



Llywodraeth Cymru  
Welsh Government

# Reforming Local Government Finance in Wales: An Update

November 2019

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.  
This document is also available in Welsh.

# Reforming Local Government Finance in Wales: 2019 Update

## Introduction

This document is the third in a series of annual progress updates<sup>1,2</sup> on a programme of work set out in January 2017 to explore reforms to local taxes and the wider local government finance framework for Wales. It outlines the progress we have made over the past year in working towards the programme and in meeting the aims and objectives set out in our National Strategy, *Prosperity for All*.

The improvements identified for shorter term delivery have now been achieved as a result of significant effort and collaboration between local government, the Welsh Government, the Welsh Local Government Association and a range of other organisations. This document now focusses on our progress towards medium term aspirations and our exploration of alternative approaches over the much longer term.

We have consulted, and will continue to consult, on specific proposals as they are developed but welcome all comments and contributions to the debate at any stage. The substantial programme is supported by a network of stakeholders, including the Welsh Revenues and Benefits Managers Group, the Finance Sub Group of the Partnership Council for Wales, a number of specific steering groups and academic institutions.

## Background and work programme

1. *Taking Wales Forward* and the National Strategy *Prosperity for All* outline the priorities for the Welsh Government for this Assembly term and beyond. Welsh Ministers invest functions in local government to deliver many of these national priorities at a local level, and authorities have freedom to set local priorities about the services they believe will benefit communities. Many of the services could not exist without a stable and effective funding system which also meets policy aspirations and strives for fairness.
2. How local government services should be funded and how local taxes could be designed are two questions which have been considered by numerous reviews<sup>3,4,5</sup>. Since the Layfield Committee in 1976 which predates devolution, the significant body of research now spans the UK and looks internationally. And while the four nations of the UK now operate increasingly divergent systems for financing local

---

<sup>1</sup> October 2018. <https://gov.wales/reforming-local-government-finance-wales-2018-update>

<sup>2</sup> October 2017. <https://gov.wales/reforming-local-government-finance-wales-2017-update>

<sup>3</sup> Mirlees Review, September 2011. <https://www.ifs.org.uk/publications/mirrleesreview>

<sup>4</sup> Lyons Inquiry, March 2007. <http://www.lyonsinquiry.org.uk/>

<sup>5</sup> Independent Commission on Local Government Finance Wales, March 2016.

<http://www.cipfa.org/partners/independent-commission-on-local-government-finance-wales/final-report>

services, the Scottish Commission on Local Tax Reform in 2015<sup>6</sup> is perhaps the most recent comprehensive assessment of the possible alternatives.

3. In 2017 the Welsh Government set out<sup>7</sup> how it will make some initial improvements to current systems while taking the time to explore, in an applied and practical way, whether the alternative approaches are viable options for raising revenue for local services. We will also shortly introduce the Local Government and Elections (Wales) Bill which aims to enable public bodies to plan and deliver services collaboratively to build resilience to meet the continued financial and demographic challenges. It is within this broader context of sectoral reform, against a backdrop of a decade of austerity and the prospect of exiting the European Union, that we are delivering on our agreed programme of phased reforms to local government finance.
4. Figure 1 summarises the various aspects of the work programme, many of which have been achieved since 2017. We have said since the beginning of this government term that our priorities are greater resilience for local authorities, fairness for citizens and businesses, and sustainable funding for vital local services. This remains the case when exploring possible changes and presents challenges because the different choices often represent trade-offs between these goals. The Welsh Government will aim to strike the right balance as we move forward into exploring more fundamental change. Both local taxes consistently achieve over 97% collection rates year in, year out and contain elements which help to achieve broader policy objectives. Any alternative approaches must prove to be demonstrably better than the existing systems; not just different.
5. The Welsh Government intends to outline the possibilities for longer term reform in autumn 2020, to inform the debate ahead of the next Assembly term. Where we make changes to local tax policy, we will make them in accordance with our tax principles – Welsh taxes should:
  - Raise revenue to fund public services as fairly as possible;
  - Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
  - Be clear, stable and simple;
  - Be developed through collaboration and involvement; and
  - Contribute directly to the Wellbeing of Future Generations Act goal of creating a more equal Wales.

---

<sup>6</sup> Scottish Commission on Local Tax Reform, December 2015.

<http://localtaxcommission.scot/download-our-final-report/>

<sup>7</sup> Welsh Government statement, January 2017.

<https://gov.wales/written-statement-reforming-finance-system-local-government>

6. The Welsh Government's *Tax Policy Framework*<sup>8</sup> and *Work Plan for 2019*<sup>9</sup> set out how we approach strategic tax policy in Wales for the devolved and local taxes. A report on our progress in delivering the work plan will be published alongside the Draft Budget 2020-21. While the law requires local tax revenue be used to fund local services, there are opportunities to consider how local taxes sit alongside the newly-devolved taxes and UK taxes which people, organisations and businesses pay.
7. This programme of work makes a contribution to the strategic aims of this government. Vital local services like education and social care rely on a fair funding system that is fit for purpose as services evolve. We are using every lever we have to make Wales a more equal, prosperous and green society. Local government must be enabled to go on delivering better public services for everyone, to provide the best foundation in early life, to help those who need it most, and to tackle poverty by creating a thriving economy which benefits everyone fairly.

---

<sup>8</sup> Welsh Government Tax Policy Framework, June 2017  
<https://gweddi.gov.wales/docs/caecd/publications/170612-framework-en.pdf>

<sup>9</sup> Welsh Government Tax Policy Work Plan for 2019  
<https://gov.wales/sites/default/files/publications/2019-02/tax-policy-work-plan-2019.pdf>

**Figure 1: Objectives for local taxes and indicative timeline**

### **Fair, progressive and better targeted local taxes**

- new Small Business Rates Relief scheme that supports WG priorities (**achieved**)
- lower non-domestic rates bills by switching the annual uprating from RPI to CPI (**achieved**)
- consult on changes to rates relief for independent schools and hospitals (2019)
- fair and progressive council tax (**initial improvements achieved**, work ongoing)
- improve consistency in the treatment of care leavers and Severely Mentally Impaired people (**achieved**)
- improved Council Tax Reduction Scheme taking account of UK welfare reforms (from 2019)
- **explore** different approaches to local taxes, eg. fundamental changes to council tax banding, land value taxes, local income taxes (in train)

### **Effective and proportionate local tax administration**

- non-domestic rates 2017 revaluation and transition (**achieved**)
- improve council tax arrears management and enforcement (in train)
- remove the sanction of imprisonment for council tax (**achieved**)
- next non-domestic rates revaluation in 2021 (in train)
- tackle non-domestic rates avoidance (in train, to commence from 2021)
- non-domestic rates appeals reform (2021)
- improve information sharing and capability (continuous)
- **explore** modernised and more frequent property valuation resets (in train)

### **Supporting the wider local government finance framework**

- support for city & growth deals (ongoing)
- provide new capital financing flexibilities (**achieved**)
- develop the settlement formula in response to changing spending patterns (annually) and local tax changes (from 2019)
- develop a funding framework to enable reform and service transformation (in train)
- **explore** the balance of funding between locally raised and centrally provided (from 2020)

### **Sound financial governance and strengthened local accountability**

- supporting the role of the Chief Finance Officer in a changing environment (continuous)
- engaging citizens in decisions about spending priorities (continuous)
- continuous improvement to financial governance, accounting and audit as a result of other changes described

## Short-term reforms

8. These comprise changes which are within the existing powers of the Welsh Ministers and have been implemented relatively quickly. Previous update reports have explained in detail, the reforms in Figure 1 which have been achieved since the beginning of the current government term, so this content is not repeated in this report.

## Fair and progressive council tax

9. *Taking Wales Forward* includes a commitment to **work with local government to review council tax to make it fairer**. Since 2017 we have explored the options for improving fairness, and how likely it is that a more progressive<sup>10</sup> system could be achieved. Many of the options are for medium or long-term consideration but we have also delivered short term improvements. In 2019 we focussed on improving support for care leavers and people with severe mental impairments, as well as rerunning our national campaign to raise awareness of the various forms of support.

## Support for care leavers

10. Care leavers are young people who were in the care of a local authority for at least 13 weeks since the age of 14. Care leavers can be some of the most vulnerable young people in our society, with no family support network during important events in their lives, such as moving into their first home after leaving care. Some local authorities voluntarily exempted care leavers from paying council tax until the age of 24 or 25.
11. The Welsh Government consulted in November 2018<sup>11</sup> on creating a mandatory exemption to ensure all care leavers across Wales are treated equally with regards to council tax and are exempt from paying council tax up to the age of 25. Over 90% of respondents expressed support for the proposals and in February 2019, the Minister for Finance and Trefnydd announced the intention to bring forward legislation to exempt care leavers to help support and enable their successful transition into adulthood and independent living. The necessary legislation was laid on 6 March and came into effect from 1 April 2019.

---

<sup>10</sup> Progressive as a concept in property tax design generally relates to the aspiration that the tax rates charged increase as property values increase.

<sup>11</sup> Welsh Government consultation, November 2018.

<https://gov.wales/sites/default/files/consultations/2018-11/MA-P-MD-3821-18%20-%20Consultation%20on%20Council%20Tax%20Exemptions%20for%20Care%20Leavers%20%28English%29.pdf>

12. With the support of local authorities, the third sector and the Welsh Local Government Association, we were able to work quickly through the practical implications of creating a new exemption to deliver consistent treatment across Wales. Delivery of new legislation within a relatively short timeframe demonstrates our collective commitment to ensuring local taxes are fairer for the most vulnerable people in society. We will continue to monitor implementation of the care leaver exemption to ensure the legislation and local procedures are working as intended.

### Support for people with severe mental impairments

13. Anyone who is medically certified as having a permanent condition which severely impairs their intellectual or social functioning may be eligible for a council tax discount or exemption. Research by MoneySavingExpert.com in 2017<sup>12</sup> revealed inconsistency in the messages local authorities across Wales and England were providing to households about the available discounts and exemptions. To address this, we explored the issues with MSE and local authorities to develop a collective view of the correct arrangements. The campaign we launched with our partners in September 2018 publicised our guide<sup>13</sup> to the various forms of council tax support, including help for severely mentally impaired people. We recognised that there was further work to do.
14. We committed at that point to working with MSE and local authorities to develop a standard application form for the discount and explore the options for backdating. The 22 local authorities and the WLGA took ownership of this work and helped to develop a single application form which is simple, easy-to-use and widely available from all local authorities and advice centres across Wales. On 10 April 2019<sup>14</sup> the Minister for Finance and Martin Lewis hosted an event in the Senedd to launch the standard application form and a consistent backdating policy. All authorities have agreed to backdate applications to the point of diagnosis where the eligibility criteria are met. The launch featured in national media and MSE's email alerts, which regularly reach up to nine million people as well as being supported by individual local authorities.
15. For the first time, people who meet the eligibility criteria and have been diagnosed as suffering from a severe mental impairment can expect to be treated consistently throughout Wales to ensure they receive the same support and discounts no matter where they live. We will monitor implementation and experiences of severely mentally impaired people to ensure the new policies and procedures are

---

<sup>12</sup> Money Saving Expert "The Disregarded Discount", September 2017.

[https://images6.moneysavingexpert.com/images/documents/SMI\\_report-2017\\_final-interactive.pdf](https://images6.moneysavingexpert.com/images/documents/SMI_report-2017_final-interactive.pdf)

<sup>13</sup> Are you eligible to pay less council tax? <https://gov.wales/council-tax-discounts-and-reduction>

<sup>14</sup> Launch of the application form and consistent arrangements for SMI discounts and exemptions. <https://www.moneysavingexpert.com/news/2019/04/wales-champions--severely-mentally-impaired--p400-yr-council-tax/>

embedded. This demonstrates collaborative working at its best to help some of the most vulnerable people access the support they are entitled to.

### Awareness campaign

16. In 2018 we responded to some evidence of potentially low take-up rates for council tax support by launching a national awareness campaign. The campaign activity included easier-to-understand advice on the Welsh Government website, a range of written material provided to community hubs and advice centres, targeted social media advertisements and engagement with local authorities, Citizens Advice and MoneySavingExpert.com to ensure national coverage.
17. In addition to focussing on particular groups of taxpayers, such as care leavers and severely mentally impaired people, we have continued to raise awareness of the full range of support available to all households in meeting their council tax obligations. In early 2019 as council tax bills were issued by local authorities, we re-launched our campaign which has now reached over 60,000 people through general and targeted information.

### **Non-Domestic Rates: supporting businesses to thrive**

18. Previous updates outline the immediate steps taken in 2017 and 2018 to implement our *Taking Wales Forward* commitment to **deliver a tax cut by supporting small businesses with their non-domestic rates bills**. We demonstrated our commitment to supporting businesses by legislating in 2017 to make the temporary Small Business Rates Relief scheme permanent and then reviewing and delivering an improved scheme in 2018. As these immediate policy changes have now been delivered, we have continued to support businesses through further changes to non-domestic rates in 2019.

### Changes to the annual uprating for non-domestic rates

19. In December 2017 the Welsh Government decided to change the non-domestic rates annual uprating procedures to reflect movements in the Consumer Prices Index rather than the Retail Prices Index<sup>15</sup>. Following the announcement, uprating changes have been confirmed through further sets of annual regulations. The Welsh Government is committed to making this change permanently through the Local Government and Elections (Wales) Bill, giving ratepayers certainty over annual increases in their non-domestic rates bills. This decision continues to demonstrate our commitment to reducing the burden on ratepayers while ensuring vital funding for local services remains sustainable.

---

<sup>15</sup> Welsh Government statement, December 2017.

<https://gov.wales/delivering-tax-cut-small-businesses-new-small-business-rates-relief-scheme-wales>



## Assisting retailers and our high streets

20. It has been well documented that the retail sector across the UK faces challenges due to a range of factors: squeezed disposable incomes, shifts in consumer trends to online shopping, early over-expansion, rising costs, increased diversity and competition. Though many of these are global economic trends, we are committed to doing all that we can in Wales to help local communities sustain their identities and the facilities people want, in order to drive prosperity, tackle poverty and reduce inequality.
21. In December 2018 the Welsh Government announced an enhanced High Street and Retail Rates Relief scheme for 2019-20<sup>16</sup> as one policy change to support an evolving retail sector. The enhanced scheme goes significantly further than in previous years, providing support to all retailers in Wales with a rateable value of up to £50,000. It is helping around 15,000 small and medium-sized businesses in 2019-20 by providing up to £2,500 towards non-domestic rates bills. The scheme is fully funded by the Welsh Government.
22. Alongside the enhanced high street and retail relief, we have also provided a further £2.4m in grant funding to local authorities, allowing them to provide additional discretionary rates relief for local businesses and other ratepayers in each area. This enables local government to respond to specific local issues around hardship and to support local economic growth through a challenging financial climate.
23. This enhancement of the High Street and Retail Rates Relief scheme and the additional funding for discretionary relief, together with the permanent Small Business Rates Relief scheme and other bespoke reliefs, combine to offer timely and targeted support for ratepayers across Wales in line with a broad range of Welsh Government policy objectives.
24. Retailers are businesses which contribute to the broader identity of our town centres (and other areas). However, the way in which people use town centres has changed and continues to evolve. The Welsh Government recognises it needs to do all it can to ensure town centres are great places to live, work and play; and remain sources of civic pride and wellbeing. The Welsh Government will do more to help by ensuring more public bodies and partner organisations are located in town centres, and by ensuring our various forms of financial investment are targeted towards the same objectives. Our future consideration of non-domestic rates policy, particularly the significant investment we make in rates relief, will be guided by broader strategic aims such as improving town centres.

---

<sup>16</sup> Welsh Government statement, December 2018.

<https://gov.wales/written-statement-extension-high-street-rates-relief-scheme-2019-20>

## Effective and proportionate local tax administration

### Council tax debt management and enforcement

25. On 1 April 2019 the threat of imprisonment for non-payment of council tax was removed in Wales<sup>17</sup>, representing a significant step-change in our approach to the treatment of tax payers. However, there is further work to do to improve how council tax is collected and managed to prevent debt problems escalating.
26. Following research in 2017<sup>18</sup> we have been working closely with local authorities focussing on how vulnerable or struggling citizens are treated. We have been clear that every local authority in Wales should have a policy for how they will engage with households and reduce the use of bailiffs. Throughout 2018 the WLGA and the 22 local authorities developed a protocol (the *Council Tax Protocol for Wales: Good Practice in the Collection of Council Tax*), which was endorsed by the WLGA Executive Board on 25 January 2019.
27. All 22 local authorities adopted the Council Tax Protocol for Wales on 1 April 2019. This is a significant achievement for local government in Wales. The protocol provides guidelines on how local partnerships can be strengthened with the advice sector and enforcement agents. It offers practical steps to focussing on early engagement with taxpayers to prevent them from getting into debt. The protocol also outlines best practice around dealing with vulnerable households and recognises that some signs of vulnerability are more obvious than others. A recent report by the Money Advice Trust<sup>19</sup> found improved debt collection practices across Welsh local authorities since its last report in 2017.
28. We are monitoring the adoption of the Protocol while turning our focus to further actions, including the benefits of adopting the Standard Financial Statement. The Wales Centre for Public Policy report *Responding to Citizens in Debt to Public Services*<sup>20</sup> also found positive evidence for personalised and proactive support delivered through multi-agency partnerships. The Welsh Government, WLGA and representative local authorities have established a working group to consider any further actions in detail. As a result of these improvements council tax payers in

---

<sup>17</sup> Welsh Government press release, April 2019. <https://gov.wales/new-council-tax-legislation-introduced-today>

<sup>18</sup> Government Social Research 'Research into local authorities' approach to council tax collection in Wales', September 2017. <https://gov.wales/statistics-and-research/local-authorities-approaches-council-tax-debt-recovery/?lang=en>

<sup>19</sup> Money Advice Trust, September 2019. <https://www.stoptheknock.org/wp-content/uploads/2019/06/Money-Advice-Trust-Stop-The-Knock-2019-report-September-2019.pdf>

<sup>20</sup> Wales Centre for Public Policy, February 2019. <https://www.wcpp.org.uk/wp-content/uploads/2019/02/FINAL-WCPP-Responding-to-citizens-in-debt-to-public-services-A-rapid-evidence-review-2019.pdf>

Wales, no matter where they live, should in future expect to be treated fairly and consistently if they are at risk of or have incurred council tax arrears.

29. Alongside our work on the administration of council tax in Wales, the UK Government has been consulting on Breathing Space and a statutory approach to debt repayment plans. The intention of Breathing Space is that it would give someone in problem debt the right to legal protections from creditor action while they receive debt advice and enter an appropriate debt solution. Repayment plans would enable someone in problem debt to enter a statutory agreement to repay their debts to a manageable timetable. Individuals entering a plan would receive legal protections from creditor action for the duration of their plan. The details are still being developed and, as the proposals concern non-devolved matters, any legislation is expected to apply to Wales. The principles of Breathing Space fit with the approach the Welsh Government has taken to improving the management of council tax collection and arrears in Wales and we will incorporate the statutory standards into our approach as they emerge.

#### Monitoring council tax premiums and the valuation list

30. The Housing (Wales) Act 2014 provided local authorities in Wales with discretionary powers to charge a premium of up to 100% on certain council tax dwellings, namely those defined as long-term empty homes and second homes, from 1 April 2017. The decision to introduce a premium is a matter for each authority and authorities need to assess all the potential effects of introducing a premium and consult local taxpayers before doing so. So far, nine authorities in Wales have introduced premiums and, given the recent introduction of the arrangements, very limited evidence of the impact of the premiums is available.
31. The powers were introduced to assist local authorities in managing local issues affecting housing supply rather than as a means of generating revenue. Local authorities may use any additional revenue which is received for any purpose and have been encouraged to use any additional revenue generated to help meet local housing needs. Long-term empty and second homes form a small percentage of the total council tax-base of over 1.4 million dwellings. The latest figures indicate that premiums are being charged on almost 18,000 homes in Wales this year<sup>21</sup>.
32. As the use of council tax premiums has begun to be applied, there have been suggestions that some homeowners are reacting to the policy change by seeking to have their property listed as self-catering accommodation, which fall within the non-domestic rates system rather than council tax.

---

<sup>21</sup> Council Tax Dwellings in Wales 2019-20, Welsh Government, January 2019  
<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings>

33. Properties liable for non-domestic rates, including self-catering premises, may be eligible for Small Business Rates Relief. We have continued to monitor the implementation of changes in local taxation policy to ensure the right properties are contributing the right amount of tax.
34. During the development of the Housing Act and the supporting legislation, the Welsh Government strengthened the criteria which distinguish between dwellings identified for council tax purposes and those being used as self-catering accommodation. Regulations set minimum letting criteria for properties to be considered as self-catering accommodation. The homeowner must be able to provide evidence that their property has been available for let for at least 140 days in any 12-month period, and actually let for at least 70-days. The criteria reflect the important contribution that self-catering accommodation makes to the tourism economy of Wales.
35. Throughout 2019 we have worked closely with the Valuation Office Agency to secure assurance that the council tax and non-domestic rates valuation lists are as accurate as possible. We are satisfied that the Valuation Office Agency has a robust validation process in place, based on legal documentation and carried out by a dedicated team working in Wales. We have invited local authorities to provide any examples of cases where they consider properties might be inaccurately listed and the WLGA has facilitated discussions between the VOA and local authorities to ensure information is shared about suspected disingenuous behaviour by taxpayers. All of the cases shared with the VOA to date have been found to be valid uses of self-catering accommodation supported by adequate evidence.
36. The Welsh Government takes this matter seriously. Welsh Ministers have raised the matter with local government leaders at the Finance Sub Group of the Partnership Council for Wales. The provisions in the Housing Act were introduced as one tool to assist local authorities in managing issues of local housing supply. We will hold further discussions about local issues and the effectiveness of changes in local taxation. Any suspected disingenuous behaviour will continue to be challenged and investigated by the Valuation Office Agency.

#### Improving information sharing and data capability

37. Throughout 2019 we have continued to develop our data sharing arrangements with local authorities and the Valuation Office Agency. Additional data collection and validation processes have noticeably improved the breadth and quality of information available to support policy-making. New data-sharing opportunities continue to be explored to support the wide-ranging local taxation agenda.

## **Wider finance framework for local government**

38. Local taxes contribute around a third of the funding for local revenue expenditure and are inseparable from our broader strategy for the core funding we provide. Many of the changes outlined in this document have consequences for the wider framework, for example, the distribution of the Revenue Support Grant, financial governance and local accountability.
39. The Distribution Sub Group, a technical subgroup of the Partnership Council for Wales, develops the funding methodology for the annual local government settlements. Where required the group has considered, or will consider, the implications of any changes described in this document on the way that the Revenue Support Grant is distributed.
40. At the beginning of this work programme we made a number of immediate changes to increase local government's flexibility. In April 2018, we extended local government's flexibility to use capital receipts to fund investment in transformational activities for a further three years to 2021. We have also relaxed constraints around loan capital transactions, share capital transactions and bonds, placing authorities in Wales on an equivalent footing to local authorities in England.
41. More changes to the way local services are delivered, for example, through greater collaborative service delivery and the development of the Local Government and Elections (Wales) Bill are described later in this document.

## Medium-term reforms

42. This phase comprises the changes to meet our aims and commitments which require a longer time period to consider and introduce, and may require new legislative provision. The implementation of such changes will extend over more than one Assembly term.

### Fair and progressive council tax

#### Assessing the impact of welfare reform

43. The UK Government's Universal Credit (UC) is replacing most income-related social security benefits and tax credits for people of working age and is now being rolled out across the UK. Evidence has emerged that these reforms are having a detrimental impact on households in a number of ways, including on devolved areas of policy such as council tax support, social housing and household debt<sup>22</sup>. While one of the intentions of welfare reform to increase work incentives is positive, it cannot be right that decisions taken in the UK context about welfare can have an impact on local taxation and other devolved policy areas in Wales.

44. During the UC rollout, it has become clear some of the features of its administration are having a detrimental impact on some households, for example, some evidence suggests the wait for the first payment, and the housing element being paid directly to the tenant rather than the landlord, are causing increased rent arrears<sup>23,24</sup>. Research by Citizens Advice found that people in receipt of UC were more likely to have priority debts (such as council tax arrears and rent arrears) than those on legacy benefits<sup>25</sup>. In June 2018, Community Housing Cymru reported that Welsh housing association tenants on UC were already in over £1 million of rent arrears<sup>26</sup>.

45. Due to the way aspects of council tax support mirror eligibility criteria for UK benefits, we are beginning to see an adverse impact across Wales as UC is being rolled out. UC is directly reducing the number of automatically-passported cases, making the application process more complicated for eligible households and making it more difficult for local authorities to proactively contact households. There

---

<sup>22</sup> National Audit Office, June 2018. <https://www.nao.org.uk/wp-content/uploads/2018/06/Rolling-out-Universal-Credit.pdf>

<sup>23</sup> House of Commons Work and Pensions Committee, October 2017. <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/336/336.pdf>

<sup>24</sup> Welsh Government, March 2019. <https://gov.wales/impact-welfare-reform-households-wales>

<sup>25</sup> Citizens Advice, September 2017. <https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Universal%20Credit%20and%20Debt%20-%20final.pdf>

<sup>26</sup> Community Housing Cymru, June 2018. <https://chcymru.org.uk/en/view-news/welsh-social-housing-tenants-on-universal-credit-in-over-1-million-worth-of>

is a loss of information held by local authorities as, unlike Housing Benefit, the housing element of UC is not administered by local authorities.

46. At the time of publishing our previous update we were seeking expert assistance to help us understand the impacts of Universal Credit in more detail on families across Wales, in particular, on eligibility for the Council Tax Reduction Scheme, levels of council tax arrears and housing rent arrears. In January 2019 we commissioned Policy in Practice to undertake a comprehensive year-long study. The project comprises a significant amount of data analysis to track the circumstances of households in Wales as they are migrated from legacy benefits onto UC. This empirical work is supplemented by new qualitative research into the experiences of applicants, tenants, advice services, local authorities, housing associations and private landlords. The length of the research project allows Policy in Practice to investigate the direct effects as more claimants are migrated onto UC during 2019.
47. In response to the growing body of evidence the Department for Work and Pensions has, at several points during the rollout, made amendments designed to help vulnerable groups and assist the transition from legacy benefits to UC. The DWP's Alternative Payment Arrangements available under certain circumstances allow for the housing element to be paid directly to the landlord, however the knowledge of these arrangements is inconsistent across Wales<sup>27</sup>. Other support mechanisms are also available within UC including Personal Budgeting Support and Assisted Digital Support. Our research will explore awareness of and access to these support mechanisms to ensure we understand the real experience of households in Wales. This may highlight where the Welsh Government could take additional action to provide support.
48. We will shortly publish the Interim Report from the research undertaken by Policy in Practice on the Welsh Government's website. This focusses on the impact of UC on the Council Tax Reduction Scheme. This is crucial information for the Welsh Government as it may be possible to amend our Council Tax Reduction Scheme in future years, if needed, to mitigate negative impacts on certain groups of people (as outlined in paragraph 49). A final report from Policy in Practice will be available in early 2020, incorporating further analysis and qualitative research into arrears and access to other types of support. The findings will help to inform future policy making across several areas of the Welsh Government.

---

<sup>27</sup> Citizens Advice, July 2017.

<https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Delivering%20on%20Universal%20Credit%20-%20report.pdf>

## Developing the Council Tax Reduction Scheme

49. We have asked Policy in Practice to model six possible amendments to the Council Tax Reduction Scheme:

- changing the taper rate of support for partial recipients;
- changes to the 2-child limit for families;
- introducing a guaranteed minimum award;
- amending non-dependent deductions;
- lowering the notional Minimum Income Floor used in the calculations for self-employed claimants on UC; and
- introducing an income-banded scheme.

50. We have explored these ideas with local authorities and the WLGA as it is important to gather the views of those administering the scheme to ensure any changes would be deliverable and would not have other unintended consequences. Due to the time required to draft and consult on changes to the Council Tax Reduction Scheme Regulations, the above changes (if proven viable) would be envisaged for implementation in 2021-22 or later.

## **Supporting businesses to thrive**

### Future rates relief

51. The Welsh Government invests substantial amounts each year (over £230m this year) in relief schemes for non-domestic rates, achieving a delicate balance between sustaining revenue for public services and supporting wider policy choices. We continually need to ensure our financial investment in relief reaches those the Welsh Government intends to support.

52. We are exploring how the Small Business Rates Relief scheme could operate in the future, following on from the enhancements we made in 2017 and 2018. The next Beaufort Research Wales Omnibus survey will include additional questions to help us assess the effectiveness of rates relief, whether it genuinely helps to drive business growth and how it influences business decisions. We are also carrying out a review of a change to Small Business Rates Relief made in 2018 to limit the number of properties eligible for relief to two per business in each local authority. This review will hopefully provide insights into the effectiveness of the policy change and inform future choices for the SBRR scheme.

53. These areas of research will aid our consideration of more substantial changes in our approach to relief, for example, time-limiting features or further targeting towards economic activity which is more closely aligned with Welsh Government objectives. These ideas are for consideration beyond 2019.



## Supporting vital sectors

54. A sustainable childcare sector in Wales is a key enabler for economic growth by supporting parents and carers to access and remain in employment. Following an announcement by the Welsh Government in autumn 2018<sup>28</sup> our commitment to providing 100% rates relief for childcare premises was delivered on 1 April this year through the Small Business Rates Relief scheme. This change provides an additional £7.5m to reduce bills to zero for all registered childcare providers for a three-year period. This decision supports our flagship pledge in *Taking Wales Forward* to offer 30 hours of free childcare for working parents of three and four year-olds, for 48 weeks of the year. The offer is currently being rolled out and will be available across the whole of Wales by 2020.
55. Reducing non-domestic rates bills for childcare premises will help create new and maintain existing childcare places in Wales. We are grateful to local government, the WLGA and providers for helping to deliver changes to non-domestic rates quickly and successfully. The impact of this relief scheme will be reviewed in due course.

## Small Business Rates Relief and ATMs

56. While it is important for relief schemes to be based on clearly defined criteria, occasionally this can encompass ratepayers or property which were not intended to be relieved from paying rates. Non-domestic rates apply to most types of non-domestic hereditament. This includes publicly owned property and property used for purposes such as parking, advertising rights, telecommunications masts and ATMs. Small Business Rates Relief, as it operates in Wales, excludes certain hereditaments from eligibility on the grounds they are not 'small businesses' which the relief is intended to support. The exclusions include car parks, advertising rights (eg. billboards) and electronic communications apparatus. Public property is also excluded.
57. In January 2018, a legal challenge was brought against Pembrokeshire County Council for not awarding SBRR for certain ATM sites in the county.<sup>29</sup> The court ruled in favour of Cardtronics UK Ltd on the grounds that ATMs were not, in its opinion, electronic communications apparatus. As a result of this ruling, ATMs which meet the relevant criteria may be eligible to receive Small Business Rates Relief.

---

<sup>28</sup> Welsh Government statement, September 2018.

<https://gov.wales/100-rates-relief-childcare-providers-wales>

<sup>29</sup> *Cardtronics UK Limited v Pembrokeshire County Council* [2018] EWHC 1167.

58. When the Welsh Government established its relief scheme for small businesses, it made clear that its policy intention was not to provide relief for apparatus such as ATMs. The Welsh Government is still of the opinion that ATMs are not small businesses which the relief scheme is intended to support. We have therefore consulted on a draft Order to amend the existing legislation to provide clarity about eligibility<sup>30</sup>. The effects of the amendments would be to ensure non-domestic properties used exclusively as ATMs do not benefit from rates relief from 1 April 2020. Discretionary powers remain available if needed to provide relief for individual ATMs of particular value to specific communities.

#### Independent schools and private hospitals

59. The Barclay Review<sup>31</sup> of the non-domestic rates system in Scotland in 2017 looked in detail at the appropriateness of providing rates relief to various sectors and businesses of different characteristic. One of the recommendations of the review was to address potential unfair competition between the public and private sector when providing similar services. Since the review in 2017 the Welsh Government has also considered whether it is right for public and private sector providers of similar services to be treated differently in relation to rates relief. We undertook to consult before the end of 2019 on proposals to change the eligibility of independent schools and private hospitals to receive rates relief, bringing them into line with state-funded schools and NHS hospitals, which are liable to pay non-domestic rates.

60. Most state schools and hospitals are obliged to pay non-domestic rates on the properties they occupy, as are a wide range of other public sector organisations. The rates paid make an important contribution to the cost of services delivered in our communities. However, many independent establishments are able to benefit from charitable relief from rates. We believe it is fair to expect independent establishments to make a contribution to the cost of local services by paying rates on the properties they occupy. We will consider all the responses to the consultation and make further announcements in due course.

#### Relief for public lavatories

61. In June 2019 the Welsh Government announced it intends to make standalone public toilet buildings in Wales exempt from paying non-domestic rates from 1 April 2020.<sup>32</sup> Delivery of the new exemption was originally planned through UK

---

<sup>30</sup> Welsh Government consultation, September 2019.

<https://gov.wales/non-domestic-rating-small-business-relief-wales-amendment-order-2019>

<sup>31</sup> Barclay Review of non-domestic rates, August 2017. <https://www.gov.scot/publications/report-barclay-review-non-domestic-rates/>

<sup>32</sup> Welsh Government statement, June 2019.

<https://gov.wales/rates-relief-for-public-toilet-buildings-in-wales>

Government legislation. However, we now know there will be a General Election at the end of this year. It remains the Welsh Government's intention to find a legislative opportunity to deliver this exemption at some point in the future. This policy decision supports our commitment to providing access to toilets for public use under Part 8 of the Public Health (Wales) Act 2017, helping to keep facilities open for residents and visitors to Wales.

## **Improving non-domestic rates administration and compliance**

### Non-domestic rates revaluation exercise

62. Regular revaluations are essential to ensure the rateable values of properties liable for non-domestic rates reflect recent market conditions. In 2017 the UK Government announced it would be bringing forward the next revaluation exercise for non-domestic rates in England to 2021 (from 2022 as originally planned). In July 2018, the Welsh Government announced it would also bring forward the revaluation in Wales to 2021.<sup>33</sup>
63. Work is underway to prepare for this substantial exercise, which is being carried out independently by the Valuation Office Agency. The Antecedent Valuation Date (a common date to which all valuations refer based on market conditions) has been confirmed as 1 April 2019 and the Valuation Office Agency is in the process of revaluing all properties in time for April 2021.
64. A technical consultation on the 'decapitalisation rates' to be adopted for the 2021 revaluation in Wales closed on 30 May 2019 and a summary of responses was published on 4 September 2019.<sup>34</sup> Decapitalisation rates are needed to value properties where no comparable market rental values exist, for example, hospitals and oil refineries.
65. The Welsh Government continues to work closely with the Valuation Office Agency to assess the impact the next revaluation will have on individual ratepayers. Consideration will be given at the appropriate time to whether support is needed to assist ratepayers who see notable rises in their bills as a result of revaluation and, if so, what form such support might take.

---

<sup>33</sup> Welsh Government statement, July 2018. <https://gov.wales/written-statement-non-domestic-rates-revaluation>

<sup>34</sup> Welsh Government consultation, March 2019. [https://gov.wales/sites/default/files/consultations/2019-03/decapitalisation-rates-for-wales-consultation\\_0.pdf](https://gov.wales/sites/default/files/consultations/2019-03/decapitalisation-rates-for-wales-consultation_0.pdf)

## Non-domestic rates appeals reform

66. There is a long-established system in place for handling appeals of non-domestic rates valuations in Wales. It has stood the test of time but there is room for improvement and there is a need to modernise the system to ensure that it is as efficient and effective as possible.

67. Following changes to the appeals system in England in April 2017 (the new Check, Challenge, Appeal procedures), options for appeals reform in Wales are being explored. Our consultation in 2018<sup>35</sup> explained the case for reform and asked respondents to provide views on proposed changes to aspects of the appeals system in Wales, such as registration requirements, timeframes, backdating, fees and penalties. The evidence gathered is being used to inform legislative and administrative changes designed to improve the system in Wales. It is our intention to introduce any changes alongside the revaluation taking effect on 1 April 2021. We are working closely with the Valuation Office Agency and a range of stakeholders to design an appeals system that specifically fits the needs of Welsh ratepayers and Welsh public services. Further announcements will be made in due course.

## Non-domestic rates fraud and avoidance

68. In October 2018 the Welsh Government outlined a set of measures to reduce fraud and avoidance of non-domestic rates<sup>36</sup>, estimated at around £10-20m loss per year. This announcement followed collaborative investigation since 2015 with local authorities and formal consultation in 2018<sup>37</sup>. The planned measures include:

- Duties on ratepayers to report a change in their circumstances that would affect their rates liability;
- Powers for local authorities to request information from ratepayers and interested third parties;
- Powers for local authorities to enter and inspect non-domestic properties to verify information that would aid billing and collection;
- Changes to empty property relief arrangements;
- Asking local authorities to publish a list of ratepayers in receipt of reliefs to aid transparency;

---

<sup>35</sup> Welsh Government consultation, January 2018.

<https://beta.gov.wales/reforming-non-domestic-rates-appeals-system-wales>

<sup>36</sup> Tackling Fraud and Avoidance of Non-Domestic Rates in Wales

<https://gov.wales/about/cabinet/cabinetstatements/2018/tacklingfraudandavoidancendrwales/?lang=en>

<sup>37</sup> Welsh Government consultation, closed June 2018.

<https://beta.gov.wales/tackling-avoidance-non-domestic-rates-wales>

- Minimising abuse of charitable relief to ensure only genuine charities are supported;
- Future consideration of a General Anti-Avoidance Rule for local taxes in Wales (noting that the Welsh Government already has general and targeted anti-avoidance rules for land transaction tax); and
- Improving collaboration between organisations, sharing best practice amongst local authorities and improving our guidance for ratepayers.

69. It is our intention for these measures to come into effect on 1 April 2021 to coincide with the next rating list following revaluation, other than the development of a General Anti Avoidance Rule which is a more fundamental change requiring consideration in the next Assembly term.

70. In 2019 we have focussed our efforts on developing the detailed legislative provisions which are planned to be included in the Local Government and Elections (Wales) Bill. These cover new duties on ratepayers to report a change in their circumstances, powers for local authorities to request information and powers for local authorities to inspect non-domestic properties. The legislative provisions include the necessary safeguards, such as rights of appeal, to ensure genuine persons are protected.

71. We are also developing amendments to the Non-Domestic Rating (Unoccupied Property) (Wales) Regulations to minimise abuse of empty property relief, the most common method of rates avoidance. We intend to do this by increasing the temporary occupation period required for consecutive claims for relief, from 6 weeks temporary occupation to 6 months, during which full rates will be liable. We are also developing criteria for what counts as 'occupation' within the regulations. We hope this will tip the balance of financial incentives to falsely claim relief and that it will be harder for rates avoiders to contrive artificial arrangements which resemble occupation.

72. These developments could not have been achieved without the work of local authority officers, the Valuation Office Agency and business representatives through various consultative arrangements. There is a great deal of further work to do to implement the various measures. Ahead of the changes in April 2021 we will raise awareness with the business community to ensure ratepayers, agents, and representative bodies are prepared for new requirements.

### **Develop a funding framework which enables service transformation**

73. The multi-billion pound finance framework which underpins the delivery of local services is a complex and interconnected system of different components. The Welsh Government has always strived to give local government the best financial

settlement it can give, through more than a decade of UK Government austerity, while seeking to provide local government with the tools it needs to tackle the challenges of rising demand and costs for local services. Greater collaboration, emerging city and growth deals and reform of the town and community council sector are just some of the reforms which require us to ensure that the finance and local tax framework continues to meet the needs of local service delivery.

### Local Government Bill

74. The Welsh Government will introduce the Local Government and Elections (Wales) Bill to the National Assembly for Wales' legislative process in the near future. It will provide a new legislative framework for collaboration between local authorities, and for voluntary mergers should any authorities wish to pursue this as a future option. It will also provide local authorities with the tools to continually assess and improve their own performance. In developing the Bill, we have recognised the regional arrangements which already exist for some local services in some parts of Wales as those which are emerging as other developments, such as city and growth deals, take root. Bringing consistency to the governance of these arrangements will improve public understanding of and interaction with various services.

75. While the Bill will provide the enabling legislative powers, the operational detail will be coproduced with local government through the process of developing the supporting regulations. The commitment shown by local authority leaders, the WLGA and others to this approach is an important achievement in our longstanding partnership. The Finance Sub Group of the Partnership Council for Wales is the appropriate forum for consultation about the future finance arrangements.

### City and growth deals

76. The work to drive forward city and growth deals in regions of Wales will contribute to economic growth, financial resilience and improved public services. Each deal is being developed as a distinctive approach to generating growth which reflects the nature of the region. The Welsh Government has invited each region to come forward with proposals for sharing the gain from any growth in non-domestic rates which they are able to generate through their actions. However, all the non-domestic rates revenue generated in Wales is distributed to local authorities to help fund local services. While the funding arrangements for each deal need to be tailored to the nature of the deal, we also need to ensure the funding for other local authorities is not adversely affected. We are working with each of the regions to develop these arrangements and to explore what other financial flexibilities might support them in delivering a step change in regional economic growth.

## Long-term reforms to local taxes

77. Our programme for reforming local government finance set out from the beginning our intention to explore entirely different approaches to raising revenue from local taxes. This section outlines progress towards this aim since the last update in October 2018. Delivering any of the following ideas would require substantial new primary legislation and would need to be implemented over more than one Assembly term. One of the key principles underpinning our explorations is to examine how alternatives might improve the distribution of tax liability between taxpayers rather than seeking to raise more revenue.

78. Having reviewed the existing literature in 2017, we considered which ideas were to be explored in more detail and in what way. Many of the conclusions about alternative approaches point to trade-offs between outcomes such as local autonomy, economic growth and social equity, with no common view as to what is best for Wales' needs and circumstances. We found gaps in the literature and the body of knowledge when seeking to apply the various ideas to Wales and in particular, to local taxes.

79. In 2018 we developed an approach to new research in consultation with the Local Government Finance Reform Working Group and other stakeholder groups. Over the course of 2019 we are partnering with a number of organisations to deliver the following collection of projects:

- University of Bangor – the potential for local land value tax as a replacement alternative design to the existing local taxes;
- Institute for Fiscal Studies – a hypothetical revaluation of the council tax tax-base in Wales and policy options for a more progressive band structure or more fundamental reforms to council tax;
- University of Sheffield – complementary modelling work on council tax revaluation; and
- To be confirmed (bids closed 28 October) – the potential for a replacement for council tax to be based on assessments of household income.

80. We are clear the new research must focus on the practical implications of the alternative approaches rather than present a rehearsal of existing theory. Some initial findings are discussed below and individual reports will be published in full in due course.

81. In addition to meeting the Welsh Government's strategic tax principles, any alternative method of raising local taxes must raise funds for local government in a stable and predictable way, as this is the legislative and constitutional basis on which local taxes exist within the current devolved settlement. The alternative

approaches need to be demonstrably better than the existing arrangements, not just different.

## **Local land value taxes**

82. Since our last update there has been increased political consideration of taxes or other funding mechanisms based on land value. The All-Party Parliamentary Group on Land Value Capture published its inquiry in November 2018<sup>38</sup> shortly after the House of Commons' Housing, Communities and Local Government Committee published its inquiry into land value capture.<sup>39</sup> Labour's 'Land for the Many' report<sup>40</sup> in June 2019 contained proposals to replace non-domestic rates in England with a land value tax based on rental value of commercial land. The Liberal Democrats also put forward proposals to replace non-domestic rates in England with a Commercial Landowner Levy.<sup>41</sup>

83. The various proposals outline different objectives for shifting the design of local or national taxes and funding mechanisms, notably, to achieve more efficient use of land or to better capture value uplifts for public benefit. The objective of the Welsh Government in exploring land value tax as a replacement for one or both local taxes is primarily to raise stable revenue for local services in the fairest way, with other advantageous outcomes considered where possible.

## University of Bangor

84. In March 2019 we commissioned the University of Bangor to explore whether local taxes in Wales could be based on the value of land rather than the current position which is an amalgamation of both land and property value. The brief was clear that LVT was to be explored as a locally-administered concept replacing similar revenues to those that are currently raised. LVT in this context was not to be considered as an additional form of local taxation, raising significantly more or less revenues than currently, or as a national concept.

85. Bangor University structured its research into three parts:

- a review of the existing body of literature on LVT and international examples;
- primary collection of evidence through a call for evidence and a series of structured interviews with a range of experts and stakeholders; and

---

<sup>38</sup> All-Party Parliamentary Group on Land Value Capture inquiry, November 2018.

<https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbXJb2FsaXRpb25mb3JlY29ub21pY2p1c3RpY2V8Z3g6MjA0OTQ5MGQxMWJINGM4ZA>

<sup>39</sup> House of Commons Housing, Communities and Local Government Committee inquiry, September 2018. <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/766/766.pdf>

<sup>40</sup> A report to the Labour Party 'Land for the Many', June 2019. <https://landforthemany.uk/>

<sup>41</sup> Liberal Democrats 'Taxing Land, Not Investment', August 2018. <https://www.libdems.org.uk/taxingland-notinvestment>



- an attempt at modelling a set of land values in Wales.

86. The response to the call for evidence and structured interviews yielded a range of different viewpoints which Bangor has reconciled and supplemented with supporting factual evidence. Over the summer and autumn period, Bangor has made significant progress in applying the detailed concepts to Welsh local taxes.

87. We are pleased that within the scope of this research, Bangor has been able to construct a statistical model to estimate a set of domestic land values in Wales. Hedonic price modelling is an extensively applied framework for determining the relative importance of the variables which affect the price of a good or service. Based on this methodology, Bangor's model utilises a vast array of data on property and land across Wales to estimate the relative values of different characteristics, in order to isolate only the value of the land.

88. When this research was originally envisaged, our aim was to focus more initially on the non-domestic tax-base as an initial step with a view to further work relating to the domestic tax-base. However, Bangor University found the availability of data about property features was more readily available for domestic properties than for non-domestic properties. Data availability has precluded Bangor University from developing a hedonic pricing model for non-domestic properties and are adopting alternative quantitative techniques to estimate non-domestic land values.

89. Bangor University expects to publish its detailed report towards the end of the year. This will also be published on the Welsh Government website and circulated to stakeholders.

### Scottish Land Commission

90. Alongside new research being carried out in Wales, we have continued to monitor the debate elsewhere. The work of the Scottish Land Commission includes exploring the potential for land value based taxes in Scotland. We have met the Commission periodically to learn about their progress and in July 2018, the Commission published a report in partnership with the University of Reading.<sup>42</sup>

91. Though part of a much broader land reform agenda in Scotland, the report sets out clear aims for considering LVT or other fiscal levers – to help land use become more productive, diverse and accountable. The Commission finds common challenges to implementation (registering and valuing land, links with the Planning system) but it also finds a number of opportunities. The Commission concludes that while there is a strong theoretical case for an LVT, there is insufficient evidence

---

<sup>42</sup> Scottish Land Commission, July 2018. <https://landcommission.gov.scot/wp-content/uploads/2018/12/Land-Value-Tax-Policy-Options-for-Scotland-Final-Report-23-7-18.pdf>

it would support the objectives (more productive, accountable and diverse pattern of land use). Nevertheless, it offered four policy options for more detailed consideration by the Scottish Government:

- option 1: extend existing land and property taxes, for example, by including land and property which is currently excluded from the non-domestic tax base;
- option 2: reform existing land and property taxes by, for example, having more regular revaluations of council tax and non-domestic and seeking to make them more progressive;
- option 3: introduce a single LVT alongside existing land and property taxes, which would only apply to land and property not currently falling under existing taxes; or
- option 4: introduce a single LVT to replace all existing land and property taxes.

92. The Scottish Land Commission hopes to continue further work in 2020, looking at the range of fiscal levers which could encourage better use of land, and to consider in more depth the patterns of land ownership in Scotland. The Welsh Government will maintain ongoing links with the Commission.

### **More progressive council tax**

93. An effective tax system requires a robust and consistent method of assessing the commodity being taxed. Through this work, we must bear in mind that council tax is not simply a property tax: it incorporates factors which reflect property values, service demand, and household composition and income. In property taxes, the value of property is used as an indicator of relative demand for services and ability to contribute to the cost of service delivery. Properties liable for council tax are placed in one of nine council tax bands based on property values assessed by the Valuation Office Agency. Council tax bands in Wales are based on property values as at 1 April 2003. Having undergone a revaluation exercise since its inception, Wales is in a better position than England and Scotland where council tax is charged on the basis of property values from 1991.

94. Without a new revaluation exercise of the 1.4 million domestic properties in Wales, we are constrained in our ability to make fundamental changes that would help to make the system fairer – for example, it might be possible to add bands to increase progressiveness or modernise the thresholds to fit present market conditions.

## Institute for Fiscal Studies

95. In February 2019 we commissioned the Institute for Fiscal Studies (IFS) to undertake a simulated council tax revaluation for Wales, using a statistical model underpinned by Welsh data on domestic property characteristics and area characteristics. Using various techniques, the IFS is able to estimate a current set of valuations for properties, then simulate new council tax liabilities, and analyse the effects on local authorities and on households. The IFS is also exploring a number of reforms to the structure of council tax in order to understand whether a less regressive position could be achievable in relation to the property value component of the tax.
96. When updating the council tax tax-base to reflect up-to-date property valuations, it is likely that local authorities would see variations in the numbers of properties moving up bands and moving down bands, as property price increases since 2003 have varied across areas of Wales. Local authorities would see changes in their local tax-bases and therefore changes in the revenue which could potentially be raised in each area. It would then be for the Welsh Government's consideration, in consultation with local government, as to how this is taken into account when allocating the annual Revenue Support Grant. Currently, the funding formula for allocating the Revenue Support Grant redistributes grant funding between local authorities based, in part, on local abilities to raise revenue from council tax.
97. The IFS will measure the impact on households by comparing council tax bills before and after the various modelled reforms, and assessing the impact of these on different types of households in relation to household incomes. Using information from the Understanding Society survey, the project is exploring the impact of council tax reforms on pensioner and working-age households, families with and without children, homeowners, private and social renters, single persons and other household types. This will be vital information for the Welsh Government in considering any future changes to council tax.
98. The simulated revaluation for Wales by the IFS forms part of a broader project about council tax revaluation in England and Wales. It is overseen by an Advisory Group comprising representatives from local government, citizens groups, UK Government, academic institutions and experts in taxation. The Advisory Group has held a selection of meetings throughout the project and will shortly convene to consider draft findings.
99. We are pleased to have collaborated with a highly respected organisation to delve deeper into the specific needs and requirements for council tax in Wales. A report relating specifically to Wales is expected to be published by the IFS before the end of the year. This project is a key contributor to our exploration of how a more

progressive council tax might be achieved, a commitment in *Taking Wales Forward*.

### University of Sheffield

100. In parallel with the work of the Institute for Fiscal Studies, the University of Sheffield is conducting a complementary statistical analysis, using experts who carried out a simulated revaluation in Scotland to contribute to the work of the Scottish Commission on Local Tax Reform. This project will provide us with important insight into how different statistical techniques might arrive at similar or different property valuations and the robustness of various types of data used to inform valuations. A report from the University of Sheffield is expected in early 2020.

101. Revaluation exercises for council tax are costly and challenging to deliver. This work will also aid our consideration in due course of modernised approaches to valuation methodologies, for example, whether a simpler method based on a statistical approach could be robust enough to underpin a local tax regime.

### **Local taxes based on income**

102. At the time of publishing this update we are seeking external expertise to undertake independent research, similar to the other pieces in train, into whether council tax could be charged on the basis of household income rather than property and land value. Local Income Tax (LIT) as a concept has been considered in the UK throughout the first part of the 21st Century, most notably by the Lyons Inquiry<sup>43</sup> in England and the Burt Review<sup>44</sup> in Scotland. In 2015, the Scottish Commission on Local Tax Reform<sup>45</sup> assessed possible new approaches to local taxation with a detailed focus on an LIT.

103. A key feature of the council tax system is the direct geographical connection between the location of a property and the local authority area in which the tax is levied and where decisions about local service provision are taken. We have found it challenging to apply the idea of a local income tax in its purest form to council tax in Wales without also eroding local accountability, and, requiring a flow of finance which would not be permissible under the current devolution settlement. Therefore, the concept we are seeking research into, is not whether income tax in its current form could be applied locally, but whether the current charging regime for locally-administered council tax could more simply be designed around local assessments of household income.

---

<sup>43</sup> Lyons Inquiry, March 2007. <http://www.lyonsinquiry.org.uk/>

<sup>44</sup> Burt Review, November 2016. <https://www.gov.scot/Publications/2006/11/06105402/0>

<sup>45</sup> Scottish Commission on Local Tax Reform, December 2015.  
<https://localtaxcommission.scot/download-our-final-report/>

104. Local authorities in Wales are already required to carry out detailed assessments of household income on a subset of the council tax base, eg. to identify almost 300,000 low-income households eligible for the Council Tax Reduction Scheme. Local authorities are also experienced in assessing household incomes and circumstances as a matter of course when considering applications for discretionary hardship relief, when carrying out enforcement and debt recovery activities, and when considering applications for discounts, disregards and exemptions.
105. If we think about council tax being charged based on information held about household incomes and circumstances, but still linked to an address, the practical challenges then become the following:
- whether local government can be equipped with the necessary information it needs to identify household incomes across more of the tax-base and with the required precision;
  - how to decide what counts or doesn't count as income; and
  - how to minimise fraudulent reporting of incomes or primary residences.
106. A key factor for success is the availability of important data which is robust enough to help billing authorities to base council tax bills on income. In the absence of this, billing authorities themselves would need to request the information they need directly from households; the benefits of improved progressivity would need to outweigh a potentially significant increase in administration. There may also be questions of the public acceptability of providing income information to local authorities. A common drawback reported in the literature is that LITs shift the tax burden from pensioners (who currently pay council tax) onto the working-age population. However, as long as enough information could be gathered about pensioner household income, with full consideration of appropriate tax rates and what constitutes income, it may be possible for pensioner households to continue contributing to the cost of local services in this way.
107. Local authorities are required to set out the amount they need to raise from council tax by first setting their budgets for delivering services, and subtracting all other forms of revenue such as Revenue Support Grant and their share of distributed non-domestic rates. The resulting 'council tax requirement' is then split across the available tax-base. This procedure is a direct consequence of local government needing to balance its income and expenditure each year and the expectation that authorities cannot generate a profit from the budget-setting process. Retaining these features may avoid the common drawback of most proposals for LITs which is revenues falling in periods of deteriorating economic circumstances.

108. We are clear that LIT is to be explored as a local regime, ie. administered locally and used to fund local authority expenditure, supporting local decision-making and raising similar revenues to the current system. In 2018, the Wales Centre for Public Policy<sup>46</sup> evaluated the taxation system in Wales, identifying risks and opportunities. It concluded that tax policy reform for devolved taxes and local taxes and the balance between property-based and income-based taxes should be considered in the round. Consequently, investigation into reform of local taxes will also consider interactions with Welsh Rates of Income Tax as well as any possible relationship with the two devolved taxes. Further research will be published in due course.

---

<sup>46</sup> Wales Centre for Public Policy, July 2018: <https://www.wcpp.org.uk/publication/the-welsh-tax-base-risks-and-opportunities-after-fiscal-devolution/>