impact on the residents of the Vale of Glamorgan. It is also essential that we seek to protect our residents, where there is potential for a significant number to see their properties move by more than one band. We do therefore support the commitment to consideration of transitional arrangements to smooth the effects of the reforms. Ideally residents should not experience a move of more than one band per tax year, which is similar to the arrangement put in place at the time of the last revaluation. There is a tie in here with Question 5 below where the transitional arrangements naturally need to have unwound before the next revaluation.

**Question 4**

*Do you agree the Welsh Government's Revenue Support Grant to councils should be adjusted to take account of changes to revenues raised in each local area as a result of council tax reforms?*

This is a fundamental element of the existing system and we fully agree that it must stay in place and in the expectation that we will see a reduction in the Vale of Glamorgan with a greater proportion of income being raised through taxation.

**Question 5**

*Do you agree there should be frequent council tax revaluations at least every five years in the future, to ensure the tax burden is shared fairly amongst taxpayers on a regular basis?*

Yes, agree with more regular not necessarily more frequent revaluations in the future. We would support revaluations every five years. We believe that such a cycle would accommodate any transitional arrangements put in place and not be impacted by volatility in property markets. Five years does show a commitment to regular revaluation to maintain credibility in the system and would not be an overly burdensome ask of valuation resources. After the initial revaluation in 2025 a five year cycle would also very likely negate the need to an extended set of transitional arrangements as covered in Question 3 with a much more accurate tax base in place.

**Question 6**

*When properties are significantly improved, properties are only reviewed and potentially rebanded in certain circumstances, for example when the property is sold to a new owner. The Welsh Government is seeking views on whether this policy should change in the future.*

There is clearly a mismatch in the system at present with only improved properties that are sold being revalued. Whilst not fully remedying the position the five year revaluation cycle supported in Question 5 above would go some way towards mitigating the position.

**Question 7**

*Do you have any views on rights of appeal for taxpayers or how council tax debt is managed? Please include any suggested improvements for either of these elements.*

The majority of appeals are dealt with through the Valuation Office, the Council does have a small number in respect of liability exemptions, discounts and the CTR Scheme. There is minimal impact, and we have no comment to make.

We already have complete discretion to help manage debt and we allow deferred payment arrangements on a regular basis for those customers in need. It is a fine balancing act as we don't want to make customers overall debts worse by making unrealistic repayment arrangements. We have worked with other Welsh local authorities in the establishment of Council Tax Protocol for Wales – Good Practice in Collection of Council Tax and manage our debt in line with this protocol. We therefore believe that the current arrangements are fair and would commit to work with other local authorities to review the Protocol from time to time.

**Question 8**

*What are your views on how the Welsh Government, the Valuation Office Agency, councils, or other organisations can modernise the service provided to taxpayers and improve transparency of the council tax system?*

We support the commitment in the consultation to ensure that data is shared more effectively and efficiency between the various organisations involved in the full process.

**Question 9**

*What is your view on the existing discounts, disregarded persons, exemptions or premiums? For example, do you think the current rules are appropriate and fit-for-purpose? Are there particular aspects of the rules which you think need to change or new rules created?*

There is a comprehensive range of exemptions and discounts in place and we do not believe there are any gaps of note. The team work closely within their existing networks including with Welsh Government to review. The recent amendments to accommodate individuals impacted by the Ukrainian crisis is a case in question. Also, the exemptions and discounts are also backed up by the Council Tax Reduction Scheme. There is also the discretionary section 13 provision which allow the local authority to reduce Council Tax up to 100% where appropriate to do so which helps plug any gaps when regulations are being updated. The Vale of Glamorgan reviews its policy every two years to keep it relevant and up to date.

**Question 10**

*What is your view on whether the Welsh Government should have more flexibility in future to set the rules for the statutory single adult and empty property discounts?*

We support the Welsh Government having greater flexibility in setting these rules and is in line with the benefits driven through devolved government.

**Question 11**

*What is your view on how reductions in council tax for properties adapted for use by people living with a disability could be amended, simplified or improved?*

The one band reduction afforded to such properties does appear out of line with the approach to discounts elsewhere in the existing regulations and we support the review. Consideration should be given to awarded a percentage discount similar to the arrangement for single persons.

**Question 12**

Should the Welsh Government be able to amend titles and descriptions of any discount, disregarded person or exemption? Do you think any of the current titles should be changed? What would you consider to be a more appropriate term to replace 'severely mentally impaired'?

It is positive that there has been recognition of inappropriate terms being contained in the regulations. We support a review of the language used throughout the regulations and that it be brought fully up to date to reflect the modern approach to equality and diversity.

### **Question 13**

*The Welsh Government expects there to be a continued need to support low-income households in paying their council tax bills. Do you have any views about the design of the current scheme, including whether it should continue to be means-tested? Do you have any general views about the scheme?*

We are broadly supportive of the current arrangements and believe it is especially for it to continue to be means tested. However, there is a significant administrative burden with the scheme, a minor change in circumstances requiring recalculation of the Council Tax bill. We would, therefore, welcome working with the Welsh Government and the wider sector to design a simplified scheme.

### **Question 14**

*Should Welsh Ministers 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?*

We wholly support the national scheme administered locally. We are very mindful of the “postcode lottery” which exists in England due to its deregulated approach. We are also supportive of Welsh Government being able to make in year changes, could have done so with assessing the Council Tax reduction support for those receiving payments for supporting Ukrainian families.

### **Question 15**

*Should the existing local arrangements form part of the new national scheme for consistency, whilst acknowledging that councils still retain existing discretionary powers under legislation?*

In that the discretionary elements appear to be universally applied we would support the provision in Table 2 being built into the national scheme. As many of these are minimum requirements it would still afford individual councils some flexibility.

### **Question 16**

*We would like to know your views on the effects that the proposed policies 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?*

We don't believe the proposals would have an adverse impact on the Welsh language.

**Question 17**

*Please also explain how you believe the proposed policies 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.*

We don't believe the operation of the current arrangements and those proposed would have an impact on opportunities for people to use the Welsh language. Through the Welsh Language act we are fully committed to supporting those residents speaking Welsh to access to our service and this naturally include all interaction with our revenues and benefits teams.

**Question 18**

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

There is nothing further that we would wish to add.