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Research Report

Assessing the Welsh Government's consultation on reforms to council tax

IFS Report, No. R287

Provided in Cooperation with:

Institute for Fiscal Studies (IFS), London

Suggested Citation: Adam, Stuart; Phillips, David; Ray-Chaudhuri, Sam (2023) : Assessing the Welsh Government's consultation on reforms to council tax, IFS Report, No. R287, ISBN 978-1-80103-157-8, Institute for Fiscal Studies (IFS), London, <https://doi.org/10.1920/re.ifs.2023.0287>

This Version is available at:

<https://hdl.handle.net/10419/282972>

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IFS Report R287

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Assessing the Welsh Government's consultation on reforms to council tax

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ISBN 978-1-80103-157-8

Preface

This report analyses and appraises examples of the potential approaches to council tax being consulted upon by the Welsh Government. The particular examples that are analysed were developed by the Welsh Government and IFS researchers to illustrate the kinds of effects the different approaches to reform could have on the average council tax bills faced in different parts of Wales and by different household types. It is important to note that these are just examples, though, and any revaluation or reform that may be implemented could differ, not least as a result of responses received as part of the Welsh Government's consultation exercise. The consultation document ('A Fairer Council Tax – Phase 2 Consultation') and questions can be found on the Welsh Government's website: <https://www.gov.wales/fairer-council-tax-phase-2>.

The analysis uses initial data on estimated property values and characteristics provided by the Valuation Office Agency via the Welsh Government, and data from the Understanding Society survey. Understanding Society is an initiative funded by the Economic and Social Research Council and various Government Departments, with scientific leadership by the Institute for Social and Economic Research, University of Essex, and survey delivery by NatCen Social Research and Kantar Public. The research data are distributed by the UK Data Service.

The Welsh Government provided funding for this analysis of the potential impacts of revaluing and reforming council tax. The authors also gratefully acknowledge funding from the ESRC Centre for the Microeconomic Analysis of Public Policy (ES/T014334/1).

The authors thank Paul Johnson and officials from the Welsh Government and the Valuation Office Agency for helpful comments on earlier drafts of this report. However, all opinions (unless otherwise stated), as well as any errors or omissions, are the responsibility of the authors alone: the IFS has no corporate views and the Welsh Government's consultation document sets out its position on the revaluation and reform of council tax.

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Executive summary

The Welsh Government is consulting on a range of possible approaches to council tax reform, some of which would represent the most radical reforms to council tax anywhere in the UK since this tax was introduced in 1993. The bar is pretty low, though. The English system is virtually unchanged from the initial system put in place. The Scottish system has seen modest increases in the relative tax rates applied to properties in Bands E to H, but like in England, bands are still based on 1991 values. The Welsh Government is the only one to have revalued properties before – in 2005, based on 2003 values – when it also introduced an additional band (Band I) for the most valuable 0.4% of properties but otherwise left the structure of the tax unchanged.

The Welsh Government's consultation document provides three examples of possible reforms – although it notes that the choices are infinite. The first example is a simple revaluation, placing properties into bands based on up-to-date values and updated band thresholds set so that the same fraction of properties across Wales as a whole are in each band as now. The second and third examples go further by reducing the tax rates applied to low-value properties and increasing them on high-value properties to make the tax less regressive with respect to property value than is currently the case, and potentially adding up to three new tax bands. Planned legislation would also put in place provisions for regular revaluations in future, initially every five years.

This report analyses and appraises the possible approaches to council tax reform that the Welsh Government is consulting on, and compares them with a system where the tax rate applied to each band is proportional to the value of properties in that band – which is a useful benchmark to consider to what extent the reforms would address the regressivity of the existing council tax system. It also briefly describes the role the Institute for Fiscal Studies (IFS) has played in helping the Welsh Government model the impacts of different scenarios as it has developed its consultation.

It has been clear from the lack of any revaluation in both England and Scotland that change to council tax is politically difficult. Whatever our views about the 'ideal' system, we welcome the fact that the Welsh Government has felt able to work openly with us and others on developing the analytical basis for reform, and is consulting on a range of reform approaches that would improve the current system – some more than others. Governments in Westminster and Holyrood could learn a lot from this example.

The Welsh Government's consultation

Council tax in Wales is forecast to raise about £2.1 billion in net revenue in 2023–24, an average of just over £1,400 for each of the 1.5 million households in Wales.

Properties in Wales are currently placed into one of nine bands (A to I) for council tax purposes, with the Welsh Government setting the relative tax rates for different bands, and local councils (and police authorities) determining the overall level of council tax in each area by setting the tax rate for a Band D property. There is a range of discounts and premiums for different kinds of households/properties, the biggest of which (a 25% discount for one-adult households and a means-tested council tax reduction scheme, CTRS) are Wales-wide schemes but some of which are at local discretion.

Council tax bands in Wales are based on property values in April 2003 – 20 years ago. That is more up to date than in England and Scotland, where they are based on values in April 1991. But it is still enough time for the relative values of different properties to change significantly. For example, the Office for National Statistics' House Price Index implies that average property values increased by over 270% between April 2003 and April 2023 in Blaenau Gwent and Merthyr Tydfil, but by less than 135% in Conwy, Flintshire and Wrexham over the same period.

Moreover, while the difference in (2003) values between a property in Band A and a property in Band I is at least 9.5-fold, the difference in tax bills is just 3.5-fold. Council tax is therefore both increasingly out of date and arbitrary, and highly regressive with respect to property values. In other words, it is ripe for revaluation and reform.

Following on from a previous consultation on the broader principles for reform, the Welsh Government's new consultation document sets out three possible approaches:

- (1) **Minimal reform:** a pure revaluation, where properties would be placed into one of nine bands based on estimates of their up-to-date values, and where band thresholds would be updated so that the same fraction of properties would be in each of the nine bands as now across Wales as a whole.
- (2) **Modest reform:** a less regressive, revalued 9-band system, where in addition to the steps taken in (1), the tax rates applied to Bands A to C would be reduced relative to the Band D rate, and those applied to Bands E to I would be increased.
- (3) **Expanded reform:** a less regressive, revalued 12-band system, where properties would be placed into one of 12 new bands based on estimated up-to-date values, and where there would be one additional band at the bottom (A1) and two additional bands at the top (J and K) of the value distribution, with Bands A1 to C facing lower relative tax rates and Bands E to K facing higher relative tax rates than presently.

The Welsh Government's consultation document sets out illustrative tax bands for each of these approaches, based on the initial estimates by the Valuation Office Agency (VOA) of property values as of April 2023. The consultation document does not provide information on the relative tax rates that would be applied to these different tax bands, reflecting the fact that the Welsh Government is seeking the widest possible views on the scale of reform that should be undertaken. In order to model the quantitative effects of the different approaches, the IFS worked with the Welsh Government to help identify a set of illustrative example tax rates for each tax band for the three approaches, which we use in this report. The rates and thresholds used in any eventual reform, however, may differ from the examples analysed here.

The 'minimal' reform (a pure revaluation) would bring council tax up to date, so that the bill for a property reflected its current value rather than its value 20 years ago; but on its own it would do little to reduce the regressivity of the system. The example 'modest' and (especially) 'expanded' reforms would somewhat reduce the regressivity of the system. But both would still be some way short of making council tax liabilities proportional to property value (a benchmark against which we compare the different example reforms).

A revaluation would reduce bills for properties which have seen their value increase by less than average over the last 20 years, and increase them for properties which have seen their value increase by more than average. The potential reforms to make it less regressive would reduce bills for low-value properties and increase them for high-value properties.

The impact on bills, though, would also depend crucially on how Welsh councils respond to the changes in tax bases and grant funding generated by any reforms enacted – and, in particular, on the Band D council tax rates that they set. The Welsh Government intends the reforms to be revenue-neutral, not a revenue-raising exercise; but that is not within its control, unless it dictates the Band D rates that councils set. While the Welsh Government would not use the revaluation and reform of council tax to change the total grant funding provided to councils, grants would be redistributed among councils in line with the changes in their council tax bases in order to reflect changes in their assessed ability to raise their own revenue through council tax. Councils seeing a change in their grant funding might respond by adjusting their spending on local services or by raising more/less in council tax to offset the change in grant funding. If councils seeing increases and decreases in grant funding respond asymmetrically, overall average bills and therefore aggregate council tax revenue (and spending on local services) may go up or down.

In this report, we assume that councils hold spending on local services fixed – adjusting the council tax they raise to offset changes in grant funding and thus keep their total revenue the same as in the absence of reform – implying that revaluation and reform in themselves would be revenue-neutral across Wales as a whole. As in years without reforms to council tax, though, the

overall amount raised from council tax in the year any reform is implemented would likely increase in cash terms as rising costs and demands increase councils' revenue requirements. Such increases would be likely irrespective of whether revaluation and reform take place.

Impacts on different parts of Wales

1. There are large disparities across Welsh councils in the share of properties in each council tax band – more than 58% of properties in Blaenau Gwent are currently in Band A, compared to just 1% in Monmouthshire. Revaluation based on 2023 property values would not change the fact that there are large disparities across councils, but would reflect how those have changed since 2003.
2. The South Wales Valleys, and rural areas in general, have seen bigger increases in property values than other parts of Wales, and so revaluation (the minimal reform approach) would reduce the number of low-band properties in these areas (although some individual properties would still go down bands). By contrast, Cardiff, Swansea and North East Wales have seen slower growth in property values and so would see more properties in lower bands (although some individual properties would still go up bands).
3. Assuming that grant funding were redistributed in line with the changes in tax bases implied by these band movements, and councils set their tax rates so that their total funding (from council tax and grants) were the same as in the absence of reform, under a pure revaluation (the minimal reform approach), changes in average bills would mirror the pattern of band changes. Average bills would increase in the Valleys (for example, by 6% in Merthyr Tydfil) and many rural areas (by 5% in Gwynedd and the Isle of Anglesey), and fall in Cardiff, Swansea the North East Wales (for example, by 8% in Denbighshire).
4. Changes in bills under a less regressive council tax would depend on the level of property values as well as how they have changed since 2003. For some councils, where property values are high relative to the rest of Wales and have increased a lot since 2003, such as Monmouthshire and the Vale of Glamorgan, both these factors would increase average bills under revalued, less regressive council tax systems. For other areas where values are low and have increased little, such as Denbighshire and Swansea, both factors would reduce average bills. But for areas where values have increased a lot but remain low (such as much of the Valleys), or have increased by less than average but remain high (such as Cardiff), the two factors will work in

opposite direction. Whether average bills would increase or decrease in these areas would depend on how much less regressive council tax was made.

5. The example expanded reform, a 12-band system with less regressive tax rates, would see average bills rise most in Monmouthshire (+16%) and the Vale of Glamorgan (+15%) and fall most in Blaenau Gwent (−12%) and Denbighshire (−11%). Average bills would also rise by 5%–7% in Cardiff, Gwynedd, the Isle of Anglesey, Pembrokeshire and Powys, and fall by 5%–9% in Flintshire, Neath Port Talbot, Rhondda Cynon Taf, Swansea and Wrexham. The example modest reform (a 9-band less regressive system) would see a similar pattern of increases and reductions in average bills across councils, albeit with the magnitude of effects being smaller than under the example expanded reform. Both of these systems would mean considerably smaller changes than under the 12-band proportional system, which would see average bills increase by over a quarter in Monmouthshire and the Vale of Glamorgan and fall by over a fifth in Blaenau Gwent.
6. Within councils, there would be different impacts on different neighbourhoods ('lower super output areas' or LSOAs). For example, parts of inner-city Cardiff and much of Swansea would see falls of £250–£500 in average annual bills under the example expanded reform, whereas the more expensive suburban areas of Cardiff and western Swansea would see average bills increase by that amount or more. Similarly, while average bills would increase in most parts of predominantly rural counties in mid, north and west Wales, they would decrease in many of the main towns in these counties.
7. In general, more deprived neighbourhoods would see their average bills fall under reforms that reduce the regressivity of the tax rates. More rural (sparsely populated) neighbourhoods would see average bills increase under these reforms as well as under minimal reform, because these areas have higher property values and have seen bigger increases since 2003.
8. The majority of households would see their gross council tax bill (i.e. before any discounts or premiums) fall under reforms that make the council tax system less regressive. Under the example expanded reform, more households would see their gross bill fall than rise for the most deprived seven-tenths of neighbourhoods. And only the most rural tenth of neighbourhoods has more households that would see an increase in their gross bill than a decrease.

Impacts on different household types

9. The data available to us mean that we cannot look at the fraction of households seeing decreases or increases in their *net* council tax bill (that is, after premiums and discounts, including means-tested support) by council area or neighbourhood, but we can do this for Wales as a whole, and for different household types. Across Wales as a whole, under the minimal reform (pure revaluation), around 60% of households would see their net council tax bill change by less than £50 per year under minimal reform, with roughly equal numbers seeing decreases or increases of more than this amount. Under the expanded reform approach, around 40% of households would benefit from a reduction in their net bill of at least £50, compared to around 28% that would see an increase of at least £50. Having more winners than losers from a revenue-neutral reform is possible because the average increase in annual net bill among those seeing an increase of more than £50 (£442) would be bigger than the average cut in net bill among those seeing a cut of more than £50 (£312).
10. Reforms that reduce the regressivity of council tax with respect to property value are also progressive with respect to household income. The example expanded reform would reduce average net bills by £27 per year (0.16% of household income) for the poorest fifth of households and £90 per year (0.36% of household income) for the next poorest fifth. In contrast, it would increase average net bills for the richest fifth by £174 per year (0.19% of household income). The example modest reform would have qualitatively similar impacts, albeit smaller in magnitude, but a pure revaluation, the minimal reform approach, would have very small impacts across the income distribution, on average.
11. Similarly, a pure revaluation would not have systematic effects across different household types. Less regressive systems would, on average, reduce net bills for younger households, single-adult households, those receiving disability benefits, and renters – although there would be some households among these groups facing increases. Correspondingly, other groups such as older households, couples and owner-occupiers would face an increase in average bills – although there would be many households among these groups seeing a tax cut, particularly those with low-to-middle incomes. Both the example modest and expanded reforms would still be some way short of a proportional system, under which changes in average bills for different types of households would be substantially larger.
12. The majority of low-income households would see very little change in their net bill from revaluation and reform, since their council tax bill is often fully covered by CTRS. Those that do see a significant change are more likely to gain than lose. This includes

low-income pensioners and, to a lesser extent, low-income residents of the more expensive parts of Wales.

Impacts on rents and property values

13. The council tax bill for a property will affect how much households are willing to pay to live in it. We would expect council tax reform to lead to increases in market rents for properties whose bills fall, and falls in rent for properties whose bills increase, in effect passing some or all of the gain/loss from tenants to landlords. As a result, the example modest and expanded reforms would be less progressive than analysis of changes in bills alone would suggest since landlords (who would benefit from rent increases) are generally richer than renters (whose council tax bills would be reduced).
14. Counterintuitively, low-income tenants whose council tax bills are partly or wholly covered by CTRS could lose out if the gross council tax bill on their property is *reduced*. This is because they would not benefit from the bill reduction themselves (because their CTRS entitlement would change pound-for-pound) but could see their rent increased (because other potential renters of the property, not on CTRS, would be willing to pay more given the lower council tax bill). Discretionary housing payments could be used on a case-by-case basis to provide support to households on CTRS seeing big increases in rent following reductions in the gross council tax bill due on their property.
15. In a similar manner to rents, revaluation and reform will almost certainly affect property prices: a rise (fall) in council tax bill reduces (increases) the amount potential buyers would be willing to pay for a property. The extent to which property values are affected depends on how households value future tax payments.
16. It is important to emphasise that changes in property values resulting from revaluation and reform *do not* represent a 'double effect', whereby a household would lose twice over, from both higher council tax bills and a fall in property value. Rather, such a household would pay higher council tax while they continued to live in the property, and suffer from the fall in property value only when they sold it, reflecting the higher council tax that the future owners would have to pay – but that they no longer would. This does mean, though, that it is the current owners of properties that are set to bear most of the long-term losses or gains if the tax bill on their property is increased or reduced.
17. If households value money in future (relative to money today) in line with expectations of long-term interest rates, and if prices fully adjust in response to changes in council

tax bills, the cheapest tenth of properties would see their value increase by 18% on average under the example expanded reform. Conversely, the most expensive tenth would see their value fall by 5%. This is in the context of increases in values of around 33% since prior to the COVID-19 pandemic.

18. The minimal reform approach, a pure revaluation, would have only small effects on average property values by council. The example expanded reform would increase average values in Denbighshire by around £8,600 (4%) and decrease average values in Monmouthshire by around £15,900 (4%) if prices fully adjusted to reflect changes in bills, and our baseline assumptions about how households value the future. Again, these are in the context of much larger increases in value over the last few years.
19. Low-income owner-occupiers would see their property values rise on average under reforms that reduce the regressivity of the council tax system. For the example expanded reform, values would rise by 1.5% for those in the poorest income quintile. Those in the richest quintile would see average property values fall by 2.6%. Revaluation and reform of council tax could therefore contribute to reductions in wealth inequality both across places and across households.

Our overall appraisal

The Welsh Government's proposed direction of reform is very welcome.

Council tax revaluation is unambiguously a good idea, and legislating for regular revaluations in future is even better. It is indefensible to continue to tax people based on the value of their property more than 20 years ago, and setting out firm plans for future revaluations would not only help to prevent council tax from getting so out of date again, it would also reduce the risk of people being surprised by unexpected future revaluations and changes in bills.

The appropriate degree of progressivity in the tax system is a political choice. But a stated aim for reform is to make council tax more progressive (or, at least, less regressive). The expanded approach would fulfil that aim better than the others suggested in the consultation document, though it would still fall short of making tax bills proportional to property value – perhaps too big a change for the Welsh Government to want to introduce in one giant leap.

Adding more bands would allow for a more fine-grained relationship between property value and tax liability, a helpful improvement. Ideally, the Welsh Government would go further and move away from a banded system altogether, levying the tax as a percentage of an exact property valuation, as many other jurisdictions (including Northern Ireland) do. We are not well placed to judge whether the Welsh Government's argument for sticking with relatively wide

bands – that it would minimise challenges associated with valuation – is a good one. However, we note that when it comes to appeals, in principle the effect is ambiguous, as giving properties more precise valuations might leave more people believing their valuation was wrong but would also mean generally smaller changes in bills if an appeal was successful, reducing the incentive to appeal.

A banded system also creates unfairness between households just either side of the thresholds, who have very similar property values but must pay very different amounts of tax. With a given number of bands, making the tax rates less regressive would actually exacerbate this particular unfairness, as the jump in tax bills at thresholds would be bigger. It can be alleviated by having more, narrower bands, so that the jump in liabilities at any one threshold is smaller – or again, ideally by moving from a banded to a continuous system.

A separate review of council tax discounts is ongoing, but the consultation document says that the Welsh Government intends ‘to retain the one-adult discount and to keep the level of discount at 25%’. Keeping the current structure of the discount would be unfortunate. Since the cash value of the discount is higher for properties in higher bands, it encourages inefficient use of the housing stock, with single-adult households living in bigger properties, and multi-adult households living in smaller properties, than they otherwise would – contributing to both under-occupation and overcrowding. If the Welsh Government wants to continue providing a one-adult discount of similar overall generosity to the current one, it would be better to reform it so that the size of the discount did not depend on the value of the property: setting the discount equal to, say, 40% of the Band A rate (or 20% of the Band D rate, or similar), regardless of what band the claimant’s property is actually in. Such a change would also go further towards making council tax less regressive, increasing the generosity of the discount for those in low-value properties and reducing it for those in high-value properties.

Notwithstanding any minor quibbles, the direction of reform set out in the consultation document is a good one. It is only a pity that the consultation document opens up the prospect of potential delay from the previously stated intention of implementing revaluation and reform in 2025, creating more uncertainty for households and councils. There is no obvious advantage to delay (as opposed to having a gradual transition for households seeing large changes in bills, for which there is a case). Reform is politically challenging, as it creates losers as well as winners, but delay would not make it any easier. Both Labour and Plaid Cymru committed to reforming council tax in their 2021 election manifestos, and that shared commitment was repeated in the Co-operation Agreement between them; it is hard to imagine more propitious circumstances in which to proceed. The Welsh Government should go ahead with revaluation and reform in 2025 as originally planned – and the UK and Scottish governments should follow suit.

1. Introduction

Council tax is a tax levied on the occupiers of residential properties, with the amount of tax due depending on:

- the tax band a property is placed in (from A to I in Wales);
- the tax rate set by the council and police authority the property is located in; and
- whether the occupier is entitled to an exemption or reduction or must pay a premium over the standard rate.

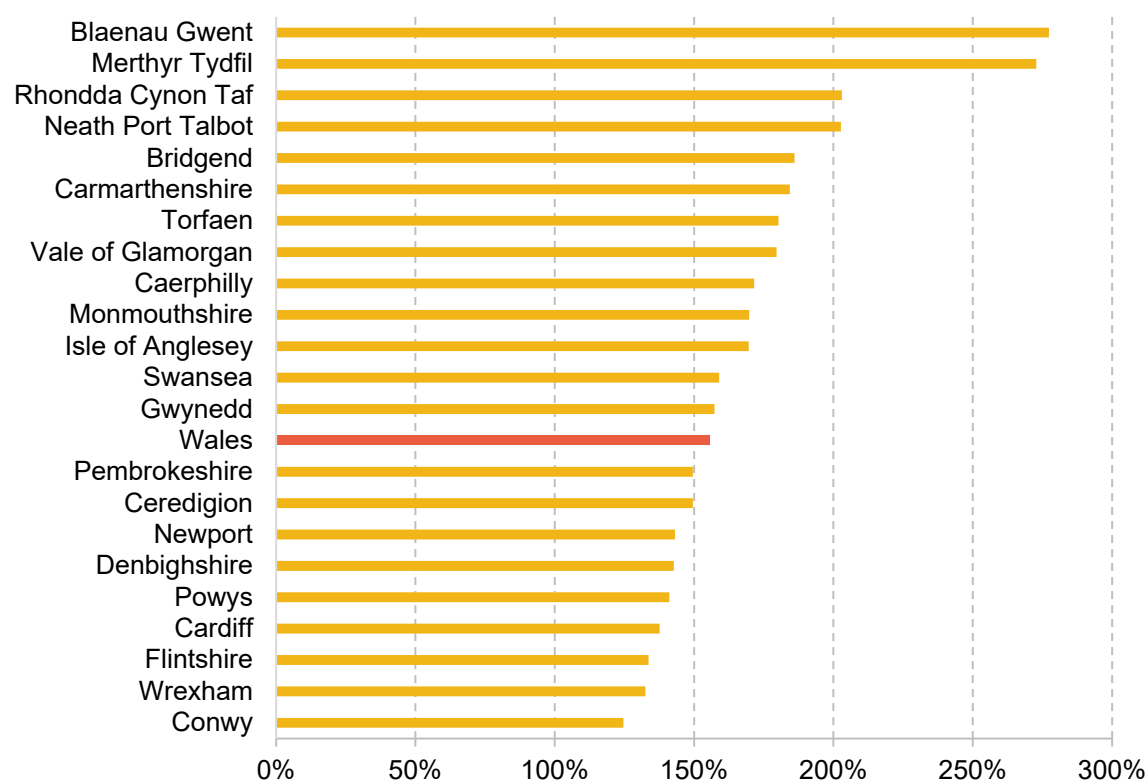
It is collected by local authorities (LAs) and in 2023–24 they are forecast to collect a net £1.61 billion for themselves (around 20% of their overall funding), as well as £0.05 billion for community councils and a further £0.41 billion for the police. With a little under 1.5 million households in Wales, this means an average bill of £1,441 per dwelling after accounting for discounts, exemptions, premiums and means-tested reductions in bills,¹ or around 3% of household disposable income.

This makes council tax the second-largest source of tax revenues devolved to Wales, after the Welsh rates of income tax (forecast to yield £2.9 billion in 2023–24), and the largest over which it has full control of the design of the system. It is therefore important that the tax is well designed and aligns with the Welsh Government's distributional preferences. Unfortunately, it is not, and it does not.

Council tax bands in Wales are based on property values in April 2003 – 20 years ago. That is more up to date than in England and Scotland, where they are based on values in April 1991. But it is still enough time for the relative values of different properties to change significantly. For example, the Office for National Statistics (ONS) House Price Index implies that average property values increased by over 270% between April 2003 and April 2023 in Blaenau Gwent and Merthyr Tydfil, but by less than 135% in Conwy, Flintshire and Wrexham over the same period, as shown in Figure 1.1. And the relative values of different properties within each area may have changed even more, for example in the vicinity of a good new school.

Moreover, while the difference in (2003) values between a property in Band A and a property in Band I is at least 9.5-fold (and usually much more), the difference in tax bills is just 3.5-fold.

¹ The average bill is calculated on the basis of tax liabilities rather than reported revenue collected. Liabilities are around 2% higher than collections, which are affected by non-payment of tax bills.

Figure 1.1. Percentage change in estimated average property value, April 2003 to April 2023

Note: Council-level average property value estimates are calculated as three-month rolling averages. To approximate prices as of 1 April in 2003 and 2023, we have averaged the three-month rolling averages for the periods February–April and March–May.

Source: ONS House Price Index (accessed 14 August 2023).

Council tax is therefore both increasingly out of date and arbitrary, and highly regressive with respect to property values. In other words, it is ripe for revaluation and reform.

It is therefore welcome that the Welsh Government is consulting on plans to revalue properties (and legislate for regular revaluations in future) and is considering reforming the structure of council tax to make it less regressive with respect to property value. A revaluation would reduce bills for properties which have seen their value increase by less than average over the last 20 years, and increase them for properties which have seen their value increase by more than average. The potential reforms to make it less regressive would reduce bills for low-value properties and increase them for high-value properties. As we discuss in this report, though, the impact on bills (and on funding for local services) would also depend crucially on how Welsh councils responded to the changes in tax bases and grant funding generated by any reforms enacted – and, in particular, on the Band D council tax rates that they set.

Researchers at the Institute for Fiscal Studies (IFS) have helped the Welsh Government analyse the impact of different tax bands and tax rate structures on different parts of Wales and different types of households. This report sets out analysis of the potential impacts of the three reform

approaches that the Welsh Government is consulting on, on tax bills in different council areas and neighbourhoods ('lower super output areas' or LSOAs), for households with different characteristics, and on property values. To do this, we use the example tax bands included in the Welsh Government's consultation and example tax rates that have been developed by the Welsh Government and the IFS to illustrate the potential impact of different reform approaches. We also compare the Welsh Government's suggested approaches to reform with a benchmark reform that would more fully resolve the regressive nature of council tax: a revalued, proportional system, where the tax rates applied to each band are proportional to the median property value in each band.

The Welsh Government has indicated that it does not intend revaluation and reform to increase (or reduce) overall council tax revenues (and, equivalently, average bills) across Wales as a whole. It has also stated that it would redistribute grant funding between councils following any revaluation and reform to account for changes in their council tax bases. As we discuss in Section 3.4, the impact on overall council tax revenue and bills is not entirely within the Welsh Government's control: it depends on how councils (and Police and Crime Commissioners) set their council tax rates in response to the reform. The results we show are based on the assumption that they set their Band D rates so that their net council tax revenues (i.e. after the cost of means-tested council tax reductions are subtracted) and grant funding are, when combined, equal to the combined pre-reform figure.

The rest of the report proceeds as follows. Chapter 2 provides further information on the Welsh Government's consultation: the possible approaches they are consulting upon and the example tax rates used in our quantitative analysis of these approaches, as well as the role of the IFS in the development of the Welsh Government's consultation. Chapter 3 looks at the potential impacts of the proposed revaluation and reform approaches across different council areas and LSOAs in Wales. Chapter 4 presents estimates of how impacts could vary across different types of households in Wales – according to their income, demographic composition, housing tenure, etc. Chapter 5 considers potential impacts on property values. Chapter 6 concludes, and provides our overall assessment of the reform approaches being consulted upon. Finally, there are two appendices. Appendix A provides more details of our empirical methodology. An online spreadsheet appendix, Appendix B, provides a range of additional figures and tables, providing further details of our empirical findings.

This report builds on earlier analysis of the potential impacts of revaluation and reform of council tax undertaken by IFS researchers for the Welsh Government (Adam et al, 2020; Phillips, 2022). A fuller discussion of the problems with the current council tax system can be found in the first of those reports. Adam et al. (2020) also discuss options for transitional arrangements and mitigation measures for households facing increases in their tax bills following revaluation and reform.

2. The reforms modelled

This chapter begins by briefly describing the existing council tax system in Wales. It then discusses the Welsh Government's policy consultation and development process, and the role of IFS researchers in this process. Finally, it sets out the illustrative examples of reforms that the Welsh Government developed with the IFS to illustrate the three approaches to reform it is consulting on.

2.1 The existing council tax system

Council tax was introduced in April 1993 as a replacement for the short-lived Community Charge (commonly known as the poll tax). Initially, every property was placed in one of eight bands (A to H), based on their April 1991 values, with properties in the highest band (H) facing a tax rate that is twice that of the reference band (D) and three times higher than properties in the lowest band (A). The Welsh Government undertook a revaluation based on April 2003 values, which came into effect in April 2005, and at the same time added a ninth band (I) for the then highest-value properties (which face a tax rate 2.33 times the reference Band D rate and 3.5 times properties in Band A).

Table 2.1 shows the current council tax bands, the relative tax rates applied to properties in each of these bands, the standard gross tax payment implied by these tax rates given the average Band D rate across Wales as a whole,² and the share of properties in each of these bands.

While the Welsh Government sets the structure of council tax, including relativities between bands, it is Welsh local councils and Police and Crime Commissioners (PCCs) that determine the overall level of council tax bills in each area, by setting Band D tax rates. The combined average Band D rate set by the main council, local community councils and the regional PCC varies from £1,693 in Caerphilly to £2,182 in Blaenau Gwent (and averages £1,879), in the current financial year, 2023–24. This means Band A tax rates vary from £1,128 to £1,457, and Band I tax rates from £3,951 to £5,091 in these two council areas, respectively (with the all-Wales averages being £1,253 and £4,384, respectively).

² This all-Wales average Band D rate is calculated as the weighted average of the Band D rates charged across all council areas, where the weights are based on each council's share of the overall Welsh council tax base. It is the Band D rate that, if applied across the whole of Wales, would raise the same aggregate net revenue as the current system.

Table 2.1. Council tax bands in Wales

Band	Property valuation as of 1 April 2003	Tax rate relative to Band D	Standard gross tax bill, Wales average	Percentage of dwellings in each band, 2023–24
A	Up to £44,000	6/9	£1,253	14.5%
B	£44,001 to £65,000	7/9	£1,461	20.8%
C	£65,001 to £91,000	8/9	£1,670	21.8%
D	£91,001 to £123,000	9/9	£1,879	16.3%
E	£123,001 to £162,000	11/9	£2,296	13.5%
F	£162,001 to £223,000	13/9	£2,714	8.2%
G	£223,001 to £324,000	15/9	£3,131	3.7%
H	£324,001 to £424,000	18/9	£3,758	0.9%
I	Above £424,000	21/9	£4,384	0.4%

Source: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/counciltaxdwellings-byct1rowdescription> and <https://www.gov.wales/sites/default/files/statistics-and-research/2023-03/council-tax-levels-april-2023-march-2024-080.pdf>. Percentage of dwellings is based on the sum of chargeable plus exempt dwellings.

Council tax bills are reduced by 25% if only one taxable adult lives in the household. There are 526,000 households in Wales, 36% of the total (1.47 million), that receive this single-person discount.³ Some groups of adults are not counted for the purposes of counting the number of taxable adults in a residence. The largest such group is students undertaking full-time educational courses with a higher education institution; others include people in detention, carers, care leavers, people with severely mental impairments, 18- and 19-year-olds in full-time (non-higher) education, members of religious communities, resident care-home and hospital patients, and residents of hostels or night shelters. Properties where all residents fall into these categories are subject to either 50% reductions or full exemption, as are certain types of empty properties, including those made vacant by a death. Properties adapted for use by disabled people are moved down one council tax band (including Band A properties: these are reduced to 'Band A–', and charged 5/9 of the Band D rate).⁴

Councils can choose to charge up to four times the normal council tax on second homes and long-term empty homes (with some exceptions), or can give a discount of up to 50%. The

³ Source: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/counciltaxdwellings-byct1rowdescription>.

⁴ This does not affect the official valuation done by the Valuation Office Agency: they are moved down a band by the local council for the purposes of billing.

maximum premiums currently being charged on top of standard council tax bills are 150% for second homes (in Gwynedd) and 100% for long-term empty homes (in a range of council areas). No council currently offers a discount for a second or long-term empty home.

A Wales-wide council tax reduction scheme (CTRS) is in place to reduce or eliminate liability for households with low income and low financial assets. In 2022–23, some 261,000 households in Wales – a fifth of all those liable for council tax – received reductions averaging £1,100, reducing total council tax revenue by £287 million (13%).⁵ Approximately £244 million of the funding provided to councils by the Welsh Government is notionally to help fund this cost.

2.2 Phase 1 consultation and the IFS's role

Reform of council tax was a 2021 manifesto pledge of both the governing Welsh Labour Party and Plaid Cymru, with which Welsh Labour has a co-operation agreement in place for certain policy and legislative priorities.⁶ This agreement includes reform of council tax, with a stated aim of making the tax 'fairer' and less regressive (Welsh Government, 2021).⁷

The Welsh Government undertook a first-stage consultation on reform of council tax in the second half of 2022 (Welsh Government, 2022a). In this, the Welsh Government consulted on:

- revaluing properties, and placing them in updated council tax bands based on updated values as of April 2023, with subsequent revaluations at least every five years;
- reducing the relative tax rates applied to low-value properties, increasing the tax rates applied to high-value properties, and adding more council tax bands, in order to reduce the regressivity of the tax;
- redistributing grant funding between councils to compensate for changes in their council tax bases following revaluation and reform of council tax;
- the design of transitional arrangements to phase in changes in bills following revaluation and reform;
- existing exemptions, discounts and premiums and potential changes to these schemes, as well as potential changes to the means-tested CTRS for low-income households, the council tax appeals process, and council tax debt recovery arrangements.

⁵ Source: Welsh Government (2023a) and <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Financing/financingofgrossrevenueexpenditure-by-sourceoffunding>.

⁶ See Welsh Labour Party (2021) and Plaid Cymru (2021).

⁷ The agreement also included a commitment to provide councils with more flexibility to set premiums, including for second homes. Increases in the maximum premiums that councils can set (from 100% to 300%) came into effect in April 2023, alongside a number of changes concerning which properties these premiums apply to.

The Welsh Government has stated that its intention is that any revaluation and reform of council tax bands and relative tax rates would be revenue-neutral. However, as we discuss in more detail below, whether revaluation and reform are revenue-neutral, or in fact increase or decrease revenues, depends crucially on how councils' respond to the changes in their tax bases and grant funding, and, in particular, on the Band D tax rates they set in future.

Scepticism about whether revaluation would in fact be revenue-neutral meant that only 43% of respondents were in favour of revaluation (Welsh Government, 2022b) – although such scepticism is probably more due to people erroneously believing that big increases in property values since 2003 mean that average bills would necessarily go up, rather than the above considerations about councils' responses to the reforms. Similar numbers (49% versus 48%) supported and opposed changes to the relative tax rates applied to different tax bands (and/or adding extra tax bands) to make council tax less regressive. And a majority (55%) were in favour of redistributing grant funding following any revaluation and reform. The Welsh Government's summary of consultation responses also reports positive responses from a range of representative stakeholder organisations.

Following this first-stage consultation, the Welsh Government commissioned the IFS to help it analyse the impact of revaluation and different banding and relative tax rate options on different parts of Wales and different household types. Reforms to exemptions, discounts, premiums and the CTRS, as well as any transitional arrangements put in place if/when a new system were implemented, were outside of the scope of this project.

So that we could undertake this work, the Welsh Government shared the initial updated value estimates by the Valuation Office Agency (VOA) for every property in Wales, as well as each property's existing tax band and location, and information on the share of properties in each current tax band in each LSOA that is eligible for exemptions, discounts, premiums and the means-tested CTRS. This allows us to model tax bills at a highly geographically disaggregated level under both the existing council tax system and under various reform scenarios based on updated values, different band structures, and different relative tax rates for different bands. However, these data from the VOA and the Welsh Government do not contain information on households' characteristics. To examine impacts on tax bills by household type, we therefore utilised household survey data from the Understanding Society survey (University of Essex, Institute for Social and Economic Research, 2022) together with the IFS's tax and benefit microsimulation model, TAXBEN. Further information on the data we used and our modelling methodology can be found in Chapters 3 and 4 and Appendix A of this report.

Based on the Welsh Government's objectives for the reforms (a revalued, less regressive system, with more differentiation in bills for low- and high-value properties), as well as practical considerations (such as operational complexity and the scope for appeals), IFS researchers and

Welsh Government officials have iterated through a number of different policy reform scenarios, considering their impacts across different parts of Wales, different types of places, and different types of households. Summary analysis was periodically shared with Welsh Government Ministers, and Plaid Cymru under the co-operation agreement, who used this alongside evidence produced in-house by the Welsh Government to inform the approaches to reform and illustrative examples that they have decided to consult upon.

2.3 The Welsh Government's phase 2 consultation and the reforms we model

The Welsh Government has now published a second consultation document (Welsh Government, 2023b), setting out three possible approaches to reform:

- (1) **Minimal reform:** a pure revaluation, where properties would be placed into one of nine bands based on estimates of their up-to-date values, and where band thresholds would be updated so that the same fraction of properties would be in each of the nine bands as now across Wales as a whole.
- (2) **Modest reform:** a less regressive, revalued 9-band system, where in addition to the steps taken in (1), the relative tax rates applied to Bands A to C would be reduced, and those applied to Bands E to I would be increased.
- (3) **Expanded reform:** a less regressive, revalued 12-band system, where properties would be placed into one of 12 new bands based on estimated up-to-date values, and where there would be one additional band at the bottom (A1) and two additional bands at the top (J and K) of the value distribution, with Bands A1 to C facing lower relative tax rates and Bands E to K facing higher relative tax rates than presently.

The Welsh Government's consultation document sets out illustrative tax bands for each of these approaches, based on the VOA's initial estimates of property values as of April 2023. These are set out in the first and second columns of Table 2.2 for the 9-band system and of Table 2.3 for the 12-band system. The consultation document does not provide information on the relative tax rates that would be applied to these different tax bands, reflecting the fact that the Welsh Government is seeking the widest possible views on the scale of reform that should be undertaken. However, quantitative modelling of the potential impact of revaluation and reform of council tax does require one to model specific tax rates. In order to do this, the IFS worked with the Welsh Government to help identify a set of example tax rates for each tax band for the three approaches included in its consultation document that are consistent with the stated objectives of making council tax fairer and less regressive with respect to property value. It is these illustrative tax rates that we analyse in this report. We also show the implied standard gross tax bill for each band under each system that would generate the same total net council tax

Table 2.2. Example band thresholds, relative tax rates, and implied standard gross tax bills under all-Wales revenue-neutral Band D rate, 9-band system

Band	Revalued 9-band system					
	Thresholds	1. Minimal reform		2. Example of modest reform		% of properties
		Relative tax rate	Standard gross tax bill	Relative tax rate	Standard gross tax bill	
A	Up to £112,353	6/9	£1,253	5/9	£1,026	14.5%
B	£112,354 to £154,585	7/9	£1,462	6/9	£1,232	20.8%
C	£154,586 to £210,717	8/9	£1,671	7.5/9	£1,540	21.8%
D	£210,718 to £278,412	9/9	£1,880	9/9	£1,848	16.3%
E	£278,413 to £375,916	11/9	£2,298	12/9	£2,463	13.5%
F	£375,917 to £516,069	13/9	£2,716	15/9	£3,079	8.2%
G	£516,070 to £748,310	15/9	£3,133	18/9	£3,695	3.7%
H	£748,311 to £986,500	18/9	£3,760	22/9	£4,516	0.9%
I	Above £986,501	21/9	£4,387	27/9	£5,542	0.4%

Source: Welsh Government (2023b) and authors' calculations.

liability across Wales as a whole as will be generated in 2023–24 under the current council tax system. Note that the Band D rate in any given council area would differ from this average, as it does now. In addition, as we discuss in the next section, while the Welsh Government aims for any revaluation and reform to be revenue-neutral, it is ultimately councils' decisions (via the Band D rate they choose to set) that determines how much is raised from council tax.

It is important to note that the exact thresholds for the bands being consulted upon and the tax rates applied to them for illustration purposes in this report could change prior to implementation of any revaluation and reform, for the following reasons: first, because the VOA is continuing to refine its estimates of April 2023 property values; second, because the Welsh Government is now also considering later valuation dates and may implement any reforms it makes in several stages; and third, because responses to the consultation and future detailed design work may lead to changes in tax bands and rates. Bearing this in mind, the columns numbered 1 to 4 in Tables 2.2 and 2.3 show the example tax rates developed by the Welsh Government and the IFS for the purpose of illustrating the reform approaches set out in the official consultation document.

Table 2.3. Example band thresholds, relative tax rates, and implied standard gross tax bills under all-Wales revenue-neutral Band D rate, 12-band system

Band	12-band system					
	Thresholds	3. Example of expanded reform		4. Proportional tax rates		% of properties
		Relative tax rate	Standard gross tax bill	Relative tax rate	Standard gross tax bill	
A1	Up to £80,000	3.5/9	£723	2.7/9	£541	3.2%
A2	£80,001 to £110,000	4.5/9	£929	3.8/9	£754	10.3%
B	£110,001 to £150,000	5.5/9	£1,136	5.1/9	£1,006	19.6%
C	£150,001 to £200,000	7.25/9	£1,497	6.8/9	£1,332	20.5%
D	£200,001 to £270,000	9/9	£1,859	9/9	£1,776	18.1%
E	£270,001 to £360,000	11.5/9	£2,375	12.1/9	£2,379	13.5%
F	£360,001 to £480,000	14.5/9	£2,995	15.9/9	£3,141	8.5%
G	£480,001 to £650,000	17.5/9	£3,614	21.1/9	£4,167	4.2%
H	£650,001 to £880,000	21.5/9	£4,440	28.5/9	£5,616	1.5%
I	£880,001 to £1.2m	26/9	£5,370	38.2/9	£7,547	0.5%
J	£1.2m to £1.6m	28/9	£5,783	51.6/9	£10,181	0.1%
K	Above £1.6m	30.5/9	£6,299	73.6/9	£14,516	0.0%

Source: Welsh Government (2023b) and authors' calculations.

For the 9-band systems (minimal and modest reforms), the increase in property values since properties were last valued in April 2003 means that the band thresholds could be increased substantially if the same share of properties were to be in each band as currently. For example, the upper value limit for Band A properties would increase from £44,000 (as of April 2003) to £112,353 under the updated bands based on the VOA's initial estimates of property values as of April 2023: a roughly 2.6-fold increase. Band D would cover properties with a value of £210,718 to £278,412 based on April 2023 values (around 2.3 times the £91,001 to £123,000 range based on April 2003 values), and Band I would cover properties with a value of £986,501 or more as of April 2023 (also around 2.3 times the current threshold of £424,000 based on April 2003 values).

Minimal reform, a pure revaluation, would continue to apply the same relative tax rates to the nine updated bands as is applied under the current system. Changes in the bills faced by individual households would be driven by whether they remain in the same band as currently, or move up or down bands. Households whose property's value has gone up by less than the

average across Wales since April 2003 could move down one or more bands, and see their bill fall, for example, whereas households whose property's value has gone up by more than average could move up one or more bands, and see their bill rise. Households whose property's value has gone up in line with the Welsh average would remain in the same band and see very little change in their bill.

Under the example of **modest reform** (a less regressive 9-band system) we are analysing in this report, tax rates relative to a Band D property would be reduced for Bands A to C (approximately 57% of properties), while increases would apply to Bands E to I (approximately 27% of properties). The relative tax rate for the highest-valued properties, in Band I (27/9), would be three times higher in cash terms than for a reference Band D property (9/9), compared to 2.33 times higher currently and under a pure revaluation. It would be approximately 5.4 times higher in cash terms than the tax rate faced by the lowest-value Band A properties (5/9), compared to 3.5 times higher currently and under a pure revaluation. Such a reform would therefore represent modest redistribution of the council tax burden from low-value to high-value properties, as we explore further in Chapters 3 and 4 of this report.

The **expanded reform (less regressive 12-band) system** would have one additional band at the bottom (A1) for properties with the lowest values. In the illustrative example included in the Welsh Government's consultation document, this is for those valued at up to £80,000 as of April 2023: just under 3% of all properties in Wales. Each threshold would then be approximately 35% higher than the previous threshold, albeit with thresholds rounded for legibility purposes. For the purposes of its consultation, the Welsh Government has chosen to use thresholds rounded to the nearest £10,000, so that Band A2 would cover properties with a value of £80,001 to £110,000, Band B would cover properties with a value of £110,001 to £150,000, and so on. However, it is worth noting that there is pronounced bunching in property transaction values at exact multiples of £10,000 (e.g. £110,000 or £200,000), which may mean that there are more appeals if band thresholds are set at the same round numbers. The Welsh Government may therefore wish to revise band thresholds (e.g. setting them at £109,000 or £199,000) if this approach were implemented. Two extra bands are proposed for the highest-value properties: J and K. In the illustrative example included in the Welsh Government's consultation document, Band J would be for the 1,600 properties estimated to be worth between £1.2 million and £1.6 million as of April 2023, and Band K for the 650 properties estimated to be worth over £1.6 million as of April 2023. These two new top council tax bands would therefore account for just 0.15% of all properties in Wales.

Under the example tax rates for **expanded reform** that we are analysing in this report, reductions in relative tax rates compared with the current system would apply to Bands A1 to C (approximately 54% of properties), while increases would apply to Bands E to K (approximately 28% of properties). The relative tax rate for the highest-valued properties in Band K (30.5/9)

would be 3.39 times higher in cash terms than for a reference Band D property (9/9), compared to 2.33 times higher currently and under a pure revaluation. It would be approximately 8.7 times higher in cash terms than the tax rate faced by the lowest-value Band A1 properties (3.5/9), compared to 3.5 times higher currently and under minimal reform. Such a reform would therefore represent a more significant redistribution of the council tax burden from low-value to high-value properties, as we explore further in Chapters 3 and 4 of this report.

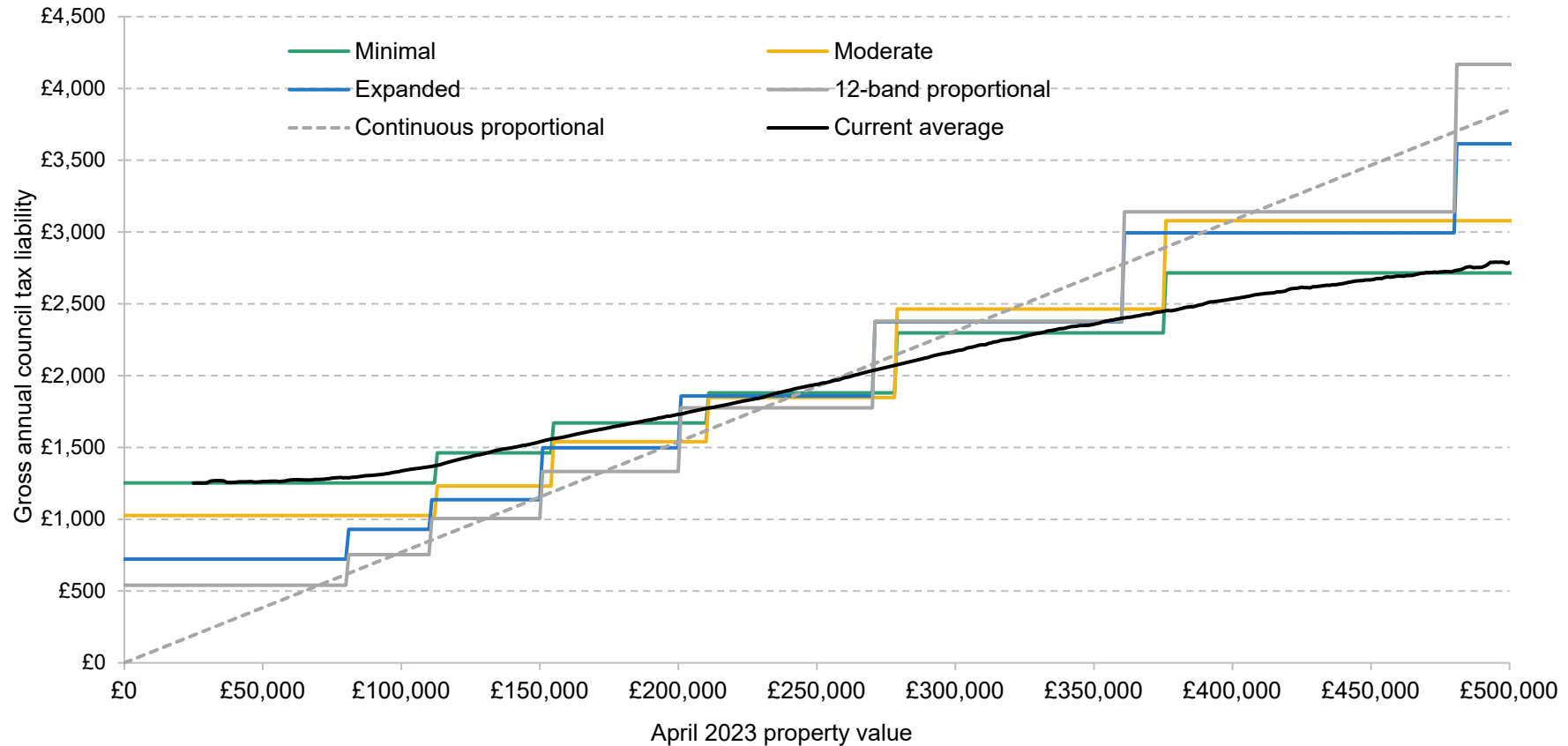
We can compare these example reforms to a revalued 12-band system, with the relative tax rates for each band set in proportion to the median property value for each band (a **proportional 12-band system**). We do this only to see the extent to which each of the example reforms would reduce the regressivity of council tax with respect to property value: the Welsh Government has ruled out a proportional council tax in its consultation document. The tax rates for this benchmark proportional tax system are included in the column numbered 4 of Table 2.3.

Figure 2.1 shows the tax rate schedules set out in these tables graphically, while Figure 2.2 shows the corresponding schedule of effective tax rates: that is, tax as a percentage of property value. The charts assume a Band D rate for each system that would raise the same total revenue as at present if applied across Wales. Current liabilities are based on April 2003 rather than April 2023 values, so the charts show the amount due on average under the current system for properties with different April 2023 values (again assuming the Wales-average Band D rate). The charts also show how much would be payable if the tax were a simple flat-rate percentage of property value raising the same revenue (in fact around 0.77%), rather than a banded system.

Note that, to make it easier to see the different lines, the charts only go up to a property value of £500,000. This is enough to cover almost 95% of properties in Wales. But, as we explain below, the difference between even the expanded reform option that we model and a proportional system grows rapidly at higher property values than this.

Minimal reform, a pure revaluation, would do little to reduce the regressivity of the current council tax system as it would leave the tax rates applied to each band unchanged. However, it would *slightly* reduce regressivity by ensuring that properties are taxed based on their current property values as opposed to values in 2003. This would address, for example, the situation whereby some properties that are now among the lowest valued in Wales and should be in Band A are currently in Band B because their value relative to other properties in Wales was not as low in 2003. It would also address the situation whereby some properties that are now among the highest valued in Wales were not among the highest valued in 2003, and so are in a lower band and facing a lower tax rate than they would if council tax were revalued and based on up-to-date-values. This effect can be seen by comparing the green line (the **minimal reform** approach) with the black line (the average payable by April 2023 property value for the **current council tax system**) in Figure 2.1 or 2.2. For the lowest-value properties (which should be in Band A

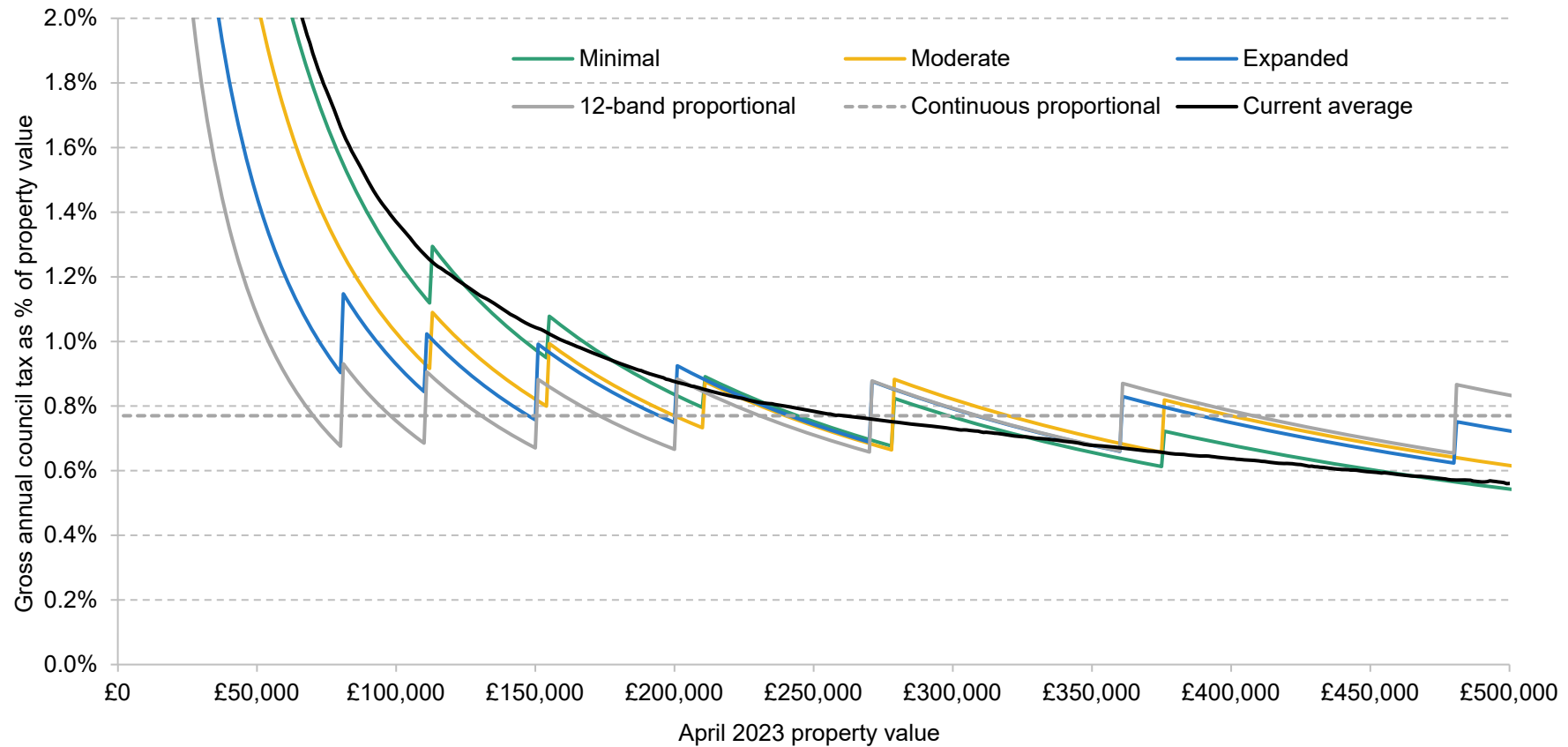
Figure 2.1. Gross council tax liability by property value under revenue-neutral average Band D rates, current system and example reforms



Note: 'Current average' is smoothed, a rolling average tax rate across six £1,000 bins of property values. Other lines are exact, as (unlike current tax bills) they would depend directly on April 2023 valuations. 'Continuous proportional' is the flat-rate percentage tax on property values that would raise the same revenue. See text for descriptions of the reforms.

Source: Authors' calculations.

Figure 2.2. Gross council tax as a proportion of property value under revenue-neutral average Band D rates, current system and example reforms



Note: 'Current average' is smoothed, a rolling average tax rate across six £1,000 bins of property values, and is shown for the range where there are enough properties to make such a calculation. Other lines are exact, as (unlike current tax bills) they would depend directly on April 2023 valuations. 'Continuous proportional' is the flat-rate percentage tax on property values that would raise the same revenue. See text for descriptions of the reforms.

Source: Authors' calculations.

based on April 2023 values), tax bills would be lower under a revalued system, on average, than currently. For the highest-value properties (especially those that should be in Band I based on April 2023 values, beyond the scope of these charts), tax bills would be slightly higher under a revalued system, on average, than currently.

Modest reform would do more to address regressivity because of the reduction in relative tax rates applied to low-band (low-value) properties, and increase in relative tax rates applied to high-band (high-value) properties. However, it would still be far from proportional. For example, the tax rate for a property worth £75,000 (Band A) would be equivalent to 1.4% of its value, compared to 0.8% for a property worth £225,000 (Band D), 0.5% for a property worth £675,000 (Band G) and 0.4% for a property worth £1.35 million (Band I). This compares to tax rates of 0.7%, 0.8%, 0.8% and 0.8%, respectively, under a (12-band) proportional system.

Expanded reform, as with modest reform, would still be some way from proportional. For example, the tax rate for a property worth £75,000 (Band A1) would be equivalent to 1.0% of its value, compared to 0.8% for a property worth £225,000 (Band D), 0.7% for a property worth £675,000 (Band H) and 0.4% for a property worth £1.35 million (Band J). Again, this compares to tax rates of 0.7%, 0.8%, 0.8% and 0.8%, respectively, under a (12-band) proportional system. In order to make the tax applied to each band proportional to the median property value in that band, Band K properties would need to face a tax rate (73.6/9) that is around 8.2 times that of a Band D property and around 27 times that of a Band A1 property (as opposed to 3.39 and 8.7 times under the example less regressive 12-band system).

The example **expanded reform** would though go somewhat further to reduce regressivity than the example **modest reform**. This is because it provides lower tax rates on approximately the lowest-valued half of properties, and higher tax rates on many of the highest-valued properties. The addition of three extra bands also allows for greater differentiation in taxes across properties according to their values. Chapters 3 and 4 illustrate the greater degree of redistribution under **expanded reform** across both places and households as part of their broader analysis of the different reform approaches/examples the Welsh Government is consulting upon.

What stands out in Figures 2.1 and 2.2, as much as the differences between the lines, is the shape of the tax schedules for all the reforms being considered: the 'step' structures in Figure 2.1 and the 'saw-tooth' shapes in Figure 2.2. This reflects the fact that the Welsh Government is proposing to stick with a banded structure for council tax. Banded structures such as these create unfairness around the thresholds between bands, where properties with very similar values can attract very different tax liabilities.⁸

⁸ They also mean that properties at the top and bottom of a given band attract the same tax in cash terms, implying tax is a smaller percentage of property value at the top of a band: it is regressive within bands.

With any given number of bands (in this case 9 or 12), making the tax rate schedule less regressive increases the size of the jump in tax liabilities at thresholds, exacerbating the unfairness between those just either side of the threshold. Thus, there is a trade-off between 'vertical equity' (the better-off paying more) and 'horizontal equity' (similarly well-off households paying similar amounts).

This trade-off can be alleviated by having more, narrower, bands – differentiating more finely between properties of different values – so that the jump in liabilities at any one threshold is smaller; or, more radically, by doing away with bands (and therefore jumps between bands) altogether and having tax liability increasing smoothly with property value. The simplest way to do this would be to make council tax a flat-rate percentage of property value, as proposed by the Mirrlees Review of the tax system (Mirrlees et al., 2011), among others (though it would also be possible to apply different percentages to amounts above certain thresholds, like income tax). Figures 2.1 and 2.2 show what gross tax liabilities would be under a continuous proportional tax (i.e. a flat-rate percentage of property value) that raised the same revenue as the other options shown on the chart.

The Welsh Government's consultation document states that 'a larger number of bands [than 12] would present valuation challenges and make the system more complicated'. We are not well placed to assess the valuation challenges associated with different systems. But we think there is a strong case in principle for moving to a continuous (unbanded) system in order to link tax bills more closely to property values, and we note that the effect on the likely number of households appealing against their valuation is ambiguous. On the one hand, maintaining relatively wide bands means that fewer properties (those in the vicinity of thresholds) are at risk of being placed in the wrong band; if properties were given a more precise estimated value, more people might believe that their valuation was wrong. On the other hand, with large jumps in tax liabilities at thresholds, people who thought there was even a small chance they were in too high a band might think it worth the hassle of appealing, and those near the bottom of a wide band could do so with little fear of being moved into a higher band; an unbanded system (or narrower bands) would mean the amount of tax at stake was smaller and could increase as well as decrease, reducing the incentive to appeal: if the potential gain from appealing were smaller (and the risk of being moved up rather than down were higher), people might be less inclined to bother. Which of these effects – the numbers doubting their valuation and the size of their incentive to challenge it – would dominate is an open empirical question on which we have no strong views. But we note that many other jurisdictions, including Northern Ireland, manage to operate a continuous (rather than banded) property tax.

3. Impacts across places

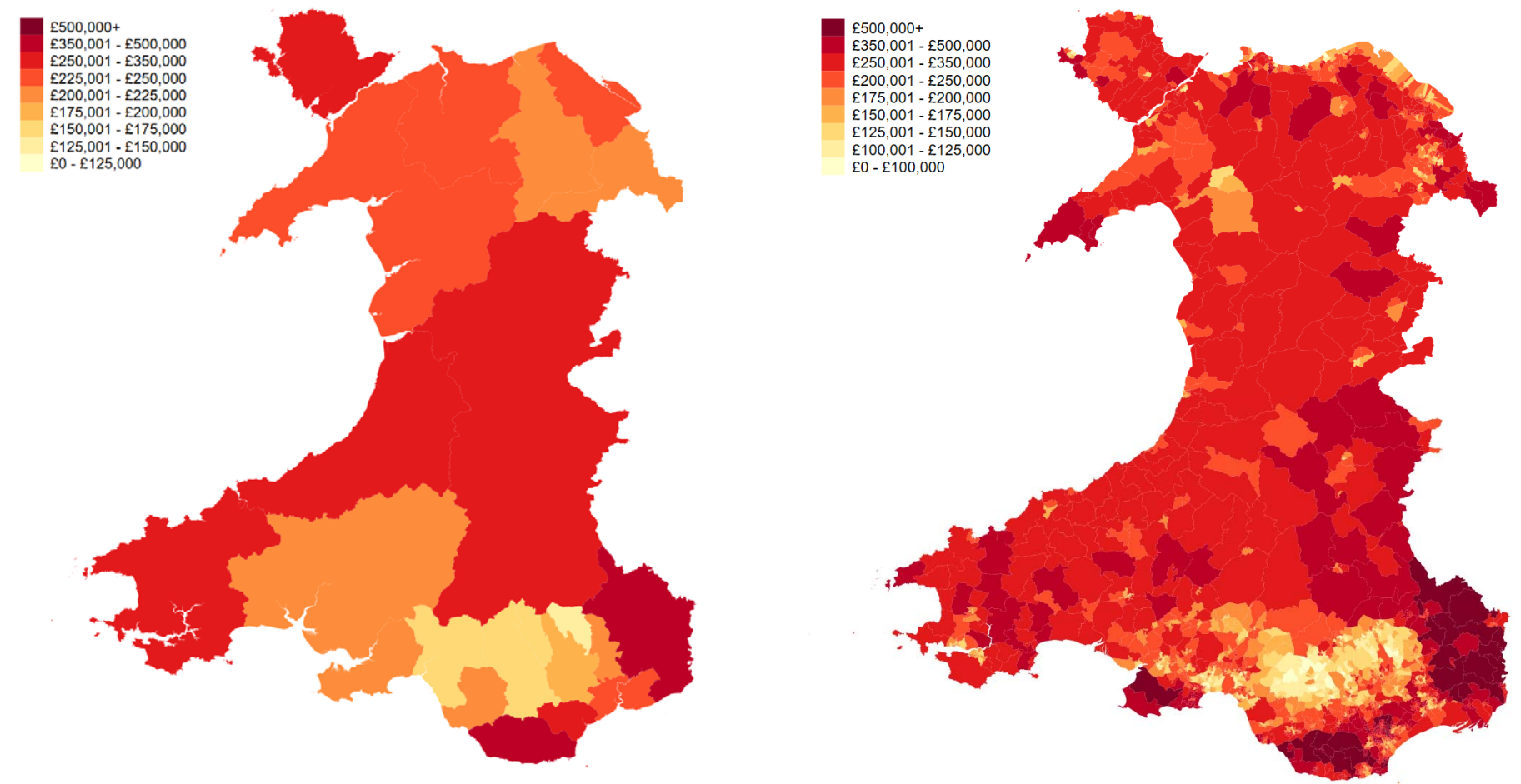
This chapter of the report examines the impact of revaluation and reform of council tax across different places – specifically different council areas and different neighbourhoods (LSOAs). We consider impacts on tax bases and average tax bills under the assumption that grant funding is redistributed between councils (and PCCs) to account for changes in their tax bases as a result of the modelled reforms.

In order to keep the length of this chapter manageable, some tables and figures are shown here only for the example of the expanded reform included in the Welsh Government's consultation document (the 12-band less regressive system): in these instances, equivalent information for the other reform approaches/examples can be found in our online spreadsheet (Appendix B). We have focused, where necessary, on the expanded reform because it is the approach/example being consulted upon that does most to address the regressivity of the current council tax system, which *in our view* is most consistent with the objectives of reform. Note that the Welsh Government's consultation seeks feedback on all options and no option is 'preferred'. In addition, the Welsh Government's consultation document highlights that further work is needed to determine precisely how grant funding will be adjusted to reflect any revaluation and reform of council tax, and to more fully consider impacts on particular local areas, including in rural parts of Wales.

3.1 Values and tax bands by council and LSOA

To undertake this analysis, we use the VOA's initial estimates of the value of each property in Wales as of April 2023. Figure 3.1 shows estimates of the average value of properties by council area (the left panel) and by LSOA (the right panel). At a council level, estimated average property values range from £136,000 in Blaenau Gwent to £382,000 in neighbouring Monmouthshire – almost three times as high. At an LSOA level, there are a number of LSOAs in Rhyl, Swansea and the South Wales Valleys which together account for around 1.5% of properties in Wales, where average property values are less than £100,000. At the other end of the scale, approximately another 2% of properties are in LSOAs in Cardiff, Monmouthshire, Newport, Swansea and the Vale of Glamorgan where the average value exceeds £500,000. Of course, underlying the variation in average values across council areas and LSOAs is much greater variation across individual properties. Table B.1 in Appendix B provides details on the distribution of the VOA's estimated property values by council area.

Figure 3.1. Average estimated property value by council area (left panel) and LSOA (right panel), April 2023



Source: Authors' calculations using the VOA's property value estimates.

Given the VOA's estimates of each property's value as of April 2023, we can assign properties to the updated bands set out in the previous chapter. As shown in Table B.2 in Appendix B, under a revalued **9-band system** (minimal and modest reforms), most properties (57%) would stay in their current band, while around 21% would move up at least one band (and 2% at least two bands), with very similar numbers moving down.

Figure 3.2 shows the proportion of properties that would be in each band for each council area in Wales under such a revalued 9-band system and compares it to the proportion under the current 9-band system based on 2003 values (full details can be found in Table B.3 in Appendix B).

The figure shows clearly both the significant differences in the share of properties that are in each band in different councils, and the changes that revaluation based on April 2023 values would lead to. For example, as it stands, the share of properties that are in Band A is highest in the South Wales Valleys, and that would remain the case post-revaluation, but the share in this lowest band would decline significantly from:

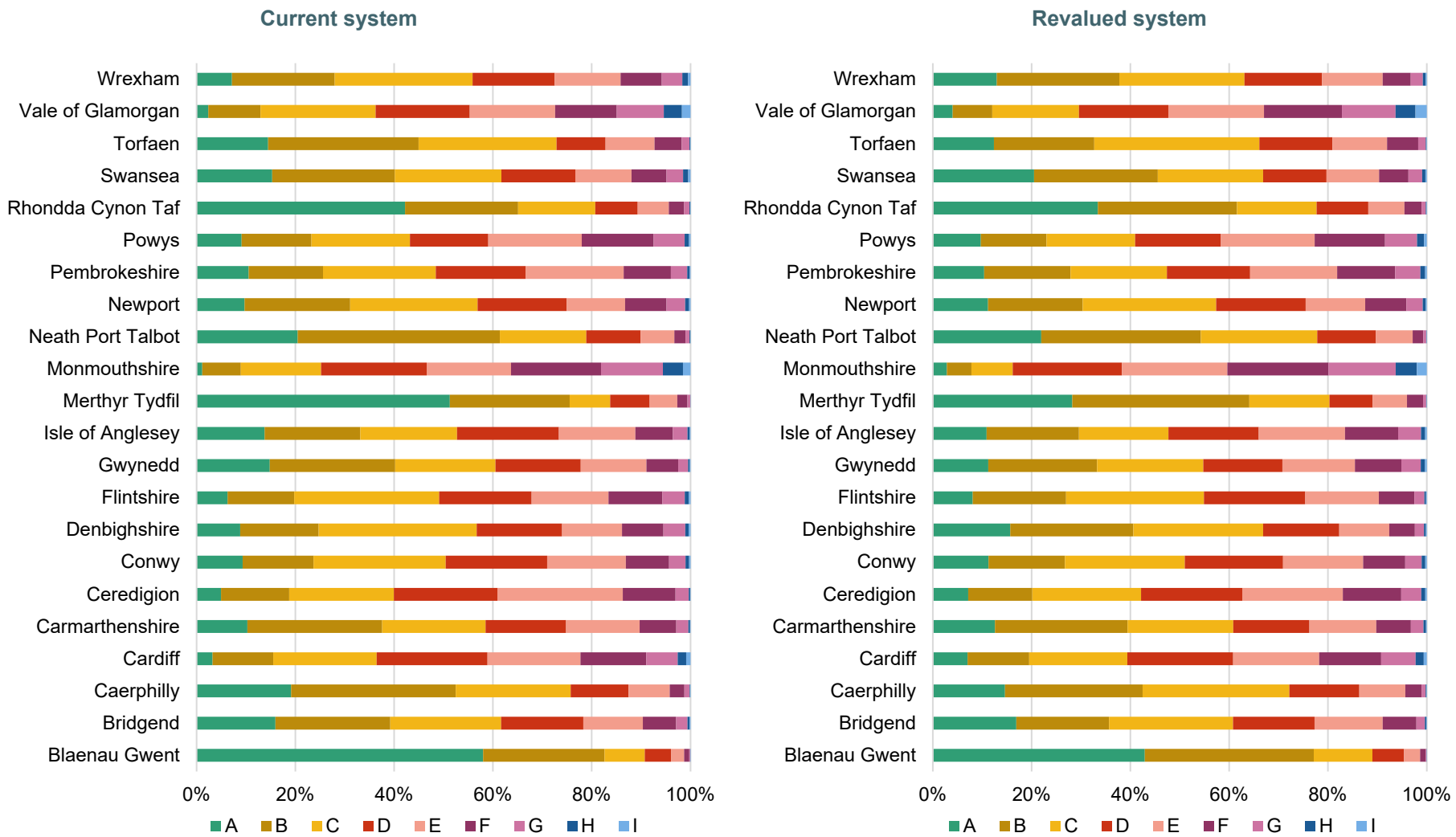
- 58.0% to 42.9% in Blaenau Gwent;
- 19.1% to 14.6% in Caerphilly;
- 51.3% to 28.2% in Merthyr Tydfil;
- 42.2% to 33.4% in Rhondda Cynon Taf.

Elsewhere in Wales, there would also be notable decreases in the share of properties in Band A in Gwynedd (from 14.8% to 11.3%) and the Isle of Anglesey (from 13.8% versus 10.9%).

Conversely, the share in Band A would increase in Cardiff (from 3.2% to 7.0%) and Swansea (from 15.3% to 20.5%), as well as in North East Wales: from 8.8% to 15.7% in Denbighshire; from 7.2% to 13.0 % in Wrexham; and from 6.3% to 8.1% in Flintshire.

These changes reflect the patterns of relative changes in property values across Wales seen since properties were last valued in April 2003: as shown in Chapter 1, values have increased by substantially more than average in the South Wales Valleys (albeit from a low base), and increased by less than average in North East Wales and Cardiff.

Figure 3.2. Share of properties by tax band under current and revalued 9-band system



Source: Authors' calculations using the VOA's property value estimates.

At the other end of the value distribution, there would also be changes in the share of properties in the top two bands (H and I, with an estimated April 2013 value of over £748,000). In particular, based on the VOA's initial estimates, the share would increase in many rural parts of Wales including Ceredigion (from 0.4% to 1.1%), Gwynedd (from 0.5% to 1.2%), the Isle of Anglesey (from 0.6% to 1.2%), Monmouthshire (from 5.6% to 6.3%), Pembrokeshire (from 0.7% to 1.3%), Powys (from 1.2% to 2.0%) and the Vale of Glamorgan (from 5.4% to 6.3%). On the other hand, the share would decrease in more urban areas including Cardiff (from 2.6% to 2.2%), Newport (from 1.1% to 0.8%) and Swansea (from 1.5% to 0.9%), as well as in North East Wales: from 1.1% to 0.6% in Denbighshire, 1.1% to 0.5% in Flintshire and from 1.6% to 0.8% in Wrexham.

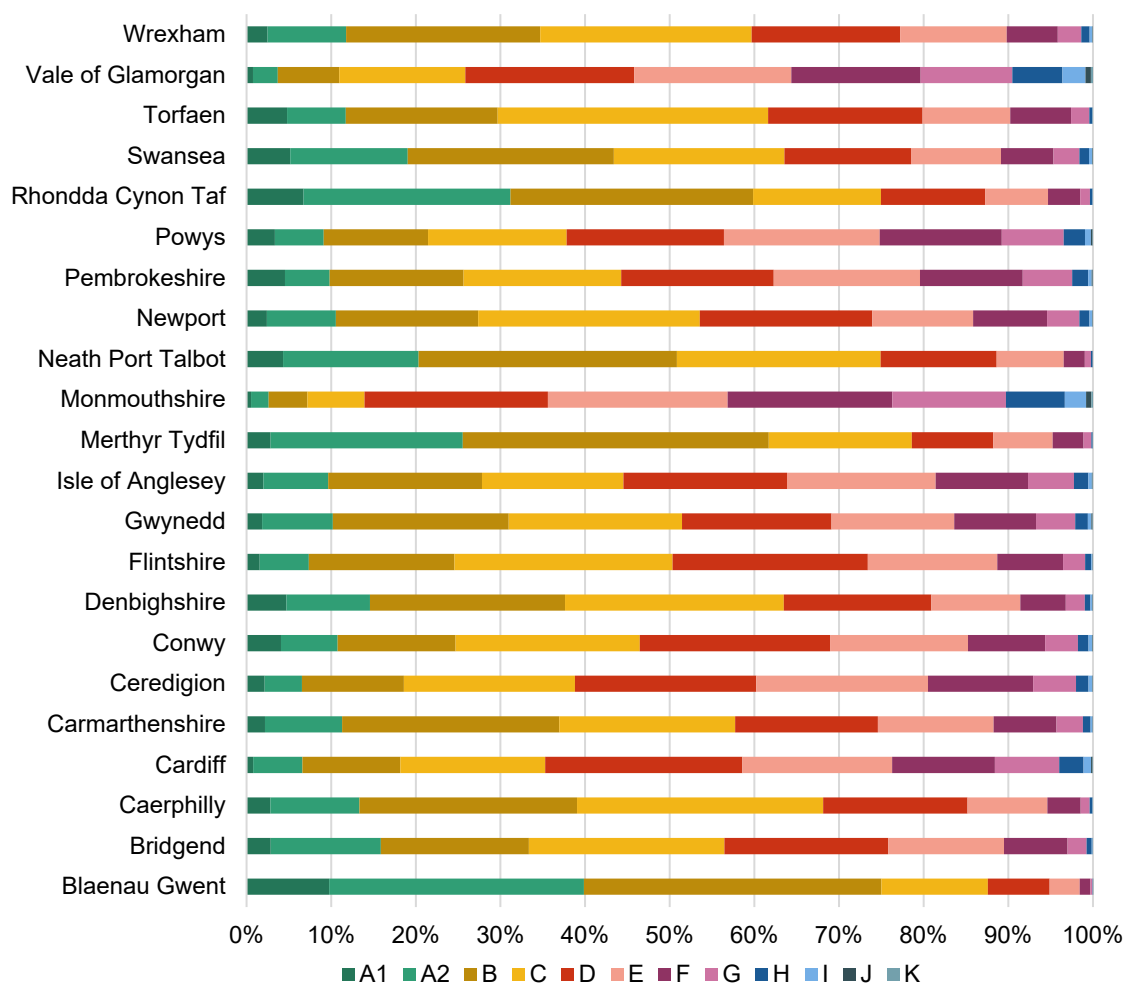
Figure 3.3 repeats the analysis shown in Figure 3.2 for the example of **expanded reform** (12-band less regressive system) included in the Welsh Government's consultation document (full details can be found in Table B.4 in Appendix B). It shows that the share of properties that would be in the lowest Band A1 with a value up to £80,000 varies from an estimated 0.5% in Monmouthshire, and 0.8% in Cardiff and the Vale of Glamorgan, to 5.2% in Swansea, 6.7% in Rhondda Cynon Taf and 9.8% in Blaenau Gwent. Conversely, the share of properties that would be in one of the top four bands (H to K, worth over £650,000) varies from 0.1% in Blaenau Gwent and 0.2% in Merthyr Tydfil and Neath Port Talbot to 4.0% in Cardiff, 9.5% in the Vale of Glamorgan and 10.3% in Monmouthshire. There would therefore continue to be very significant differences across council areas in the distribution of properties across tax bands as is the case under the current system.

Similar to the situation with a revalued 9-band system, under the example 12-band system, the share of properties in the lowest bands (A1 and A2) would be lower in most of the South Wales Valleys than in the (broadly) equivalent band (A) under the current system:

- 39.9% in bands A1 and A2 under the revalued and reforms system, compared to 58.0% in Band A under the current system in Blaenau Gwent;
- 13.3% versus 19.1%, respectively, in Caerphilly;
- 25.5% versus 51.3%, respectively, in Merthyr Tydfil;
- 31.2% versus 42.2%, respectively, in Rhondda Cynon Taf.

The share in Bands A1 and A2 would also be notably lower than in Band A currently in Gwynedd (10.2% versus 14.8%) and the Isle of Anglesey (9.6% versus 13.8%).

Figure 3.3. Share of properties by tax band under example expanded reform



Source: Authors' calculations using the VOA's property value estimates.

Conversely, the share in Bands A1 and A2 would be higher than the share currently in Band A in Cardiff (6.6% versus 3.2%) and Swansea (19.0% versus 15.3%), as well as in North East Wales:

- 14.6% versus 8.8%, respectively, in Denbighshire;
- 11.8% versus 7.2%, respectively, in Wrexham;
- 7.4% versus 6.3%, respectively, in Flintshire.

Given the greater number of bands, different thresholds and different relative tax rates across bands under the expanded reform system compared to the current 9-band system, the number of properties moving up and down bands is less meaningful than for a simple revaluation (as in the minimal and modest reforms). Bearing this in mind, Table B.2 in Appendix B shows that approximately 52% of properties would stay in the same-named band (and counting those in Band A2 that are currently in Band A as remaining in the same band). Around 20% would move down at least one band (and 2% down two or more), while around 28% would move up at least one band (and 3% up two or more). The fact that more would move up than down bands reflects

the fact that the band thresholds under the example expanded reform system are lower than under minimal reform (which would keep the proportion of properties in each band the same as currently across Wales as a whole), especially for the higher tax bands (see Tables 2.2 and 2.3). Changes in bills rather than changes in bands are what matters, though – and as we show later in this chapter, under less regressive council tax systems, more properties see their bill fall than increase.

3.2 Changes in local tax bases

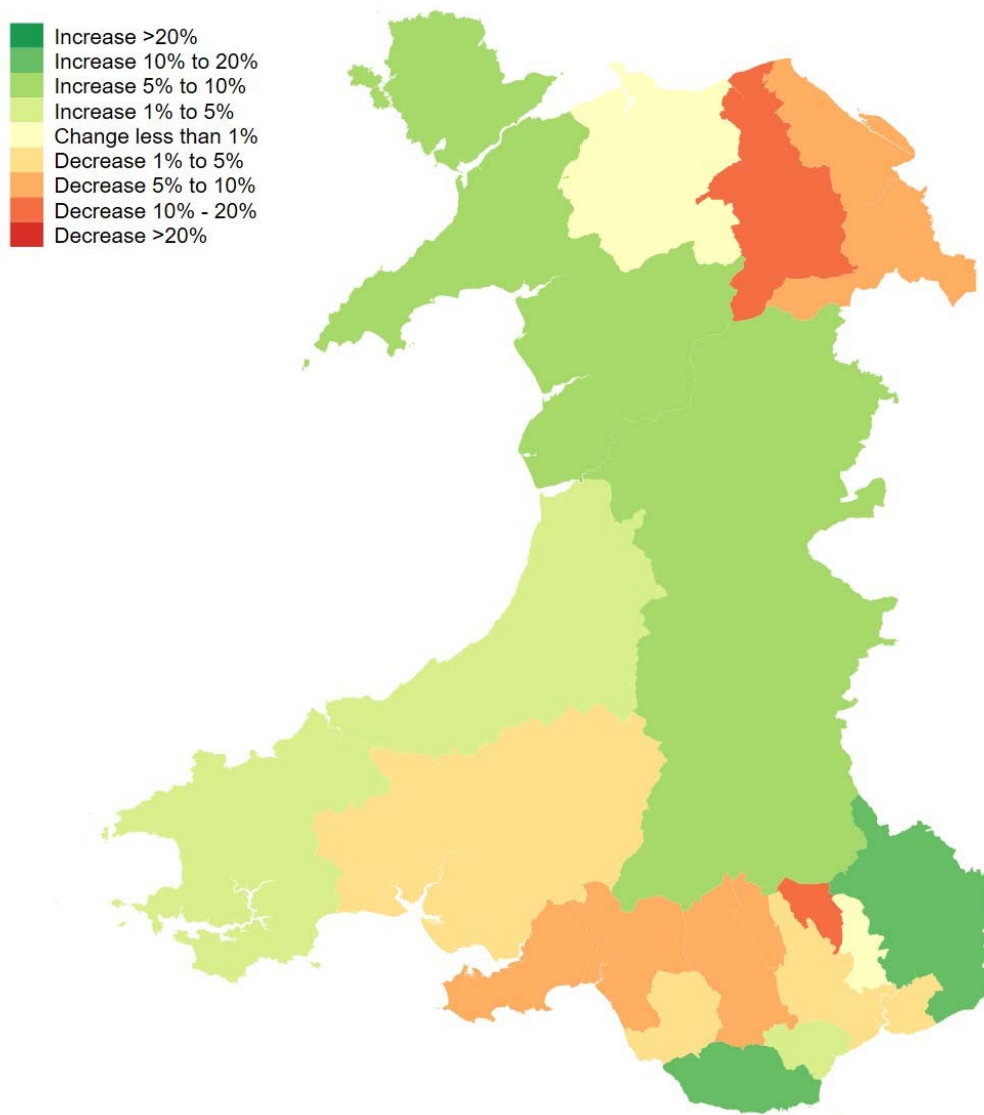
The share of properties in each tax band, together with relative tax rates applied to different tax bands and the share of properties that are subject to various exemptions, discounts or premiums, determines each council's *tax base*. This is, in effect, a measure of the amount that each council could raise from council tax given a fixed Band D tax rate. The revaluation of properties, and any new bands and relative tax rates could result in significant changes in the tax bases of different councils. This is illustrated for the example of **expanded reform**, a 12-band less regressive system, in Figure 3.4 (full details for both this system and the other modelled systems can be found in Table B.5 in Appendix B).

The figure shows that under this example system, council tax bases would increase for Cardiff and most rural parts of Wales, with the biggest increases in Monmouthshire (+17%) and the Vale of Glamorgan (+15%), followed by Gwynedd and the Isle of Anglesey (both +7%). Conversely, tax bases would decrease in the South Wales Valleys and North East Wales, with the biggest decreases in Blaenau Gwent (–14%), Denbighshire (–12%), Neath Port Talbot (–9%) and Wrexham (–9%). Table B.5 of Appendix B shows a similar pattern for the example of **modest reform** (9-band less regressive system), albeit with somewhat smaller increases (for example, +15% in Monmouthshire and +13% in the Vale of Glamorgan) and smaller decreases (for example, –8% in Blaenau Gwent and –10% in Denbighshire) than under the example 12-band less regressive system.

To understand these patterns, it is worth considering the impact that both a **pure revaluation** (minimal reform) and a **12-band proportional system** would have on councils' tax bases, as illustrated in Figure 3.5. This shows that on its own, **minimal reform** would increase tax bases in the South Wales Valleys – for example, by 3% in Blaenau Gwent and 6% in Merthyr Tydfil – as well as in Monmouthshire, the Vale of Glamorgan, Gwynedd, the Isle of Anglesey and a number of other predominantly rural areas. This reflects the fact that property values have gone up by more than average in these parts of Wales, leading to more properties moving up than down bands, as mentioned above. Conversely, below-average increases in property values, leading to more properties going down than up bands, would mean that under a pure revaluation,

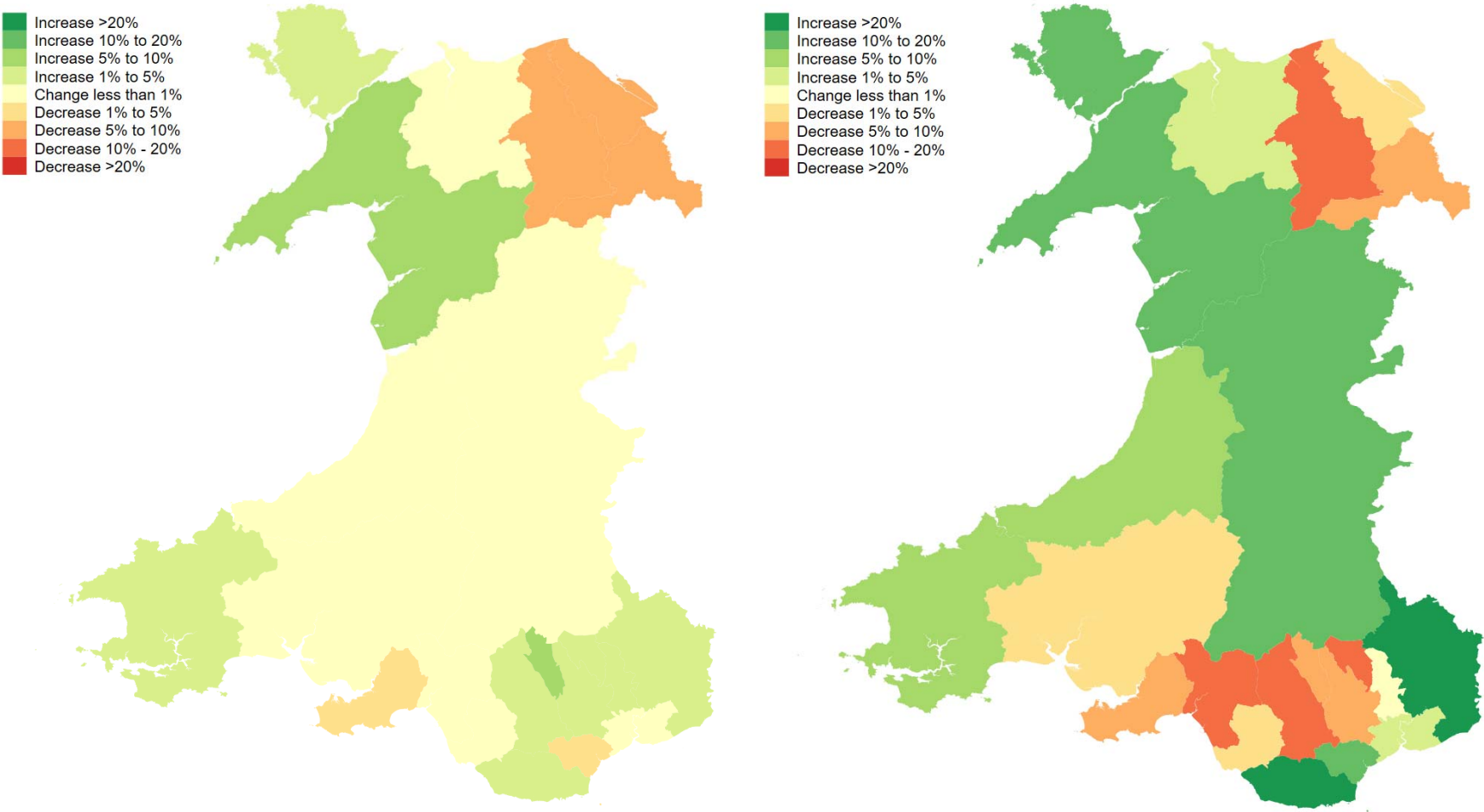
tax bases would fall in North East Wales (by up to 8% in Denbighshire) as well as in Cardiff (1%) and Swansea (3%).

Figure 3.4. Estimated change in tax base under the example expanded reform



Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base statistics.

Figure 3.5. Estimated change in tax base as a result of a pure revaluation (left panel) and a revalued 12-band proportional system (right panel)



Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base statistics.

However, while revaluation would lead to an increase in tax bases in areas where values have *increased* by more than average, and vice versa, reforming tax rates so that they are less regressive with respect to property values would increase tax bases in areas where the *level* of property values is higher, and vice versa. This can be seen clearly in the results for the **12-band proportional system**. Under such a system, tax bases would rise substantially in the parts of Wales where values are the highest, including Monmouthshire (+34%), the Vale of Glamorgan (+30%) and Cardiff (+13%), and fall in those areas where values are lowest including Blaenau Gwent (−20%), Merthyr Tydfil (−9%), Neath Port Talbot (−12%) and Rhondda Cynon Taf (−11%). The **9-band** and **12-band less regressive systems** (modest and expanded reforms, respectively) would therefore have an impact on tax bases lying in between a pure revaluation and a revalued 12-band proportional system. Because it does more to reduce the regressivity of the current council tax rate structure, the example expanded reform would lead to an outcome that is closer to the proportional system than the example modest reform. A 12-band system is not necessarily or inherently more progressive than a 9-band system; but the specific example 12-band expanded system analysed here is more progressive than the modest 9-band system.

3.3 Changes in grant funding

The impact on council tax bills of any revaluation and reform of council tax and of the resulting changes in councils' tax bases would depend crucially on two factors: first, whether the Welsh Government adjusts the grant funding it provides to councils to account for changes in their tax bases under the reformed council tax system; and second, how councils respond to changes in their tax bases, and any changes in the grant funding provided to them by the Welsh Government – and, in particular, on the Band D council tax rate they choose to set.

The grant funding the Welsh Government provides to councils currently takes account of their existing council tax bases. In particular, all else equal,⁹ those with low council tax bases (i.e. which can raise less per household from a given Band D rate) are provided with higher levels of grant funding than those with high council tax bases. The Welsh Government has confirmed in its consultation document that grant funding would be redistributed between councils following any revaluation or reforms to council tax, based on the changes in tax bases that result. An element of the grant provided to councils to help pay for the means-tested CTRS will also be

⁹ The grant allocation process also accounts for differences in councils' assessed spending needs (e.g. due to differences in the socio-economic characteristics of their populations).

redistributed based on estimates of the impact of the reform on the relative cost of CTRS for each council.¹⁰

This redistribution of grant funding is vital for ensuring that any council tax revaluation and reform redistributes from council areas where values are higher and/or have increased by more than average since the last valuation, to those council areas where values are lower and/or have increased by less than average. If grant funding were not adjusted, and if councils wanted to maintain their spending following reform, they would have to raise the same amount of council tax revenue as presently. This would mean charging their residents the same average council tax bill after revaluation and reform as before. Thus, a council seeing a fall in its tax base would have to set a higher Band D rate to offset this fall and leave average tax bills unchanged, and vice versa. While revaluation and reform would still lead to a big redistribution of tax bills across individual households, it would lead to very little redistribution in tax bills across council areas.¹¹

Table 3.1 shows our estimates of the change in Revenue Support Grant (RSG) funding that would be needed to account for the changes in councils' tax bases (not including changes to the CTRS element of the RSG) under the example of **expanded reform**, based on this year's current average Band D tax rate. Estimates for minimal reform, modest reform and the revalued 12-band proportional system can be found in Table B.6 in Appendix B. Note that, given the data available to us, we can closely but not exactly replicate the Welsh Government's usual RSG allocation calculations. In addition, the Welsh Government's consultation document says that it will analyse these effects further in collaboration with local government experts, and consider exactly how to redistribute RSG as part of any revaluation and reform of council tax. Given both these factors, these figures should be seen as indicative rather than precise, final figures.

Table 3.1 shows that RSG funding would increase for those councils seeing a reduction in their tax base (those shaded in red in Figure 3.4) and would decrease for those councils seeing an increase in their tax base (those shaded in green in Figure 3.4).

¹⁰ Total CTRS entitlements would be lower under less regressive council tax rate structures (by about £22 million under the the modest reform, £31 million under the expanded reform), but the Welsh Government does not propose to reduce the grant provided (which will still be somewhat lower than the total cost). This is why the grant would be redistributed based on changes in the *relative* rather than *absolute* cost of the CTRS. The minimal reform would have little effect on aggregate CTRS entitlements, perhaps increasing them by about £4 million.

¹¹ If it were only councils that set and levied council tax, there would be no change in overall average council tax bills in each council area if councils wished to maintain their spending. However, as discussed above, PCCs also levy council tax to pay for local police services at a regional level. The average bill charged by each of these PCCs would be unchanged, like the average bill charged by each principal council. But because PCCs cover multiple principal council areas, the *overall* average council tax bill in each council area (which is the sum of the council's tax bill and the police precept) would in fact change somewhat, based on a council area's change in tax base relative to the rest of the rest of the PCC's area. See Adam et al. (2020) for a fuller explanation.

Table 3.1. Estimates changes in RSG to account for changes in tax bases under the example expanded reform (based on the average 2023–24 Band D tax rate)

Council	Change in grant (£m)	Change in grant per person (£)	% of existing RSG and redistributed business rates
Blaenau Gwent	+4.5	+£67	+3.2%
Bridgend	+1.9	+£13	+0.8%
Caerphilly	+3.3	+£19	+1.0%
Cardiff	-11.7	-£33	-2.0%
Carmarthenshire	+3.5	+£18	+1.0%
Ceredigion	-2.3	-£32	-1.8%
Conwy	-0.4	-£4	-0.2%
Denbighshire	+7.2	+£75	+3.8%
Flintshire	+5.9	+£38	+2.3%
Gwynedd	-5.3	-£46	-2.3%
Isle of Anglesey	-3.5	-£51	-2.8%
Merthyr Tydfil	+1.3	+£23	+1.1%
Monmouthshire	-12.5	-£134	-10.2%
Neath Port Talbot	+6.3	+£44	+2.3%
Newport	+0.6	+£4	+0.2%
Pembrokeshire	-4.3	-£34	-2.0%
Powys	-5.8	-£43	-2.5%
Rhondda Cynon Taf	+9.4	+£40	+2.0%
Swansea	+9.9	+£41	+2.4%
Torfaen	0.0	£0	+0.0%
Vale of Glamorgan	-14.7	-£111	-7.2%
Wrexham	+6.8	+£50	+3.0%

Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base and council tax level statistics. ONS mid-year 2021 population estimates.

We estimate that the biggest cash-terms increases in funding under **expanded reform** would be in Swansea (+£9.9 million) and Rhondda Cynon Taf (+£9.4 million), while the biggest reductions would be in the Vale of Glamorgan (-£14.7 million), Monmouthshire (-£12.5 million) and Cardiff (-£11.7 million). These effects must be balanced by opposite changes in either council tax revenue raised or spending on local services. In most instances, the change in

RSG would be equivalent to 3% or less of current funding from the RSG and redistributed business rates (paid alongside the RSG), with the exceptions being Blaenau Gwent (+3.2%), Denbighshire (+3.8%), the Vale of Glamorgan (−7.2%) and Monmouthshire (−10.2%). Based on mid-year 2021 population estimates, the biggest increases in RSG *per person* would be in Denbighshire (+£75) and Blaenau Gwent (+£67) and the biggest decreases in Monmouthshire (−£134) and the Vale of Glamorgan (−£111).

Table B.6 in Appendix B shows that, as with the changes in tax bases, the changes in RSG funding under the example **modest reform** (9-band less regressive system) would be similar to the example **expanded reform** (12-band less regressive system), albeit with somewhat smaller changes. Conversely, the changes would be larger under the benchmark **12-band proportional system**, with aggregate increases of up to £16.7 million in Rhondda Cynon Taf and per-person increases of up to £112 in Blaenau Gwent, and aggregate decreases of up to £25.7 million in the Vale of Glamorgan and per-person decreases of up to £234 in Monmouthshire. Table B.6 also shows that the changes in RSG under **minimal reform** (pure revaluation) would follow a rather different pattern, with reductions in funding for councils in the South Wales Valleys, reflecting the increase in tax bases that these councils would see under this approach, as a result of above-average increase in property values since 2003. Table B.6 therefore shows that like with changes in tax bases, the changes in grant funding that different councils would receive following any revaluation and reform of council tax would depend on the nature of the reforms.

3.4 Changes in tax bills

As mentioned above, the impact of any revaluation and reform of council tax on bills would depend not only on changes to grant funding made by the Welsh Government, but also how councils respond to these changes and the changes in their tax bases.

One option is that they could choose to raise the same council tax revenue and charge the same average tax bill as they would have in the absence of any reform. If they did that, their spending would change in line with the change in grant funding they receive from the Welsh Government. For example, those councils whose tax base would fall as a result of the reform, and which would therefore see an increase in their grant funding, would be able to spend more. This would mean that residents of areas where property values are low and/or have increased by less than average since the last revaluation in 2003 would gain from revaluation and reforms to make council tax less regressive – but through higher council spending (for the same average tax bill) rather than lower council tax bills. Conversely, those councils whose tax base rose as a result of the reform, and which would therefore see a decrease in their grant funding, would have less to spend. Therefore, areas where property values are high and/or have increased by more than average since the last revaluation would lose from revaluation and reforms to make council tax

less regressive – through lower council spending (for the same tax bill) rather than higher council tax bills.

Such a scenario seems unlikely, though. One would not expect councils' spending needs to change substantially as a result of the revaluation and reform of council tax. And as discussed above, in order to raise the same council tax revenue after revaluation and reform, councils would need to make significant changes to their Band D rates (which, particularly in the case of increases, may be politically difficult).

An alternative is to assume that councils set their Band D rate so that their overall funding – their net council tax revenues (after accounting for the CTRS) plus grant funding – is the same as it would have been without revaluation and reform. This would allow them to maintain their spending on local public services – which would neither increase nor decrease as a result of the revaluation and reform of council tax – and mean that the average net council tax bill across Wales as a whole (though not in individual areas) would be the same with and without reform.

Unless the Welsh Government were to impose Band D rates on councils post-reform, it cannot ensure the revaluation and reform of council tax would be revenue-neutral: whether it is revenue-neutral, or raises or reduces revenues, depends on how councils choose to set their Band D rates. And while the Welsh Government could directly determine Band D rates in the year coinciding with the proposed revaluation and reform, it could not do so on an ongoing basis without removing councils' discretion to determine their overall (tax and) spending levels. With freedom to set their own Band D rates, councils seeing a change in their grant funding might respond by adjusting their spending on local services or by raising more/less in council tax to offset the change in grant funding. If councils seeing increases and decreases in grant funding respond asymmetrically, overall average bills and therefore aggregate council tax revenue (and spending on local services) may go up or down.

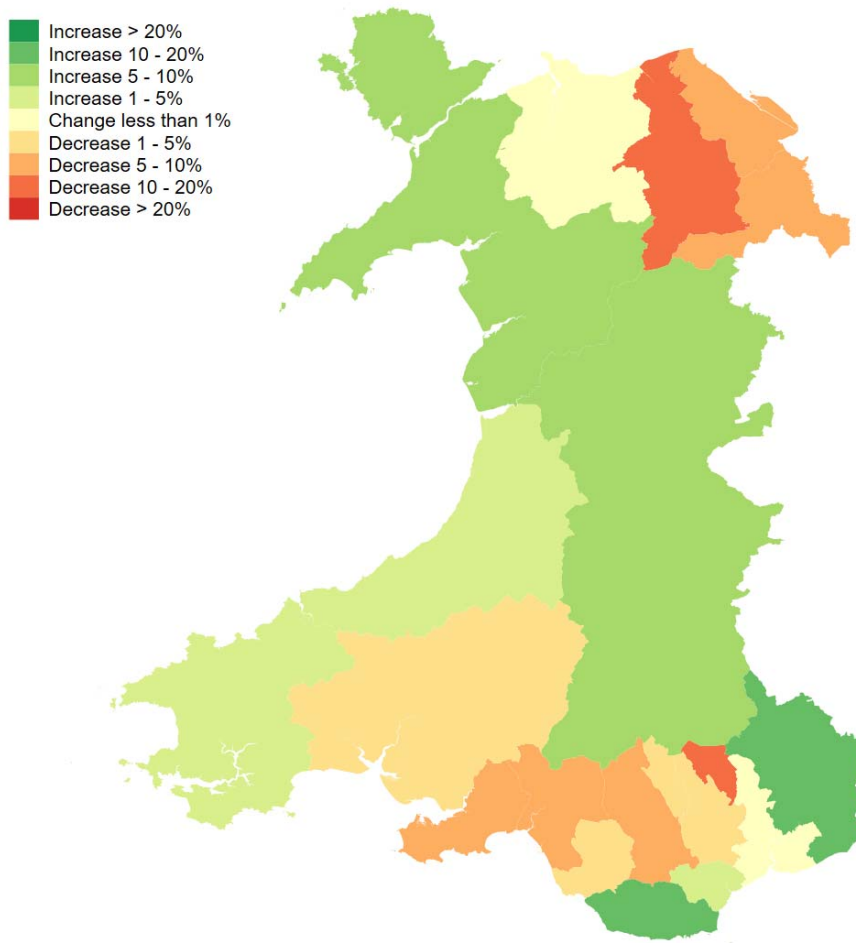
Nevertheless, by providing the same level of grant funding across Wales as a whole as it would in the absence of reform (while redistributing grants between councils based on the changes in their tax bases), the Welsh Government would enable councils, if they chose, to maintain spending on public services while setting Band D rates that are revenue-neutral across Wales as a whole, in line with its intention that the reform be revenue-neutral.

As in years without reforms to council tax, of course, councils may also choose to change the amount of council tax they raise in response to changing spending pressures. Such year-to-year changes are likely, irrespective of whether revaluation and reform take place: they are not a consequence of reform.

Impact on average net bills across council areas

Bearing this caveat in mind, Figure 3.6 shows the estimated percentage change in average *net* council tax bill under the example of **expanded reform**, by council, assuming revenue neutrality. Table 3.2 shows the estimated average net bill by council area for this reform, as well as for a **minimal reform**, **modest reform** and the **12-band proportional system**. Further details can be found in Table B.8 in Appendix B. As in the last section, the figures are for main councils, community councils and PCCs combined.

Figure 3.6. Estimated percentage change in average net council tax bill under the example expanded reform (assuming revenue neutrality), by council



Note: Includes main council tax charge by councils and police and community council tax precepts. Includes the impact of exemptions, discounts and premiums.

Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base and council tax level statistics.

Table 3.2. Average net council tax bill currently and under example reform systems (assuming revenue neutrality), by council

Council	Existing system	Minimal		Modest		Expanded		12-band proportional	
		Level	% change	Level	% change	Level	% change	Level	% change
Blaenau Gwent	£1,161	£1,195	3.0%	£1,069	-7.9%	£1,017	-12.4%	£919	-20.8%
Bridgend	£1,517	£1,518	0.0%	£1,490	-1.8%	£1,484	-2.2%	£1,442	-4.9%
Caerphilly	£1,116	£1,146	2.7%	£1,080	-3.3%	£1,068	-4.3%	£1,000	-10.4%
Cardiff	£1,371	£1,354	-1.3%	£1,424	3.8%	£1,445	5.3%	£1,512	10.2%
Carmarthenshire	£1,438	£1,423	-1.1%	£1,400	-2.6%	£1,394	-3.0%	£1,366	-5.0%
Ceredigion	£1,596	£1,607	0.7%	£1,650	3.4%	£1,661	4.1%	£1,678	5.2%
Conwy	£1,583	£1,572	-0.7%	£1,584	0.1%	£1,591	0.5%	£1,588	0.3%
Denbighshire	£1,498	£1,379	-7.9%	£1,336	-10.8%	£1,326	-11.5%	£1,282	-14.4%
Flintshire	£1,628	£1,532	-5.9%	£1,523	-6.4%	£1,529	-6.1%	£1,500	-7.8%
Gwynedd	£1,646	£1,732	5.2%	£1,742	5.8%	£1,745	6.0%	£1,750	6.3%
Isle of Anglesey	£1,490	£1,562	4.8%	£1,592	6.9%	£1,600	7.4%	£1,620	8.7%
Merthyr Tydfil	£1,257	£1,327	5.6%	£1,234	-1.8%	£1,202	-4.3%	£1,124	-10.5%
Monmouthshire	£1,990	£2,056	3.3%	£2,257	13.5%	£2,309	16.0%	£2,549	28.1%
Neath Port Talbot	£1,281	£1,289	0.6%	£1,203	-6.1%	£1,181	-7.8%	£1,104	-13.9%
Newport	£1,329	£1,316	-1.0%	£1,313	-1.2%	£1,318	-0.8%	£1,305	-1.8%
Pembrokeshire	£1,508	£1,543	2.3%	£1,582	4.9%	£1,588	5.3%	£1,614	7.0%
Powys	£1,691	£1,705	0.8%	£1,776	5.0%	£1,789	5.8%	£1,848	9.3%
Rhondda Cynon Taf	£1,199	£1,225	2.2%	£1,142	-4.8%	£1,109	-7.5%	£1,037	-13.5%
Swansea	£1,383	£1,336	-3.4%	£1,305	-5.7%	£1,294	-6.5%	£1,269	-8.3%
Torfaen	£1,266	£1,306	3.2%	£1,270	0.3%	£1,265	-0.1%	£1,215	-4.0%
Vale of Glamorgan	£1,732	£1,802	4.0%	£1,955	12.9%	£1,998	15.3%	£2,203	27.2%
Wrexham	£1,453	£1,359	-6.5%	£1,332	-8.3%	£1,330	-8.5%	£1,301	-10.5%
Wales	£1,441	£1,441	0.0%	£1,441	0.0%	£1,441	0.0%	£1,441	0.0%

Note: Includes main council tax charge by councils and police and community council tax precepts.

Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base and council tax level statistics.

Under an assumption of revenue neutrality, we estimate that the example **12-band less regressive system** would see average bills increase most in Monmouthshire (+16% or +£319), and the Vale of Glamorgan (+15% or +£266), and fall the most in Blaenau Gwent (–12% or –£144) and Denbighshire (–11% or £172). There would also be increases of 5%–7% in Cardiff, Gwynedd, the Isle of Anglesey, Pembrokeshire and Powys, and reductions of 5%–9% in Flintshire, Neath Port Talbot, Rhondda Cynon Taf, Swansea and Wrexham.

Table 3.2 shows that the pattern would be similar under the example **modest reform**, although the changes would be somewhat smaller. The table also shows that both these less regressive systems would entail smaller changes in average bills across council areas than a **12-band proportional system** would entail. For example, under that system, average bills would increase by 28% (£559) in Monmouthshire and by 27% (£470) in the Vale of Glamorgan, and fall by 21% (£242) in Blaenau Gwent and by 14% (£217) in Denbighshire, for example.

In addition, Table 3.2 shows that the pattern of bill changes under **minimal reform** would differ substantially. Rather than decreasing, average bills would increase in most of the eastern and central parts of the South Wales Valleys (such as in Blaenau Gwent, Caerphilly, Merthyr Tydfil, Rhondda Cynon Taff and Torfaen), reflecting the above-average increase in property values in these areas since properties were last valued in 2003. Average bills would still fall in North East Wales though, reflecting the below-average increase in property values in this part of Wales. And bills would increase in North West Wales, and in Monmouthshire and the Vale of Glamorgan, albeit not to the same extent as under the example less regressive systems, reflecting above-average increases in property values in these areas of Wales.

These average changes in bills by council area, while important, do not reflect the full diversity of impacts of the potential council tax reforms across different properties and neighbourhoods. Unfortunately, the data available to us do not allow us to model the changes in net bill by property for all properties in Wales – although in Chapter 4 of this report we consider impacts for a representative sample of households in Wales. However, we are able to estimate the change in average net council tax bill by neighbourhood (LSOA), and in turn, examine how these changes correlate with neighbourhood characteristics (such as deprivation and rurality). We can also examine the change in gross council tax bills *before exemptions, discounts and premiums* (as well as the CTRS) by property. This latter analysis shows that even in councils and LSOA areas where the average bill would increase, many properties would see reductions in their bill – especially under less regressive versions of the council tax.

Impact on average net bills across neighbourhoods (LSOAs)

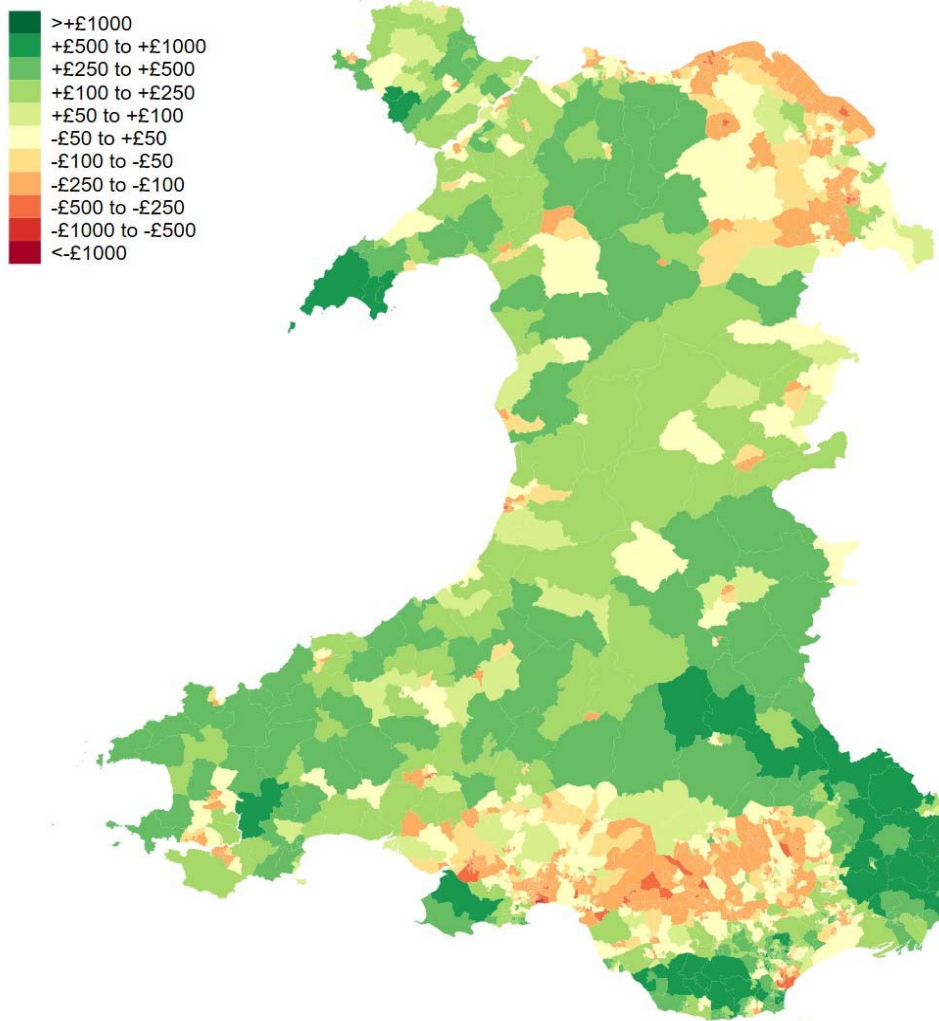
We first look at potential impacts across LSOAs. There are 1,909 Census-2011-based LSOAs in Wales, with an average population of 1,660. 90% have a population between 1,164 and 2,383,

although approximately 0.5% (ten) have a population below 1,000 and 0.3% (five) have a population above 4,000. For ease of understanding, we refer to LSOAs as 'neighbourhoods', and in urban areas with high population densities, LSOAs cover small geographical areas: around one in ten have an area of less than 0.25 square kilometres (including just over one in three LSOAs in Cardiff). And just under half have an area of less than 1 square kilometre (including almost nine in ten LSOAs in Cardiff). But in rural parts of Wales, LSOAs range over large geographical areas, potentially covering several villages and isolated settlements. This means the average (mean) area of an LSOA is 10.9 square kilometres, and around 2.5% (48) have an area of over 100 square kilometres (almost half of these are in Powys). We may expect the value of similar properties to vary more over these large rural LSOAs than in the small urban LSOAs, which will have implications for the council tax bills they face under both the existing and potential reform systems.

Bearing this in mind, Figure 3.7 shows estimates of the change in average net bill by neighbourhood under the example **expanded reform** (12-band less regressive system) if Band D rates were set to be revenue-neutral on a net basis. Table B.9 in Appendix B shows the same figures for **minimal reform** (pure revaluation), the example **modest reform** (9-band less regressive system) and a **12-band proportional system**. Figure 3.7 and the first row of maps in Table B.9 include, as in the results presented so far, the premiums paid on long-term empty and second homes. The second row of maps in Table B.9 exclude these council tax premiums. All LSOA-level results exclude the council tax levied by community councils as the data available to us do not tell us what community council charges apply in each LSOA (only the average across main council areas). Given that community council charges represent a relatively small fraction of council tax bills (2% across Wales as a whole and less than 7% in areas with community councils, bar a handful of exceptions), excluding these charges will make little difference to estimates of changes in bills.

Figure 3.7 shows (in orange and red) that under the example **expanded reform**, the LSOAs that would see the biggest reductions in average bills would be in inner-city Swansea (where a number of LSOAs would see a reduction in average bills of over £500), inner-city Cardiff, and parts of the South Wales Valleys, as well as parts of Wrexham and parts of Rhyl in North East Wales. The reductions in inner-city Swansea and Cardiff likely reflect, at least in part, the relative decline in value in new-build and converted apartments, some of which have been affected by build-quality issues (similar reductions in average bills for these areas would take place under a pure revaluation). The large reductions in parts of Rhyl and Wrexham would also, to some extent, reflect the relatively slow growth in property values since 2003 in North East Wales as a whole. Conversely, the South Wales Valleys have tended to see above-average increases in property values since 2003, meaning that the decline in average bills under a less council tax regressive system would very much reflect the low average property values in these areas.

Figure 3.7. Estimated change in average net council tax bill under the example expanded reform (assuming revenue neutrality), by LSOA



Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. Includes the impact of exemptions, discounts and premiums.

Source: Authors' calculations using the VOA's property value estimates and Welsh Government tax base and council tax level statistics.

Bills would fall by smaller amounts across a broad swathe of the South Wales Valleys, Swansea and North East Wales, as well as many of the main towns in mainly rural counties – including (from North to South) places such as Holyhead, Bangor, Newtown, Aberystwyth, Carmarthen and the main towns in Pembrokeshire (with the exception of Tenby).

The LSOAs with the biggest increases in average bills (between £500 and £1,000), shown in darker green, would be concentrated in rural areas of Monmouthshire, the Vale of Glamorgan and southern Powys, as well as parts of suburban Cardiff, and the tip of the Llyn Peninsular in Gwynedd (around Abersoch). This reflects the high average value of properties in these areas, and in the Llyn Peninsular in particular, the above-average increases in property values since

properties were last valued in 2003 (this area would also see a particularly large increase in average bills under a pure revaluation), and the concentration of second homes paying council tax premiums. More generally, average bills would increase by more modest amounts for most rural parts of Wales, as well as suburban and commuter areas near Cardiff (such as Penarth) and western parts of Swansea.

Consideration of the maps in Table B.9 in Appendix B shows that the patterns would be similar but somewhat less pronounced under the example **modest reform**, and similar but significantly more pronounced under a **12-band proportional system**. For example, under the latter, the increase in average bills would exceed £1,000 in many rural LSOAs in Monmouthshire and the Vale of Glamorgan, as well as some suburban LSOAs in Cardiff and a scattering of other areas (such as around Abersoch, again partly reflecting second home premiums). On the other hand, many more LSOAs would see reductions of £250–£500, including most of Rhyl, the Rhondda Valleys and upper Ogmore Valleys, and inner-city Swansea. The fall in average bills in much of Cardiff Bay would also exceed £500. Conversely, the pattern would be quite different under a **minimal reform**, with much smaller changes in average bills by LSOA, on average, and small increases in much of the South Wales Valleys, reflecting the above-average increase in property values in this region.

In order to better understand the *types* of neighbourhoods (LSOAs) that would see their average net council tax bills increase or decrease following revaluation and reform of council tax, Table 3.3 shows how the average change in average net council bills varies according to local area deprivation. Table 3.4 repeats the analysis according to local area population density (as a proxy for how rural or urban an area is).

Table 3.3 shows that under systems that make council tax less regressive – and particularly under a fully proportional system – average net bills would fall for deprived LSOAs and increase for less deprived LSOAs. For example, under a **12-band less regressive system** (expanded reform), the average bill for the most deprived three-tenths of LSOAs would fall by around £130, while it would increase by an average of £189 for the least deprived tenth of LSOAs. Impacts would be somewhat less pronounced under the example **9-band less regressive system** (modest reform), reflecting the fact that this system would do somewhat less to address the regressivity of the existing council tax system than the 12-band system we model.

Table 3.3. Change in average net bill by deprivation of LSOA

Deprivation decile group	Minimal	Modest	Expanded	12-band proportional
Most deprived	£0	−£96	−£129	−£205
2	−£5	−£101	−£133	−£210
3	−£11	−£102	−£126	−£203
4	£6	−£61	−£77	−£137
5	£21	£1	−£1	−£27
6	£5	£4	£7	−£7
7	£15	£53	£67	£93
8	£6	£82	£105	£169
9	−£15	£76	£105	£187
Least deprived	−£27	£149	£189	£360

Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. Includes the impact of exemptions, discounts and premiums.

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics, and Welsh Index of Multiple Deprivation (IMD) 2019.

Table 3.4. Change in average net bill by population density of LSOA

Population density decile group	Minimal	Modest	Expanded	12-band proportional
Most rural (least dense)	£74	£201	£230	£358
2	£10	£71	£86	£159
3	£3	£3	£1	−£2
4	−£18	−£45	−£52	−£86
5	−£13	−£34	−£37	−£63
6	−£16	−£43	−£51	−£77
7	−£17	−£39	−£45	−£66
8	−£4	−£22	−£23	−£44
9	−£7	−£45	−£55	−£90
Most urban (densest)	−£18	−£63	−£72	−£119

Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. Includes the impact of exemptions, discounts and premiums.

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics, and ONS LSOA population density estimates.

The pattern would be quite different under a **pure revaluation** (minimal reform), with small decreases in average bills in the most deprived and least deprived LSOAs and small increases in those with moderate levels of deprivation. This reflects the fact that many of both the most deprived and least deprived areas of Wales are around Cardiff, Swansea and North East Wales – where property values have increased by less than average since 2003. In contrast, many of the rural areas of Wales have moderate levels of deprivation (sometimes reflecting the fact that the larger geographical areas covered by LSOAs in rural Wales mean they cover pockets of both affluence and deprivation).

General patterns are more consistent when considering how impacts of revaluation and reform would differ across LSOAs with different population densities – although the scale of impacts would vary considerably under different reform approaches. The above-average increases in values in many rural parts of Wales mean that average bills would increase in the least densely populated areas under **minimal reform**; they would fall modestly elsewhere in Wales, especially those areas with moderate population densities and the highest population densities. The smaller reductions for decile groups 8 and 9 (with relatively high population densities) reflect the fact that these groups include many LSOAs in the South Wales Valleys, where average property values have increased by more than average since the last valuation, as well as parts of Cardiff, Swansea and North East Wales (where they have increased by less).

If council tax were made less regressive, these patterns would be accentuated. For example, under the example of **expanded reform**, the average net bill for properties in the least dense LSOAs in Wales would increase by an average of £230, while average bills for those with the least dense populations would fall by £72. The pattern would be very similar but somewhat less pronounced under the example of **modest reform**, and substantially more pronounced under a **12-band proportional system**. This reflects the fact that properties in less densely populated rural areas have not only increased in value by more than average since 2003, but they are often relatively highly valued, while those in the most densely populated places are often relatively low valued. Again, the reduction is somewhat smaller for density group 8 (with relatively high population density). This reflects the fact that this group contains some of the more affluent parts of Cardiff and Swansea, where average property values are high, as well as other parts of Wales, where values are low.

Impact on average gross bills (before exemptions, discounts and premiums)

As discussed earlier, the council- and LSOA-level changes in average bills that we have focused on so far somewhat obscure the fact that revaluing and especially reforming council tax would lead to different impacts on specific properties within even relatively small geographical areas, depending on their value and how it has changed since 2003. To address this, we now look at changes in gross council tax bills before any exemptions, discounts and premiums, which we can

model at the level of individual properties. Again, because we cannot link individual properties to community council tax charges, these charges are excluded from this analysis.

Table 3.5 shows estimates of the number of properties across Wales as a whole whose 'standard' gross council tax bill before any exemptions, discounts and premiums would increase and decrease by different amounts if Band D rates were set to be revenue-neutral on a net basis, for the different example reforms being modelled in this report.

The table shows that under a **minimal reform**, a majority of properties (approximately 834,000 or 57%) would see little change in their 'standard' gross bill, reflecting the fact that 57% would remain in the same band as currently, given the VOA's initial estimates of property values as of April 2023. Around 320,000 (21%) would see their 'standard' gross bill fall by more than £100 per year, while virtually the same number and share would see their 'standard' gross bill increase by more than £100 a year; these are properties moving down at least one band, or up at least one band. Roughly 28,000 (2%) would see a decrease of more than £500, or an increase of more than £500; these are mostly properties moving down or up at least two bands.

Table 3.5. Number of properties that would see different changes in their 'standard' gross annual council tax bill of different amounts, all Wales

Change	Minimal	Modest	Expanded	12-band proportional
Down over £1,000	2,526	2,595	2,493	4,000
Down £500–£1,000	25,044	32,994	138,735	283,625
Down £250–£500	114,350	258,161	399,592	455,815
Down £100–£250	178,132	501,884	245,270	160,910
Down £50–£100	0	7,948	0	81,196
Little change	834,253	197,440	212,549	16,218
Up £50–£100	0	69,285	108,170	117,462
Up £100–£250	185,656	168,868	88,608	74,066
Up £250–£500	104,374	76,534	138,273	102,645
Up £500–£1,000	22,480	131,279	100,713	89,234
Up over £1,000	5,367	25,194	37,779	87,011

Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. 'Standard' gross bills are before any exemptions, discounts, premiums and the CTRS.

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics.

Less regressive systems of council tax would mean more properties see falls in the 'standard' gross bill than increases, but the increases among those seeing increases would be larger. For example, under the example of **modest reform**, around 800,000 properties (55%) would see a fall of £50 a year or more, compared to 470,000 (32%) that would see an increase of £50 a year or more. This reflects the fact that Bands A to C, to which reductions in tax rates would be applied under this system, account for around twice as many properties as Bands E to I, to which increases in tax rates would be applied under this system. However, while around 35,000 properties (2.5%) would see a reduction in their 'standard' tax bill of £500 or more, around 155,000 (over 10%) would see an increase of £500 or more. This reflects the fact that the increases in tax rates applying to the (relatively small number of) properties in the highest bands are bigger than the decreases applying to the (relatively large number of) properties in the lower bands.

The same broad pattern can be seen for the example of **expanded reform**, where around 785,000 properties (53%) would see a reduction in their 'standard' gross bill of £50 or more, while 475,000 (32%) would see an increase of £50 or more. The bigger reduction in tax rates applied to Bands A1 to C under this system than under the 9-band system, combined with the bigger increases applied to the very highest-value properties (in Bands J and K), together with the fact that more properties would move up than down bands in this 12-band system, means that the number seeing big falls or big increases would be greater. For example, around 140,000 would see a fall of at least £500, while nearly 40,000 (nearly 3%) would see an increase of over £1,000.

Both of the example less regressive systems would be some way from a **12-band proportional system** though: under such a system, almost 290,000 properties (20%) would see a fall in their 'standard' council tax bill of £500 or more, while almost 90,000 (6%) would see an increase of £1,000 or more; and several multiples of that for very high-value properties in Bands J and K.

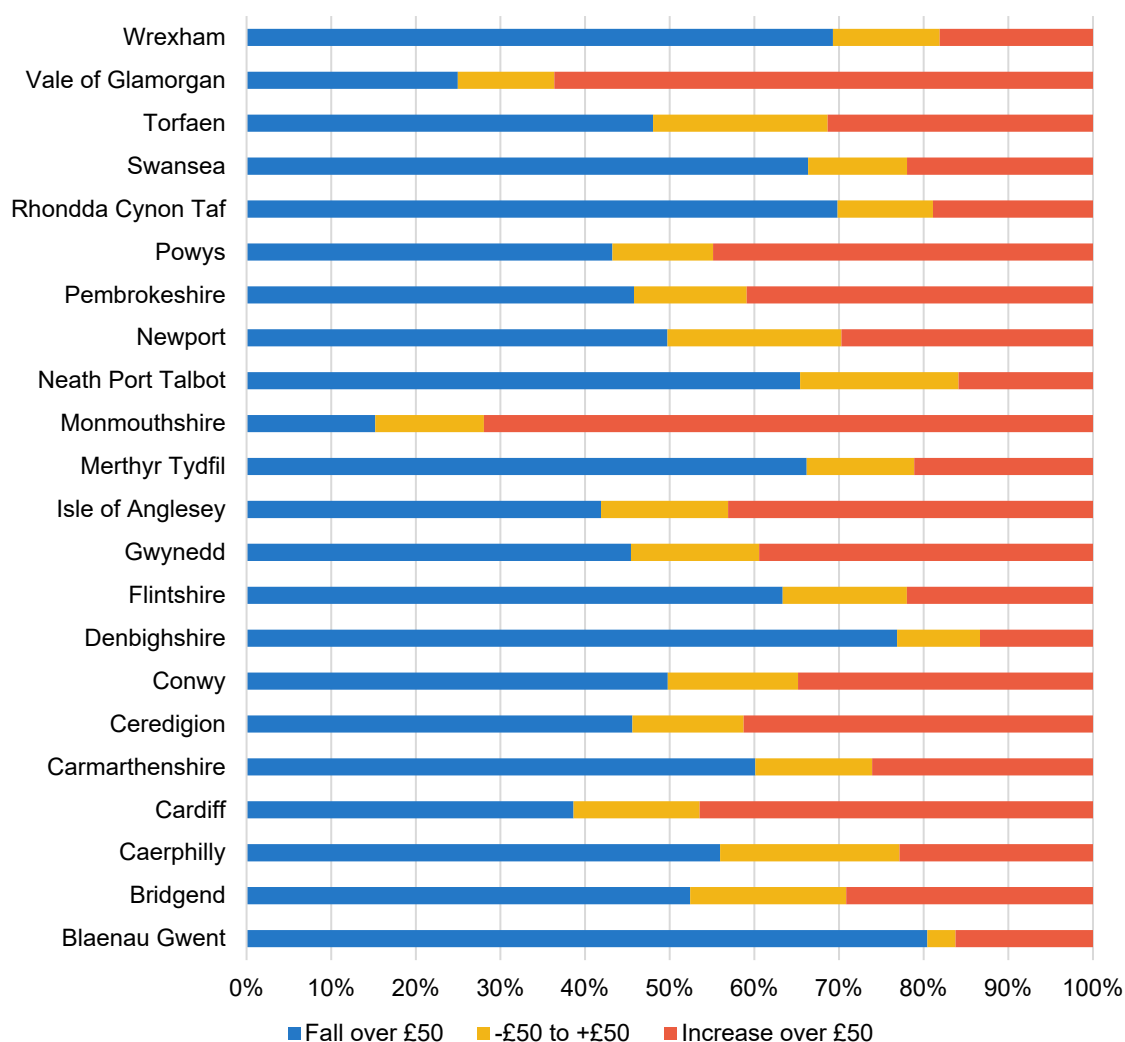
Figure 3.8 breaks down the estimates for **expanded reform** by council area in Wales, with properties seeing a fall in their 'standard' gross bill of £50 or more shown in blue, those seeing little change (–£50 to +£50) shown in yellow, and those seeing an increase of £50 or more shown in red (more detailed, and equivalent figures for the other systems we model can be found in Table B.12 in Appendix B).

The figure shows that in a majority of council areas, more properties would see falls than increases in their 'standard' gross council tax bill under such a reformed system, sometimes by a wide margin. For example, in Blaenau Gwent, over 80% would see a fall of £50 or more, compared to around 16% seeing an increase of £50 or more, while the equivalent figures for Denbighshire would be 77% and 13%. Even in some council areas where the average bill would increase, more would see a decrease in their 'standard' gross bill than an increase. For example,

in Gwynedd, 45% would see a cut in their 'standard' gross bill of £50 or more, while 39% would see an increase of £50 or more. In both Ceredigion and Pembrokeshire, the equivalent figures are 46% and 41%. These are the relatively low-value properties in these areas, often but not exclusively in the more urban parts of these council areas such as Bangor, Aberystwyth and the towns clustered around Milford Haven.

In contrast, far more properties would see an increase than a decrease in their 'standard' gross council tax bill in Monmouthshire (72% versus 15%) and the Vale of Glamorgan (64% versus 25%). There would also be pluralities seeing increases rather than decreases in Cardiff (47% versus 39%) and the Isle of Anglesey (43% versus 42%).

Figure 3.8. Share of properties seeing different changes in 'standard' gross tax bill under the example expanded reform



Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. 'Standard' gross bills are before any exemptions, discounts, premiums and the CTRS.

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics.

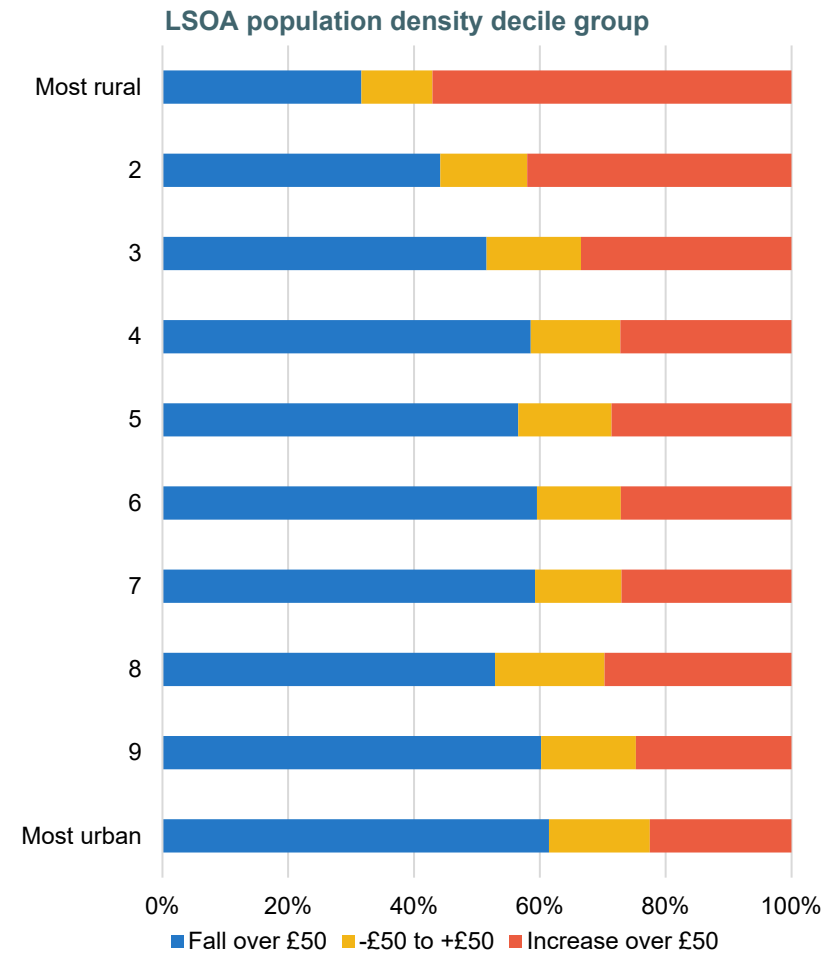
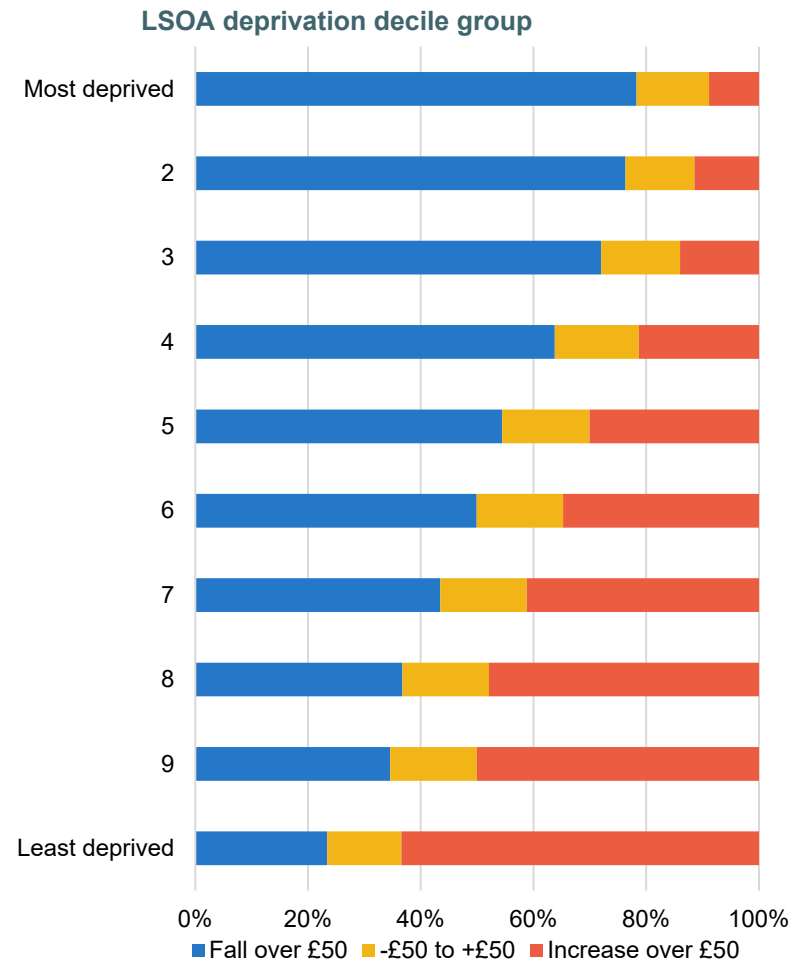
Patterns would be similar under **modest reform**, and more pronounced under the **12-band proportional system**: under that system, all council areas bar Monmouthshire and the Vale of Glamorgan would see more properties whose 'standard' gross bill would fall than properties that would see an increase. Patterns would differ considerably under **minimal reform**, with those areas seeing increases in their average bills always seeing more properties seeing increases rather than decreases in their 'standard' gross bill, and vice versa. This reflects the fact that under a pure revaluation, there would be no changes to the tax rates applied to different bands, with all changes in both average and property-level bills reflecting properties moving down or up bands.

Figure 3.9 undertakes further analysis of the example of **expanded reform**, but breaks down results by deprivation decile group (left panel) and population density decile group (right panel). Again, more detailed, and equivalent figures for the other systems we model can be found in Table B.12 in Appendix B.

The left panel shows that around 70%–80% of properties would see a fall in their 'standard' gross bill in the most deprived three-tenths of LSOAs, compared to between 9% and 14% that would see an increase. Around half would see a decrease, compared to a third seeing an increase in LSOAs with middle levels of deprivation (decile groups 5 and 6). On the other hand, in the least deprived tenth of LSOAs, around 23% would see a decrease, while 63% would see an increase. Thus, roughly twice the share of properties in the least deprived LSOAs would see an increase in their 'standard' gross bill than in the LSOAs with middle levels of deprivation.

The more detailed breakdowns reported in Table B.12 show that while fewer than 0.3% of properties in the most deprived three-tenths of areas would see their 'standard' gross bill increase more than £1,000, this share rises to 3% among LSOAs with middle levels of deprivation and 5% among the least deprived LSOAs. Most of the properties seeing such large increases that are in LSOAs with middle levels of deprivation are in rural areas of Wales, where, as discussed earlier, property values are often relatively high and have risen a lot since 2003.

Figure 3.9. Share of properties seeing different changes in 'standard' gross tax bill under the example expanded reform



Note: Includes main council tax charge by councils and police tax precepts *but not* community council precepts. 'Standard' gross bills are before any exemptions, discounts, premiums and the CTRS.

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics.

Related to this, the right panel of Figure 3.9 shows that in the most rural tenth of LSOAs in Wales (with the lowest population densities), around 32% of properties would see a reduction in their 'standard' gross bill under the example of **expanded reform**, compared to 57% that would see an increase. Among all other population density decile groups, more properties would see a decrease in their 'standard' gross bill than an increase, although interestingly there is a dip in the share seeing a fall (and jump in the share seeing an increase) in decile group 8: as previously mentioned, this includes a number of the more affluent areas of Cardiff and Swansea. The more detailed breakdowns reported in Table B.12 show that of those properties seeing an increase in their 'standard' gross bill of £1,000 or more, around 40% are in the most rural tenth of LSOAs, with 20% in the second most rural tenth. This analysis therefore illustrates that while many properties in rural parts of Wales would see a fall in their bills, based on the VOA's initial estimates of property values as of April 2023, most of those seeing the biggest increases would be in rural parts of Wales.

When considering impacts on the bills actually paid by households, it is important to note that under less regressive council tax systems more of the properties seeing falls in their 'standard' gross bills will be covered by exemptions, discounts and, especially, the means-tested CTRS than the properties seeing increases. This reflects the fact that more low-band low-value properties benefit from these features of the council tax system. This means that while the numbers of properties seeing reductions and increases in their net council tax bill would both be smaller than the numbers seeing reductions and increases in their 'standard' gross council tax bill, the difference between the net and gross numbers would be larger for reductions. As a result, while somewhat more properties see falls than increases in their 'standard' gross council tax bill in Ceredigion, Gwynedd, Pembrokeshire and Powys, the reverse may be true for net council tax bills.

While the data available to us do not allow us to accurately estimate changes in net bills by property, we can 'sign the changes': that is, identify properties seeing a fall or no change, and those seeing an increase or no change. This is because while changes in net bills can differ from changes in 'standard' gross bills, they must be in the same direction (exemptions, discounts, etc. cannot reverse the direction of a change in bill). This means, based on the analysis shown in Figure 3.8, we can be confident that under the example less regressive systems we have modelled, a majority of properties in all council areas bar Monmouthshire and the Vale of Glamorgan would see their net bill either fall or little changed. In around half of council areas, the number seeing a fall or little change would outnumber those seeing an increase by at least 2

to 1, and sometimes much more than this.¹² Even in areas such as Ceredigion and Gwynedd, the number seeing a fall or little change would outnumber those seeing an increase by around 1.5 to 1 under the example of expanded reform that we model.

This illustrates how reform of council tax to make it less regressive would lead to more households seeing reductions than increases in their net bill. This is investigated in more detail for Wales as a whole in the next section, which models the example systems for a representative sample of Welsh households, to see how impacts would vary across different types of households.

3.5 Summary

This chapter has examined how pure revaluation and example less regressive council tax systems could affect tax bases, grant funding and tax bills for different parts of Wales, based on the VOA's initial estimates of property values. Broadly speaking, we have seen that some parts of Wales would see increases in average bills under any plausible revaluation and reform. Most notably, this includes Monmouthshire and the Vale of Glamorgan, where property values are not only high, but also have risen by more than average since the last revaluation. It also includes much of Ceredigion, Gwynedd, the Isle of Anglesey, Pembrokeshire and Powys – especially outside the main towns in these areas. On the other hand, large parts of North East Wales would see falls in their average tax bills, because property values have gone up by less than average since the last revaluation in April 2003, and in many areas (such as Rhyl and Wrexham) are now substantially below the Welsh average. The same is true of parts of inner-city Cardiff and Swansea.

In contrast, there are other areas where the nature of the reform will matter more. For example, while under **minimal reform**, average bills would increase in much of the central and eastern parts of the South Wales Valleys, if council tax were also made **less regressive**, average bills in these areas would fall. This reflects the fact that while property values have gone up by much more than average since 2003 in the Valleys, this remains the area of Wales with the lowest average property values. Conversely, while bills would fall or be little changed under a pure revaluation in the more expensive areas of Cardiff and Swansea, they would increase under a less regressive system. This reflects the fact that while property values have gone up by less than

¹² Under the example 12-band less regressive system, this would be true of Blaenau Gwent, Bridgend, Caerphilly, Carmarthenshire, Denbighshire, Flintshire, Merthyr Tydfil, Neath Port Talbot, Newport, Rhondda Cynon Taf, Swansea, Torfaen and Wrexham. The ratio would be over 4 to 1 in Blaenau Gwent, Denbighshire, Neath Port Talbot, Rhondda Cynon Taf and Wrexham.

or similar to the average for these areas since 2003, they remain areas with some of the highest average property values in Wales.

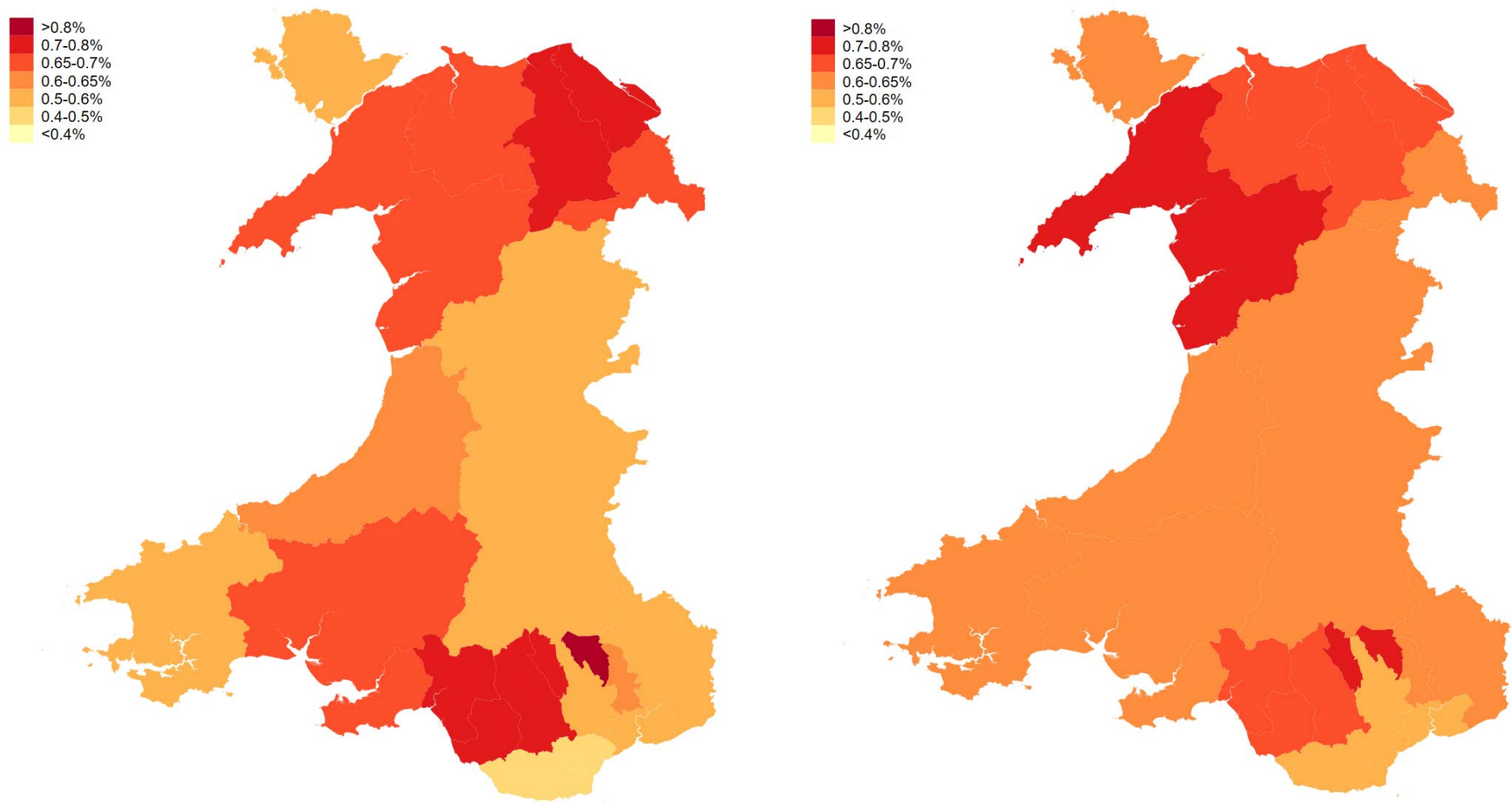
More generally, the greater the extent to which any revalued and reformed system reduces the regressivity of the existing system (that is, moves towards proportionality), the greater the changes in average bills in different parts of Wales, and the larger the numbers of properties seeing big changes in bills. Our analysis has shown that more properties would see reductions in bills than increases under less regressive council tax systems – and this includes in some parts of Wales where the average net bill would increase.

Chapter 2 considered the extent to which the different reform options would reduce the regressivity of the existing council tax system with respect to property value across Wales as a whole, and the next chapter considers impacts across different types of households (including households with different income levels). What about regressivity across different council areas? Figure 3.10 shows average net bills as a share of average property value in each council area for the existing council tax system (left panel) and the example of **expanded reform**. (Full results, including for other modelled systems, can be found in Table B.13 in Appendix B. This table also includes results based on 'standard' gross bills if each council set its Band D rate at the all-Wales average, to strip out the effects of exemptions, discounts, premiums and the CTRS, as well as councils' and PCCs' choices of council tax rates.)

The left panel shows that currently the average net council tax bill varies from less than 0.5% of average property values in Cardiff (0.48%) and the Vale of Glamorgan (0.49%) to 0.85% in Blaenau Gwent. More generally, average net bills are higher as a share of average property value in the South Wales Valleys and in North East Wales, where property values are relatively low, and lower in council areas where property values are relatively high, reflecting the current regressive structure of council tax. The pattern is even clearer for 'standard' gross bills based on the all-Wales average Band D tax rate, as can be seen in Table B.13.

The right panel shows that differences in average bills as a proportion of value would be smaller under the example of **expanded reform**: varying from 0.50% in Cardiff to 0.75% in Blaenau Gwent. Again, part of this variation reflects differences in exemptions (etc.) and tax rate choices: the Band D rate in Blaenau Gwent is around a quarter higher than in Cardiff, for example. But Table B.13 shows that even when we strip out these factors, the average tax bill as a proportion of value would be notably lower in the council area with the highest property values (Monmouthshire: 0.69%) than in the one with the lowest (Blaenau Gwent: 0.89%). This reinforces the conclusion of Chapter 2: the most expansive of the approaches being consulted upon by the Welsh Government would reduce the regressivity of council tax with respect to property values (and hence across areas with low and high property values), but it would remain some way from a proportional system.

Figure 3.10. Estimated change in tax base as a result of a pure revaluation (left panel) and a revalued 12-band proportional system (right panel)



4. Impacts across households

This chapter of the report examines the impact of revaluation and reform of council tax across different types of household: by income, household composition, age, disability status, ethnicity and housing tenure. We mainly focus on changes in average council tax liability for different groups and assume that Band D rates are set to make all reforms revenue-neutral. Unless otherwise specified, we focus on households' council tax bills after the CTRS is accounted for – referred to hereafter as 'net council tax bills' – assuming full take-up of CTRS.

We model the impact on households using data from waves 7 to 10 of Understanding Society, a representative panel survey. This contains information about the properties respondents are living in, as well as a large number of household characteristics including income, tenure and disability status. We use information on both the property and the household to estimate April 2023 property values for renters, and combine these with self-reported property values for owner-occupiers. We use these values to model the effects of various reforms. Further information on the methodology can be found in Appendix A.

Since we are using survey data, the sample size does not allow us to model changes at the council level, so we cannot model grant adjustments for different councils. Instead, we calibrate reforms so that they are revenue-neutral across Wales as a whole. This is done by calculating the change in average Band D rate needed to maintain revenue neutrality (given the change in the number of Band D equivalent properties in all of Wales) and scaling the current Band D rates of all council areas in Wales by this factor. This approach will give a good approximation to the full grant adjustment scenario used in the place-based analysis when councils' Band D rates do not vary too widely, as is the case in Wales.

For the majority of this chapter, we model effects of reforms assuming that changes in council tax would be borne by the occupiers of properties and, in particular, would not affect rents. But landlords, at least of privately rented properties, may adjust rents in response to changes in council tax liabilities. In the final part of this chapter, we discuss how different assumptions, regarding whether the changes in council tax are ultimately borne by occupiers (including tenants) or by property owners, affect the results presented.

4.1 Overall effects

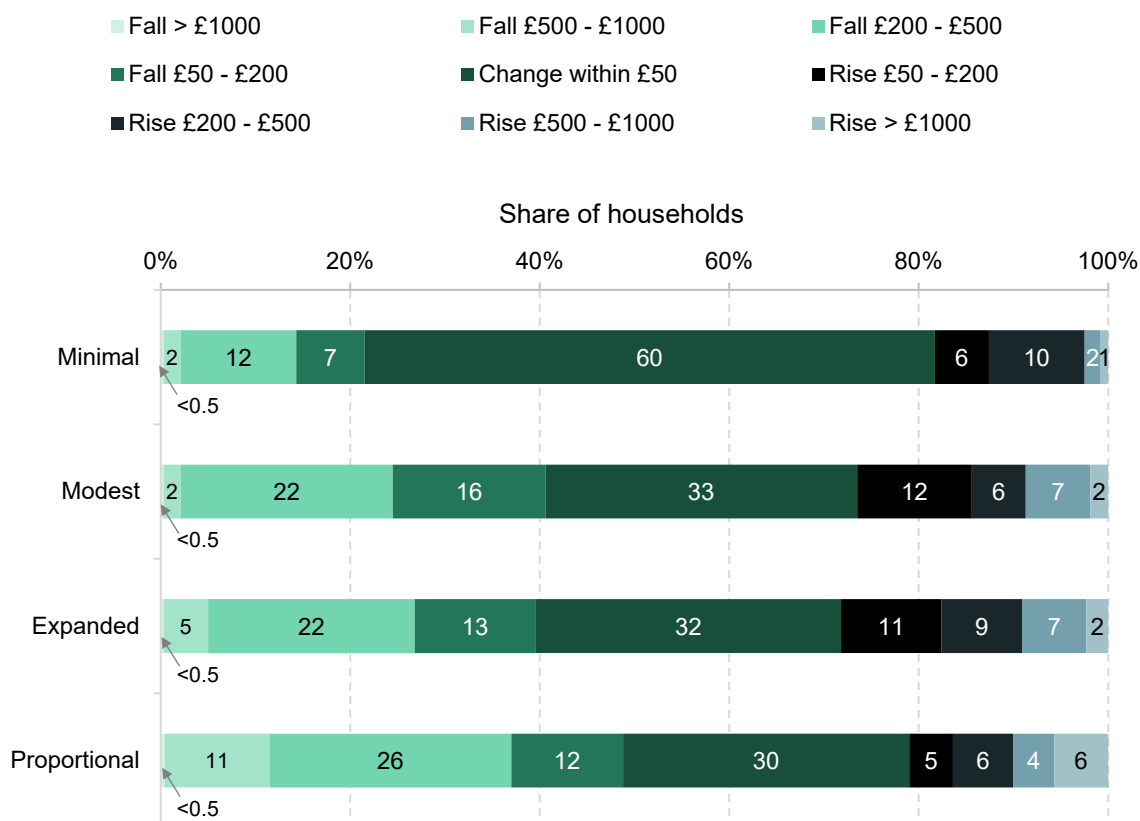
While we model the reforms analysed here as revenue-neutral, meaning that the average net council tax bill across Wales will always be unchanged, the effects of different reforms will still vary substantially across households. Inevitably, there will be some households who benefit from a given reform, while there will be others who lose out. The number and type of households who gain or lose, and the extent to which they do so, will depend on the particular reform.

Figure 4.1 shows the share of households who gain or lose different amounts under the three example reforms and the benchmark 12-band proportional system. Under **minimal reform** (a pure revaluation) we estimate that there would be very little change in net council tax bill for the majority of households, with 60% seeing their annual bill change by less than £50. A smaller number would see their bill change more substantially, with around 14% gaining £200 or more and around 13% losing £200 or more. These would be households who move down a band (gainers) or up a band (losers) as a consequence of the revaluation.

Since **modest reform** also changes the relative tax rates associated with each band, it leads to more households seeing larger changes in their bills. Under our example tax rates, 41% of households would see their bill fall by at least £50 per year, while 26% of households would see their bill rise by at least £50 per year. Average increases in bills tend to be larger than average decreases, allowing for more individuals to gain than lose while maintaining revenue neutrality. Still, nearly one-third of households' net council tax bill would change by less than £50 per year. The majority of these households that would see little change are households eligible for CTRS, since any changes in their gross council tax bill are offset by changes in the amount of support they receive. Table B.16 in Appendix B shows the distribution of cash changes in gross council tax bills; here there are far fewer small changes.

The distribution of cash changes for **expanded reform** is closest to the distribution for **modest reform**, but sees more households losing £200 or more (18%) as well as more households gaining substantially (5% gaining £500 or more compared to 2% under modest reform). This reflects the greater progressivity of the example 12-band system compared to the example 9-band system. The **12-band proportional benchmark** is more progressive still – under this system 37% of households would see a net bill reduction of at least £200, but 5.6% would see their bill rise by more than £1,000.

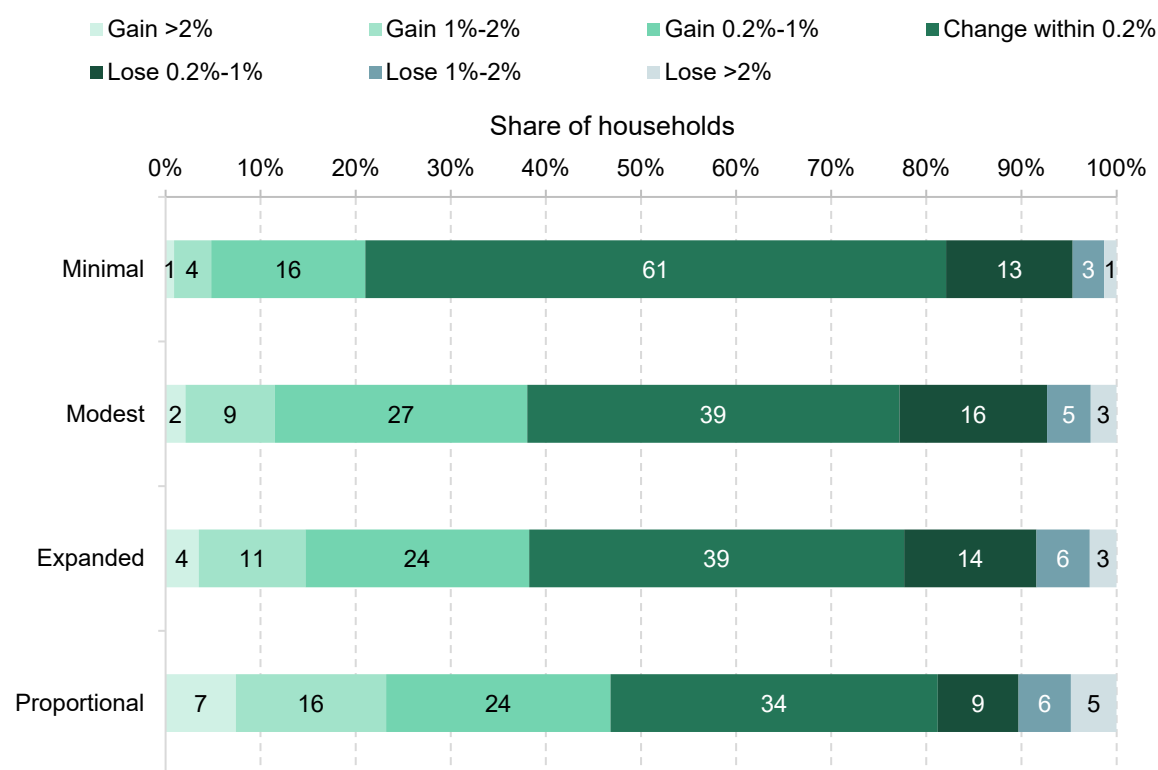
Figure 4.1. Distribution of cash changes in net council tax bill



Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.2 shows the distribution of percentage changes in net household income – that is, the distribution of changes in net council tax bill as a share of net household income. Under all three of the approaches, as well as the banded proportional benchmark, more than a third of households see their net household income change by less than 0.2%. As in Figure 4.1, the **minimal reform** (pure revaluation) tends to have the smallest effect on households while the **proportional benchmark** has the biggest impact.

Figure 4.2. Distribution of percentage changes in net household income

Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

4.2 Effects by household type

We now turn to exploring the average changes in net council tax bills across different types of households. We consider variation among households of different income levels, composition, age, disability, ethnicity and tenure.

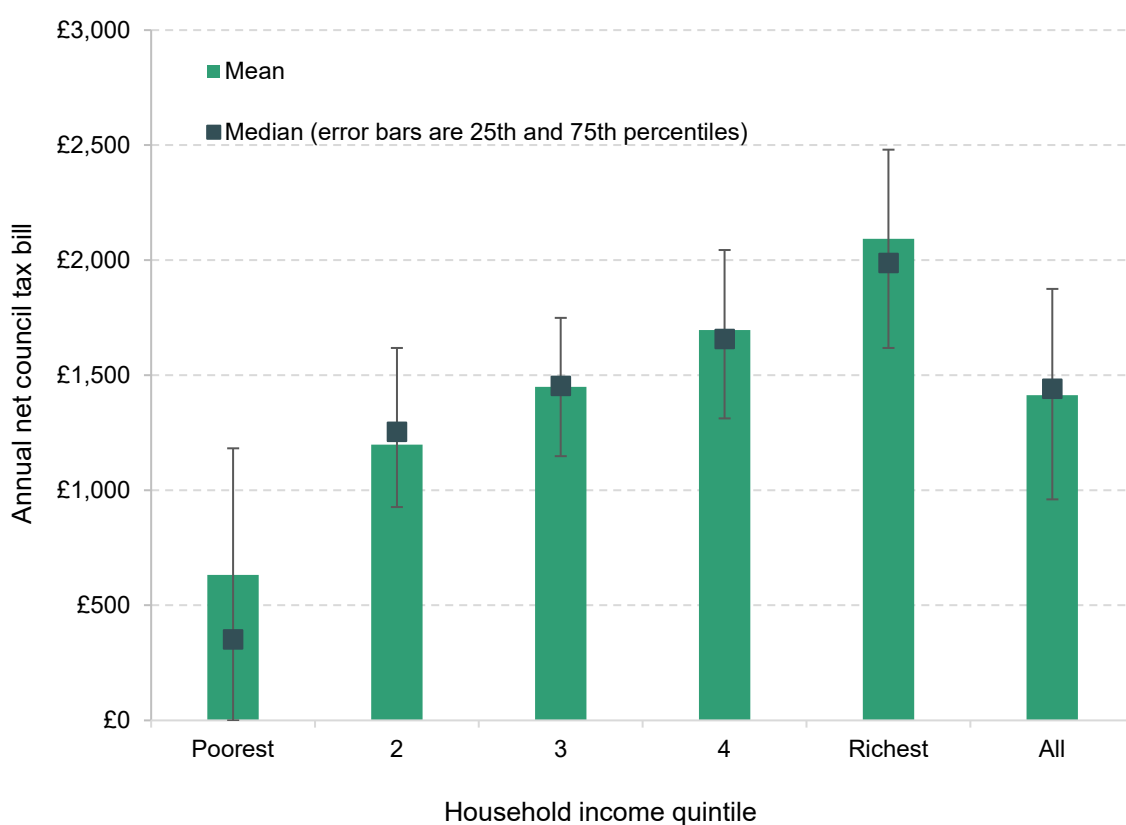
Household income

Figure 4.3 shows current annual net council tax bills by household income quintile. We split households into quintiles using their net equivalised household income, meaning that income is measured after taxes and benefits, and is adjusted for household size and composition (to reflect the fact that households with more people need more income to achieve a given level of material living standards). There are large differences in the amount of council tax paid by households depending on their income level: the average net bill among the poorest income quintile is £630 per year compared to £2,100 among the richest quintile. This partly reflects the fact that poorer

households usually live in lower-value properties, which as a result have lower council tax liabilities. It is also a consequence of CTRS, which reduces the council tax bills of low-income households. This explains why more than a quarter of households in the poorest income quintile have no net council tax liability at all.

Figure 4.4 shows the average change in net council tax bill by household income quintile for the three example reforms designed jointly by the Welsh Government and the IFS, and the banded proportional system. We find that **minimal reform** would have close to zero effect on average bills for all income quintiles. There would still be winners and losers in each income quintile (as discussed further in Section 4.3), but the number and size of their gains and losses roughly balance out. For the other systems we model, which increase the progressivity of the council tax system, we do see systematic differences in the impacts on households at different income levels.

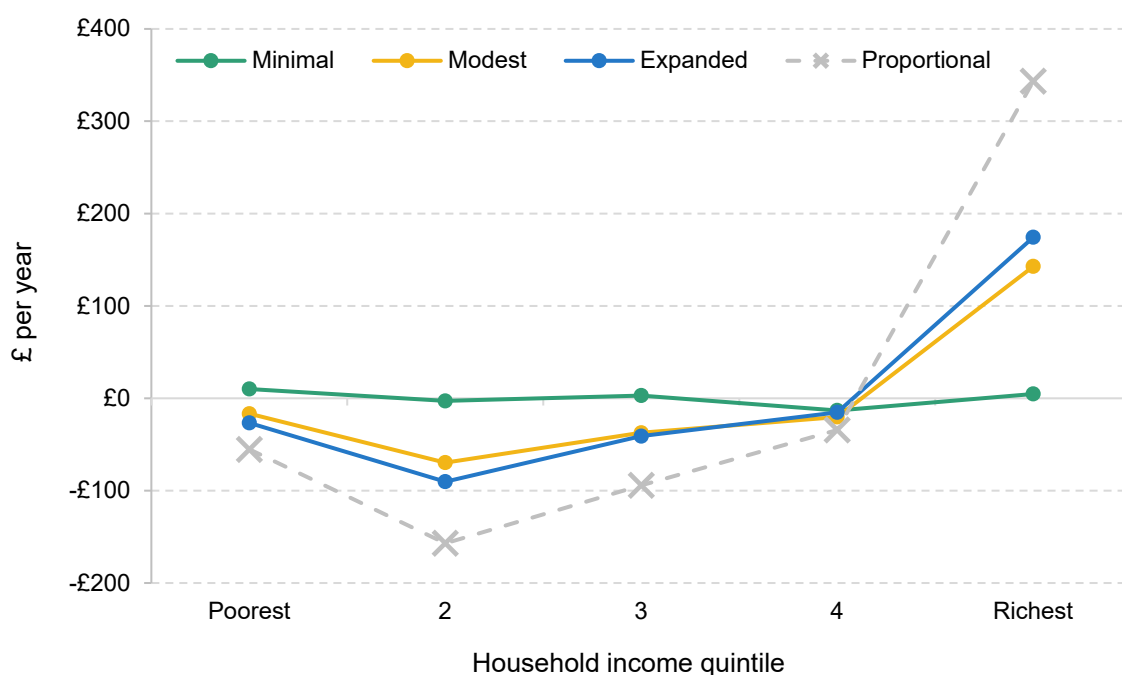
Figure 4.3. Current annual net council tax bill, by quintile of household income



Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.4. Average change in net council tax bill, by quintile of household income



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

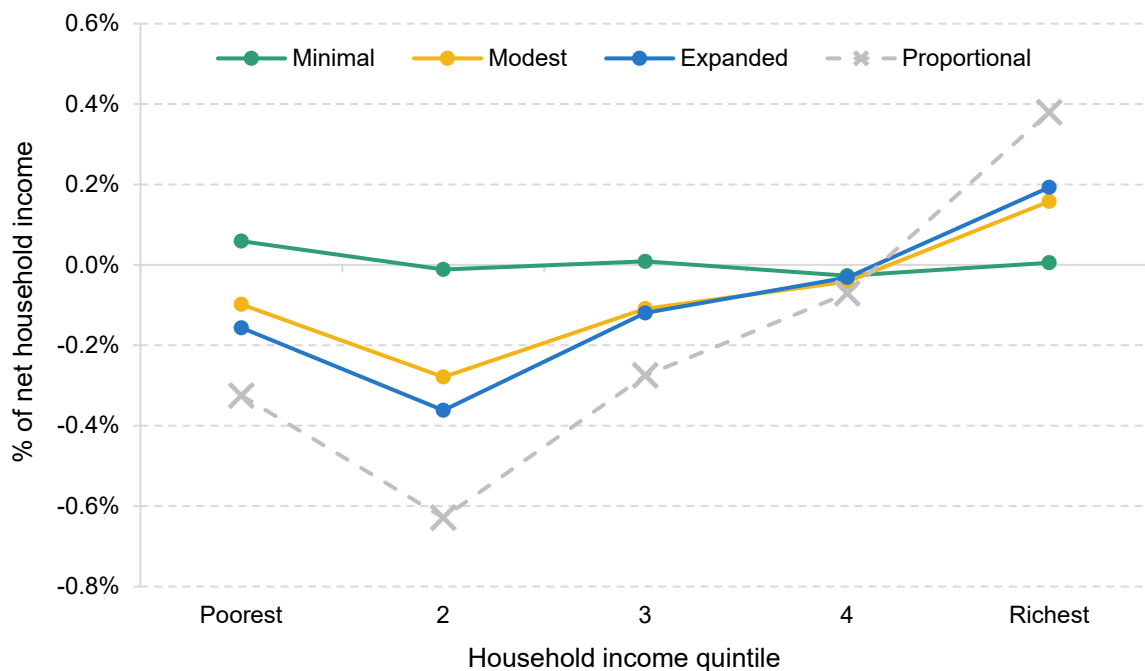
Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Under all of the more progressive systems, the second income quintile sees the largest fall in bills, despite the reforms leading to bigger cuts in gross bills for lower-value properties. While households in the poorest income quintile tend to live in the lowest-value properties, they are also most likely to be eligible for CTRS due to their low income. This means decreases in their gross bills are offset by decreases in the CTRS they receive, and so the change in net council tax bill is reduced. This attenuation effect is larger in our modelling as we assume full take-up of CTRS.

Our estimates generally show that the example **expanded reform** is slightly more progressive with respect to income than **modest reform**, but both are considerably less progressive than the **benchmark proportional system**. The expanded reform would see average net bills fall by £26 per year for the poorest income quintile, while under the proportional system they would see falls of £55 per year. The difference is starker for the second income quintile: bills would fall by £90 under expanded reform, but would fall by £157 per year under a proportional system. A proportional system would also lead to much bigger increases for the richest households: the average bill for the top quintile under this system would increase by £343 per year, compared to £174 per year for expanded reform.

Figure 4.5 shows the same changes but as a fraction of household income. The patterns are largely the same as those seen in Figure 4.4, with **minimal reform** having little systematic effect, while in the other three examples the second income quintile gains the most and the richest income quintile loses the most. But note that, when considering bill changes as a percentage of household income, the average rise in net council tax bill for the top income quintile in the **modest**, **expanded** and **proportional** systems is smaller than the fall in net council tax bill for the second income quintile. By contrast, the cash changes are roughly twice as large for the richest quintile as for the second quintile. In fact, when comparing bill changes as a percentage of household income, the falls in bills for the poorest quintile look similar to the bill increases for the richest quintile. In the case of expanded reform, the poorest quintile would see their bill fall by approximately 0.16% of net household income, whereas it would rise by 0.19% for the richest quintile.

Figure 4.5. Average change in net council tax bill as a percentage of household income, by quintile of household income



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7-10 and TAXBEN, the IFS tax and benefit microsimulation model.

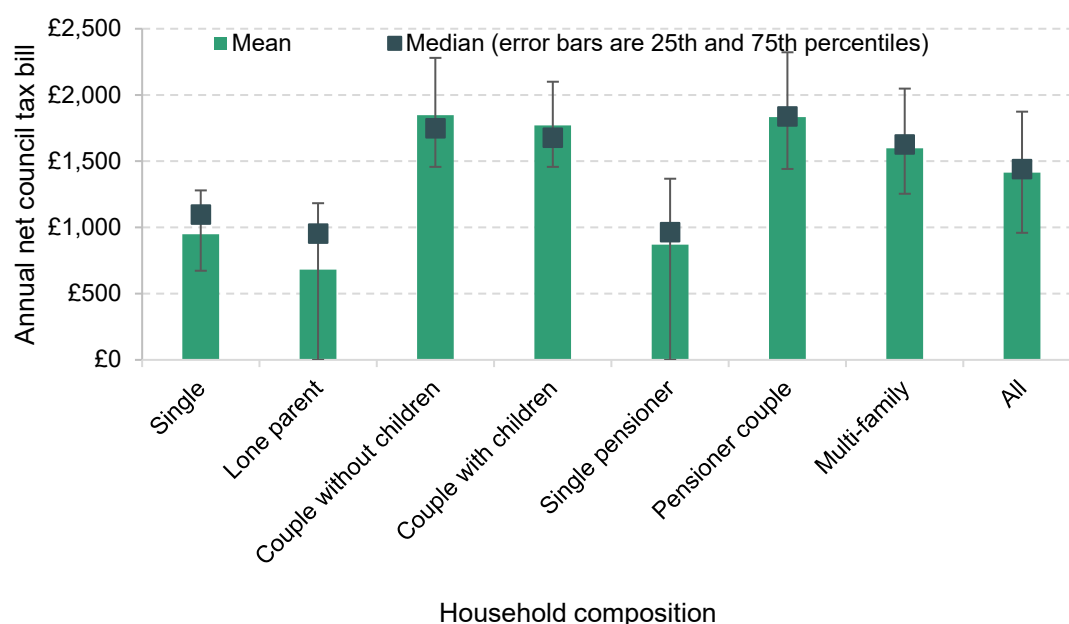
Household composition

Figure 4.6 shows the distribution of current net council tax bills by household composition.

There is considerable variation in the amount of council tax paid by different household types: the 75th percentile of council tax bill for a lone parent is £275 below the 25th percentile of council tax bill for a couple without children. In general, households with a single adult tend to have much lower council tax liabilities, both because they tend to live in smaller properties and because they qualify for a one-adult discount. Multi-family households in our sample have lower average council tax bills than households with one couple. This is because these households tend to live in properties with lower gross bills, as well as being more likely to be eligible for CTRS.

Figure 4.7 shows the effect of the four alternative systems we model on the average net council tax bills of these household types. The bars indicate cash changes, while the crosses show the change as a percentage of net household income. **Minimal reform** (pure revaluation) would not have significant effects on the average bills of any of these types, but single adults would see a fall of around £30 per year while multi-family households would see an increase of about £30 per year. There are no large impacts because households of different compositions are dispersed across places and so changes in property values since 2003 do not tend to affect them systematically – though individual households might of course experience substantial gains or losses.

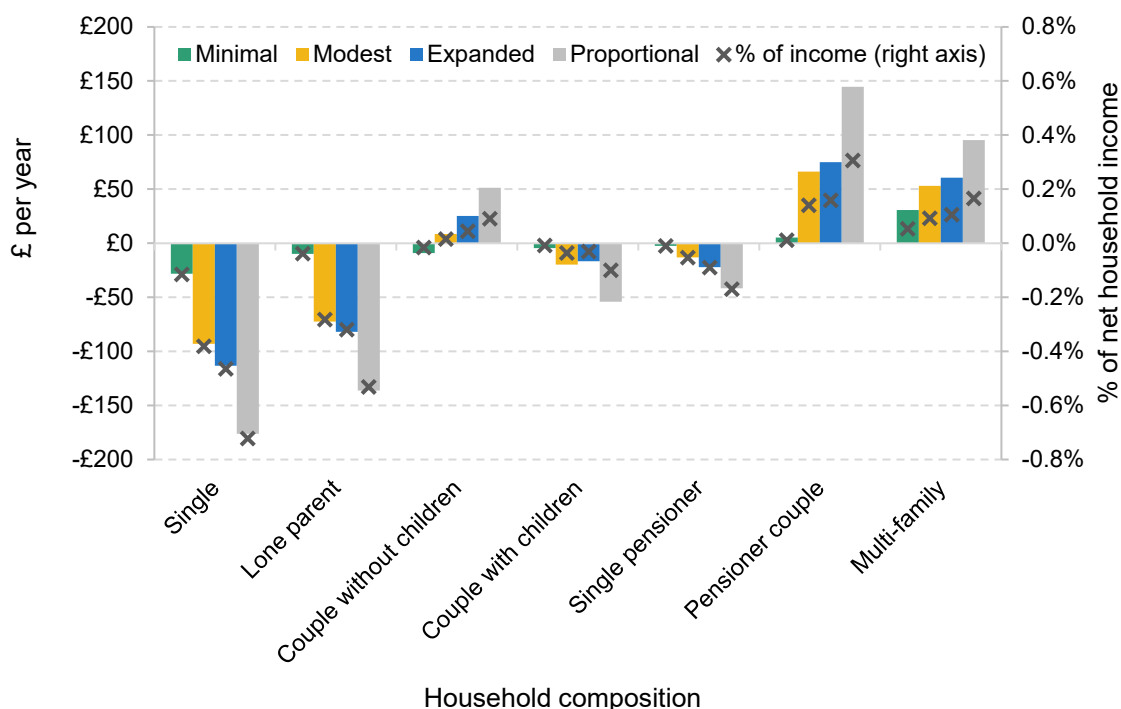
Figure 4.6. Current annual net council tax bill, by household composition



Note: Unless otherwise stated households include working-age adults only. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.7. Average change in net council tax bill, by household composition



Note: Percentage changes shown by cross markers. Unless otherwise stated households include working-age adults only. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Modest and **expanded reforms** have similar effects on the various household types, but the 12-band system (expanded) would lead to bigger bill increases and decreases than the 9-band system (modest). Households with a single adult would, on average, see their net council tax bills fall under these two reforms. Single individuals without children (about 200,000 households in Wales) could expect to gain around £110 per year under the example **expanded reform**, while lone parents (78,000 households in Wales) would gain £80. The impact of these two examples on working-age couples would be small, with the average change in bill less than £30 per year. Pensioner couples would see a bigger increase, but still only £65 or £70 per year higher than current average bills, an increase representing less than 0.2% of their net household income.

The **12-band proportional system** we model would have bigger effects than the example reforms designed with the Welsh Government. The direction of the bill changes is the same as for **modest** and **expanded** reforms, meaning that single adults would see falls in their average bill while couples (with the exception of working-age couples with children) would see rises in their average bill. The size of the changes is significantly larger, however: the average net bill of

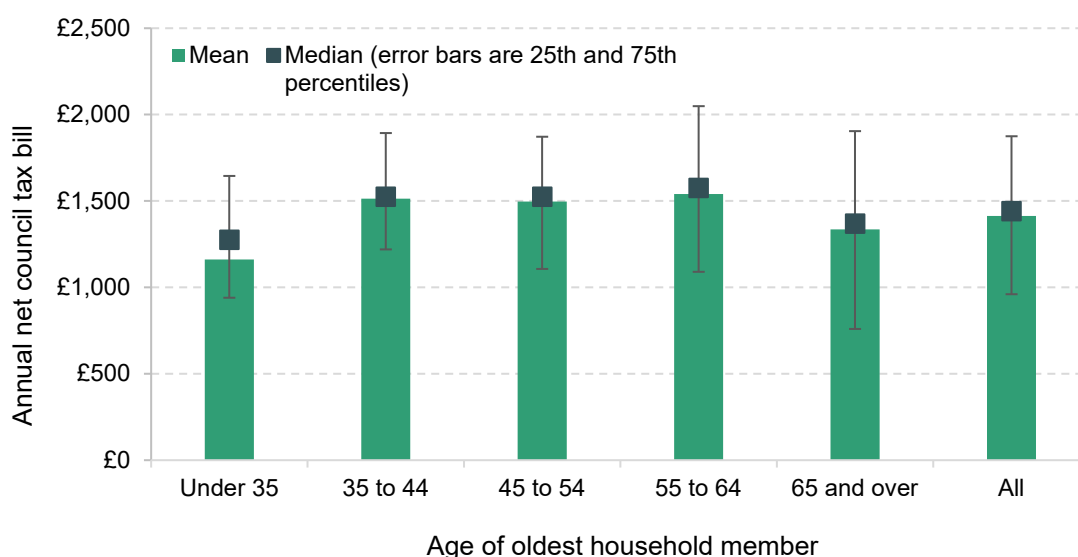
single individuals without children would fall by £175 annually (0.7% of net household income) if the tax rates were proportional, while the average net bill for a pensioner couple would increase by £144 (0.3% of net household income).

Age of oldest household member

We next consider differences between households of different ages, categorising them by the age of the oldest household member. Figure 4.8 shows how current net council tax bills differ among these groups. For households where the oldest individual is between 35 and 64 (52% of households in our weighted sample), the current bill is around £1,500 per year on average. Bills for households where there is an individual aged 65 or more are slightly lower at roughly £1,370 per year. Households with no individual aged 35 or older pay the lowest council tax bills on average, at around £1,160 annually. The error bars in Figure 4.8 give an indication of how much council tax bills vary in each group: there is substantially more variation in the council tax bills paid by older households than younger households.

Figure 4.9 shows the impact of the four reforms on the net council tax bill of different aged households. **Minimal reform**, a pure revaluation, would lead to a small decrease in net council tax bills for younger households (oldest member aged 54 or younger) and a small increase for older households, particularly those where the oldest individual is aged between 55 and 64. It should be emphasised that these are small changes though, with the biggest difference just £21 per year for the 55–64 group, which is less than 0.1% of their average net household income.

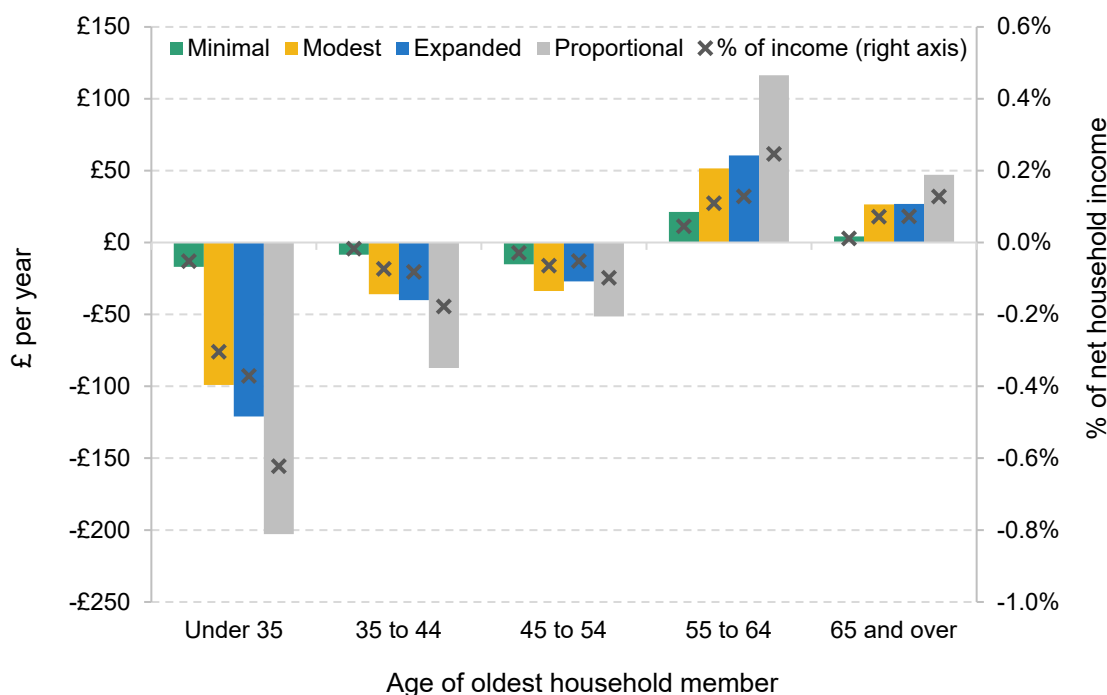
Figure 4.8. Current annual net council tax bill, by age of oldest household member



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.9. Average change in net council tax bill, by age of oldest household member



Note: Percentage changes shown by cross markers. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Modest and **expanded reforms**, which have less regressive tax rates, lead to bigger differences in bill changes across the age groups, mostly reflecting differences in wealth. Young households, where the oldest individual is aged below 35, would on average gain £100 or £120 per year from the 9-band or 12-band systems, respectively. These households tend to live in the lowest-value properties, and so benefit from reforms which reduce the regressivity of the council tax system with respect to property value. Conversely, households where the oldest member is aged between 55 and 64 would see their net bills rise by £50 or £60 per year. This is consistent with the fact that this group has the highest average property value in our sample. The 35–44 and 45–54 groups see smaller changes, although on average their net bills would go down.

If the reform was to make tax rates proportional to property values in each band, rather than just less regressive, then the disparity in bill changes by age group would be greater. We would still see the largest falls in bills for the under-35 group of households and the largest increases for the 55–64 group, but the size of the cash change would be roughly double. Since richer households tend to see bill increases and poorer households tend to see bill decreases, the gains are relatively bigger than losses when measured as a fraction of household income – for under 35s, the gain is equal to 0.6% of household income while the 55–64 group sees an increase of 0.2%.

Disability status

We also consider how the impact of council tax reforms differs by disability status. To do this, we group households into three categories: households receiving disability benefits, other disabled households, and not disabled households. Disability benefits includes personal independence payment, disability living allowance, employment and support allowance and other disablement allowances.¹³ 'Other disabled households' include households where any adult reports having a longstanding illness or disability, or if any child in the household has a limiting longstanding illness.

A substantial proportion of the households in our sample are classed as disabled (either on disability benefit or other disabled) using this measure, with 19% in receipt of a disability benefit and a further 42% with at least one household member who reports having a longstanding illness or disability but does not receive disability benefits. It should be noted that our measure of 'other disabled' is wider than other commonly used measures of disability. The government's employment gap targets are based on a measure that defines an individual as disabled if they have a longstanding illness which reduces their ability to carry out day-to-day activities. The Understanding Society survey does not ask about whether an illness limits an individual's ability to carry out day-to-day activities so we are unable to replicate this measure.

Some disabled households in Wales are eligible to have their council tax bills reduced, moving them down one band, if they can demonstrate that their property has been adapted to meet the needs of a disabled person (for example, having an additional bathroom or kitchen).¹⁴ Whether these criteria are met is assessed on a case-by-case basis and is independent of receipt of other benefits. As such, we cannot account for this reduction in our microsimulation modelling, which may have some effect on the results we present here.¹⁵ The effect is unlikely to be large, though, as less than 1% of properties in Wales receive this reduction.¹⁶

Given these facts, we would advise some caution in interpreting these results. As explained above, our definition of disability is much wider than other commonly used measures and in fact includes the majority of households in Wales. The sample size of households on disability

¹³ Other allowances include incapacity benefit, severe disablement allowance, war disablement allowance, industrial injury disablement allowance and other disability-related benefit or pay.

¹⁴ See the Welsh Government's guidance on council tax discounts and reductions at <https://gov.wales/council-tax-discounts-and-reduction/disabled-people>.

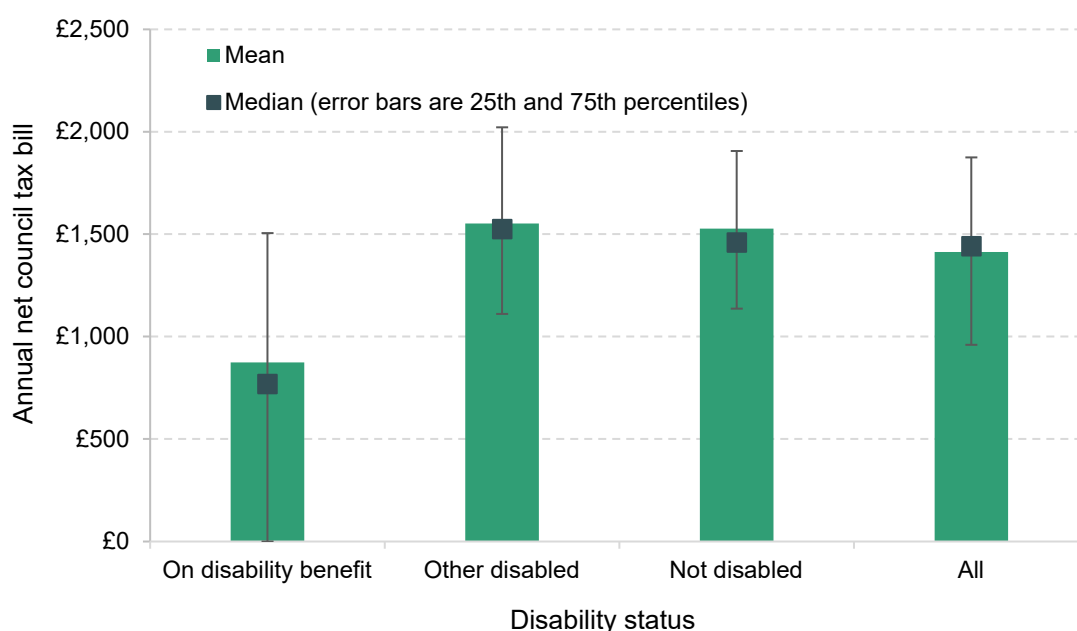
¹⁵ Note that, with less regressive tax rates – bigger differences in liability across bands – the value of being moved down a band would be increased; while with more finely disaggregated bands – and therefore smaller differences in liability from one band to the next – the value of being moved down one band would be reduced.

¹⁶ See <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/counciltaxdwellings-byct1rowdescription>.

benefits in Wales is small: even after pooling four waves of Understanding Society data, there are just 715 household–wave observations.

Figure 4.10 shows how current council tax bills compare for our three disability groups. Households receiving a disability benefit have much lower net council tax bills, on average less than £900 per year. This is because they live in lower-value properties and are also more likely to have their council tax bills covered by CTRS. Bills for our ‘other disabled’ and ‘not disabled’ groups are higher, with both just over £1,500 per year. This is because the two groups have both similar property values and similar net incomes. This reinforces the point that our ‘other disabled’ definition is a wide one: the households in the ‘other disabled’ category look far more like not disabled households than households receiving disability benefits.

Figure 4.10. Current annual net council tax bill, by disability status



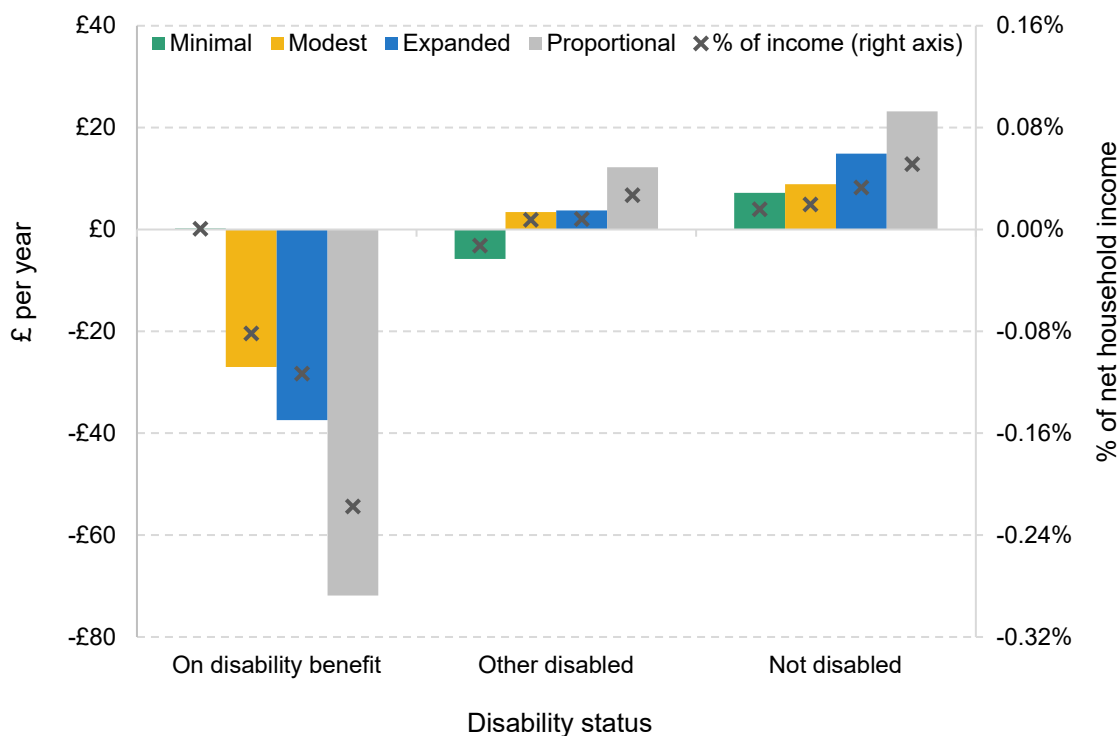
Note: Assumes full take-up of CTRS.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

The impact of the council tax reforms on households of different disability status is presented in Figure 4.11. There is almost no differential effect by disability status from **minimal reform** (pure revaluation): the largest average bill change would be a £7 annual increase for the not disabled households. **Modest** and **expanded reforms** have a larger but still muted impact: households receiving a disability benefit would see their bills fall by £27 and £38 per year, respectively. This would be paid for by slight increases in the net council tax bills of other disabled and not disabled households. The **12-band proportional** benchmark would see larger net bill reductions for households on a disability benefit, £72 per year, and bigger bill increases for the two other household types. Even for the proportional system, the bill increases for other

disabled and not disabled households would be no larger than 0.05% of average net household income, while the gain for households on disability benefit would be more than 0.2%.

Figure 4.11. Average change in net council tax bill, by disability status

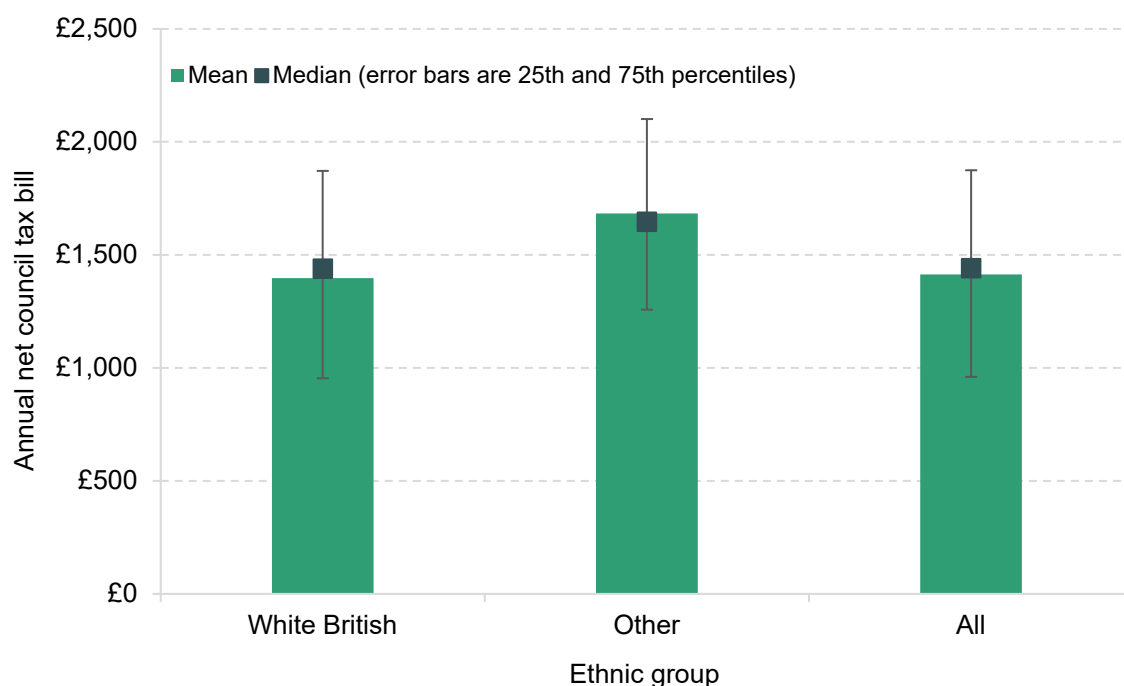


Note: Percentage changes shown by cross markers. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Ethnic group

Figure 4.12 shows how annual net council tax bills differ between White British households and households of other ethnic groups. We classify a household as belonging to an ethnic minority if any adult in the household is not White British; this applies to around 6% of households in our sample. Ethnic minority households have slightly higher net council tax bills on average (both mean and median) than White British households. This is a consequence of a number of factors: they are more likely to live in areas with more properties in higher tax bands, they are less likely to get a single-person discount and they are less likely to be eligible for CTRS.

Figure 4.12. Current annual net council tax bill, by ethnic group

Note: Assumes full take-up of CTRS.

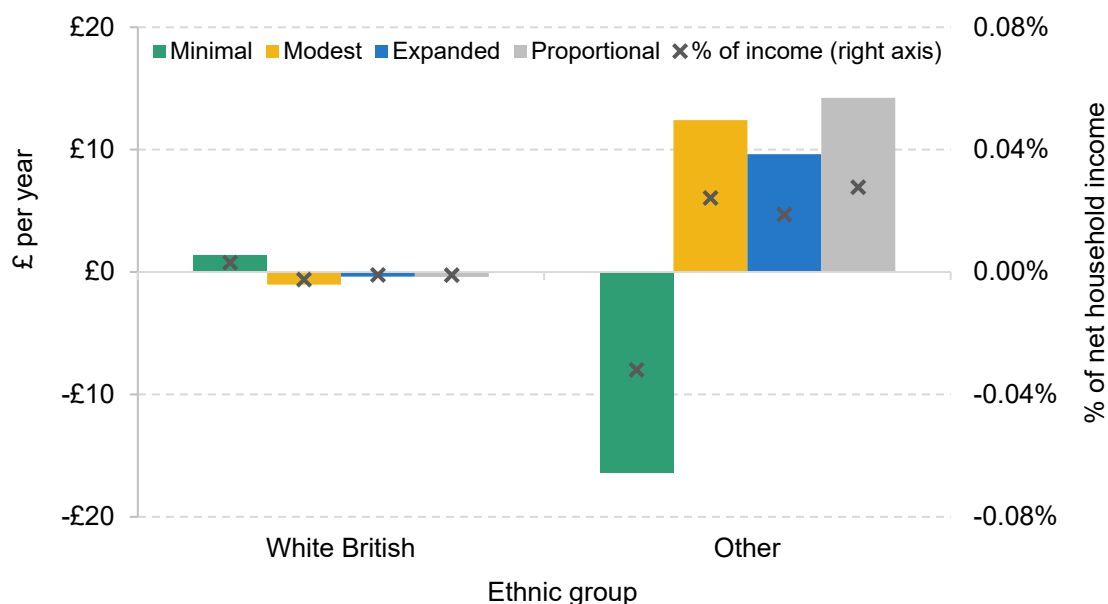
Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Our estimates of the impacts of the three example reforms and the benchmark proportional system on ethnic minority households are shown in Figure 4.13. For all of the reforms, the average change in net council tax bill would be small – less than £20 per year and less than 0.04% of net household income. We find that **minimal reform** would lead to a fall in bills for ethnic minority households of around £15 per year, due to the fact that they tend to live in properties that have seen relatively smaller increases in value since 2003. The other three modelled reforms all increase the average net bill by between £10 and £15 per year. This reflects the fact that ethnic minorities live in slightly higher-value properties, and so lose out when the council tax rates are made less regressive with respect to property value.

We should note that the results presented here rely on the small number of ethnic minority households in the Understanding Society data, with just 231 household–wave observations in our sample. Accordingly, some caution should be taken when interpreting these results. Ethnic minority households are also disproportionately likely to live in Cardiff, which charges a below-average Band D rate. Following the example expanded reform, Cardiff council would see its tax base rise and, under full grant adjustment, its loss in grants (based on the average tax rate in Wales) would more than offset its rise in revenues from a higher tax base (which would be based initially on its lower Band D rate). To maintain its level of spending, Cardiff council would have to increase its Band D rate by more than it would if it had previously set its Band D rate at the

Welsh-average level. Due to the sample size in Wales, we assume all councils adjust their Band D rate by the same proportion in response to reform. This means our results may somewhat understate the increase in average council tax bills among ethnic minority households under full grant adjustment.

Figure 4.13. Average change in net council tax bill, by ethnic group



Note: Percentage changes shown by cross markers. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

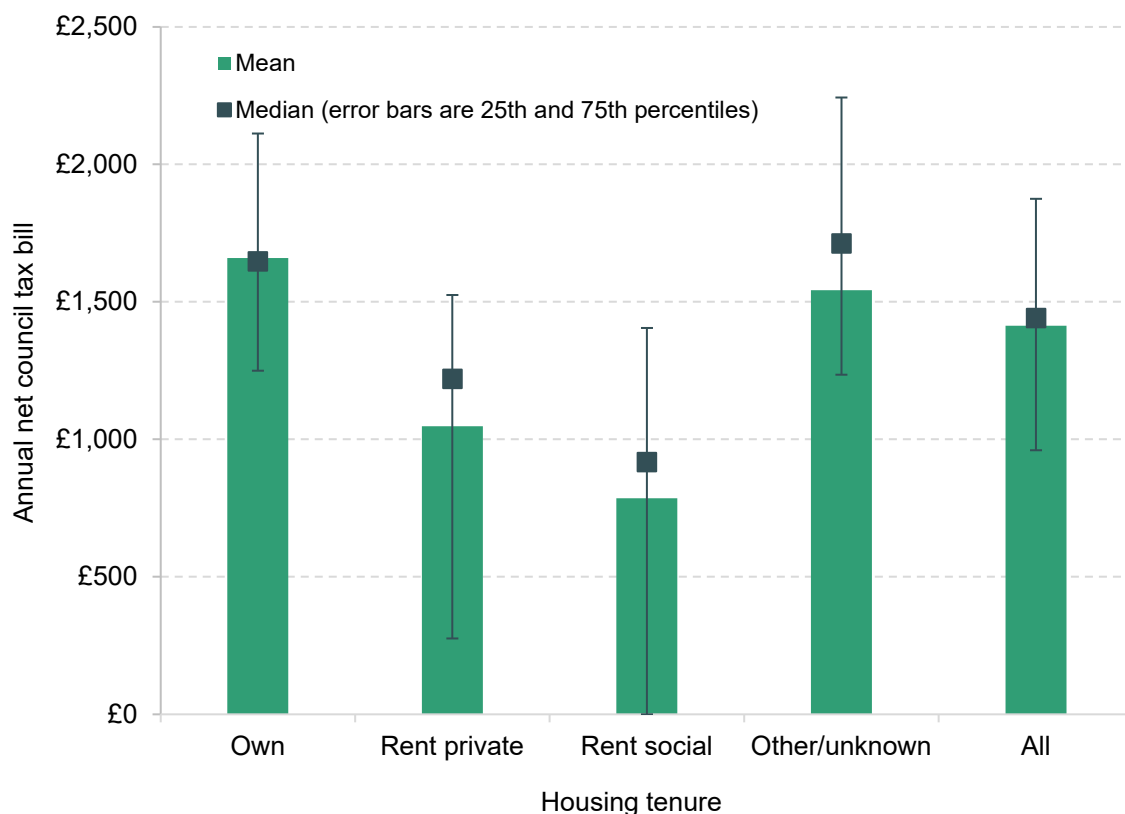
Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Housing tenure

Finally, we explore how impacts vary across households with different tenures. We categorise households into the following groups: owner-occupiers, private renters, social renters and other/unknown. These make up 67%, 12%, 20% and 1% of our sample, respectively.

Figure 4.14 shows that net council tax bills are highest for owner-occupiers, who live in the highest-value properties (placing them in higher council tax bands) and have the highest net income (making them least likely to receive CTRS). Renters pay much lower amounts of council tax: the average net bill is around £1,000 per year for private renters and £800 per year for social renters. These households live in lower-value properties and are more likely to have their council tax bill covered by CTRS. The other/unknown group falls in between all households and owner-occupiers. Since it makes up such a small proportion of households, we omit it when looking at the impact of reforms.

Figure 4.14. Current annual net council tax bill, by housing tenure

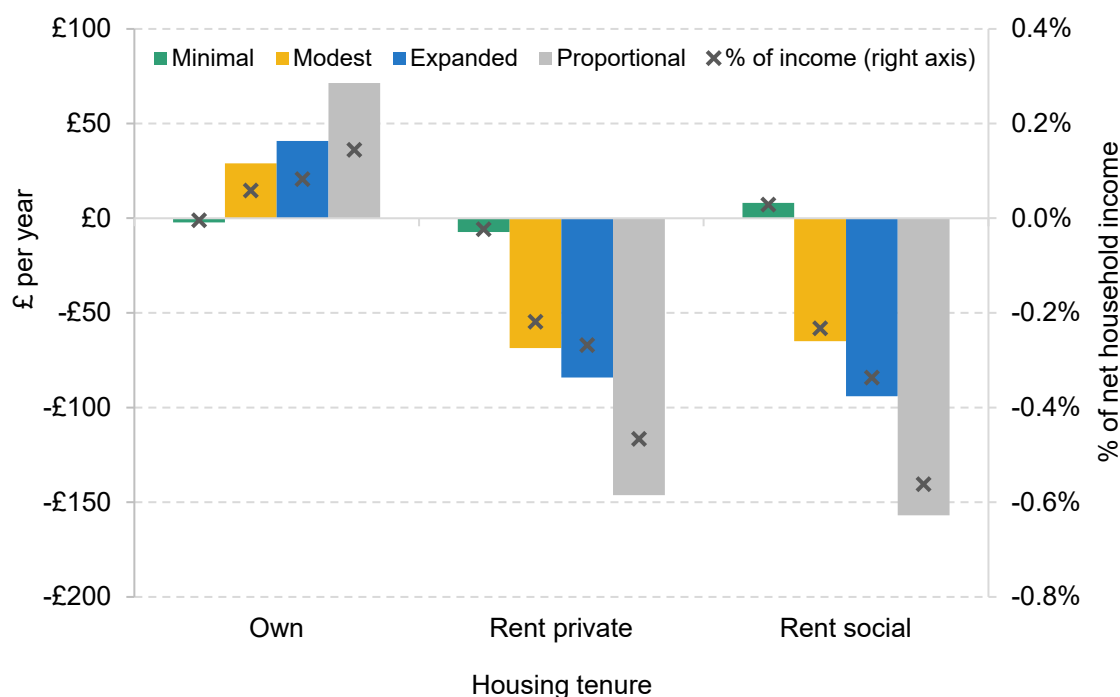


Note: Assumes full take-up of CTRS.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.15 shows our modelled estimates for the impact of council tax reform on households by tenure type. The average effect on net bills of **minimal reform**, pure revaluation, is very small – the changes are all less than £10 per year. This indicates that the change in property values across these tenure types has not differed systematically since 2003. In general, the effect of reforms that reduce regressivity of tax rates is to increase the bills of owner-occupier households and to reduce the bills of renting households. **Modest reform** would see bill increases of roughly £30 per year for owners, and bill decreases of around £69 and £65 for private and social renters, respectively. **Expanded reform** would lead to bill increases of £41 for owners, and falls of £84 and £94 for the two groups of renters. Going even further than the examples designed with the Welsh Government, a **12-band system with tax rates proportional to property values** would see owners' net bills increase by £71 per year, while private and social renters would benefit from bill reductions of £146 and £157, respectively.

Figure 4.15. Average change in net council tax bill, by housing tenure



Note: Percentage changes shown by cross markers. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

The differences between these three systems reflect differences in regressivity. Owners tend to live in higher-value properties and so lose more under reforms with more progressive tax rates, whereas renters tend to live in lower-value properties and so benefit more under more progressive reforms. Owner-occupiers also have the highest average household income, so when the bill changes are measured as a fraction of net household income, the average gains for renters are more than three times larger than the average loss for owner-occupiers.

4.3 Bill increases for low-income households

In this chapter, we have shown that the council tax bills of low-income households would not change, on average, under a pure revaluation. Reforms that make the council tax system less regressive with respect to property values, by lowering tax rates for lower bands and raising tax rates for higher bands, are more progressive with respect to household income – low-income households would see their bills fall on average since they live in less expensive properties.

Still, there would be some low-income households who would lose out from revaluation and reform: those living in properties that have increased in value relative to other properties since

the last revaluation took place in 2003; and those living in expensive properties, especially in more expensive parts of the country.

Table 4.1 shows the proportions of gainers and losers from **minimal reform** (top panel) and **expanded reform** (bottom panel), across the income distribution in Wales. Under a pure revaluation, more than 85% of households in the poorest income quintile would see their net bill increase or decrease by less than £50 per year. Only 4.5% of these households would see their bill rise by £200 or more, while 3.1% of them would see their bill fall by £200 or more. A much bigger share of households in the richest income quintile would see their bill increase by £200 or more.

This partly reflects the fact that lower-income households tend to live in lower-value properties, which therefore fall into lower bands. Due to the tax rates being closer together for lower bands (for example, 6/9 for Band A and 7/9 for Band B), even if a property moves up or down a band, the resulting bill change is less than £200 per year. There are larger differences in the tax rates between bands for higher bands (for example, 11/9 for Band E and 13/9 for Band F), meaning that moving up or down a band leads to a larger change in bill.

It also reflects the operation of CTRS, which sees many low-income households have most, or all, of their council tax liabilities waived. This means, though, that when their gross bill increases or decreases due to a revaluation, their net bill is unchanged. Without CTRS, many more low-income households would see bigger increases and decreases in their bills. Table B.17 in Appendix B shows that more than a quarter of households in the poorest income quintile would lose £50 or more a year if this were the case. CTRS would protect low-income households from seeing a large rise in their bill due to a revaluation, but would also mean that few see large falls either.

The bottom panel of Table 4.1 shows that under the **expanded reform**, the 12-band less regressive system, 72% of low-income households would see little change in their net bills. Of those seeing larger changes, far more low-income households would gain than lose. This explains the pattern we see in Figure 4.4, showing that average bills would fall for lower-income households. But 8% of the poorest fifth of households and 15% of the next poorest fifth would see their bills rise by at least £50 per year, with some rising by considerably more. Without CTRS though, 26% of the poorest fifth and 21% of the next poorest fifth would see their bills rise by at least £50 annually.

Table 4.1. Percentage of gainers and losers from example minimal and expanded reforms, by income level, assuming full take-up of CTRS

	Income quintile group					
	Poorest	2nd	3rd	4th	Richest	All
Minimal: pure revaluation						
Gain >£500	0.4	0.8	1.2	3.1	5.3	2.1
Gain £200–£500	2.7	8.7	12.8	17.9	18.8	12.2
Gain £50–£200	3.6	9.4	9.3	7.5	6.0	7.2
Lose or gain £0–£50	85.6	65.7	56.7	48.9	44.3	60.2
Lose £50–£200	3.2	7.9	6.5	7.0	3.8	5.7
Lose £200–£500	3.2	6.1	12.1	13.3	15.9	10.1
Lose >£500	1.3	1.4	1.4	2.4	6.0	2.5
Average gain among gainers (£)	238	243	282	338	379	314
<i>Measured as % of net income</i>	1.4%	1.0%	0.8%	0.7%	0.4%	0.7%
Average loss among losers (£)	340	283	344	370	463	373
<i>Measured as % of net income</i>	2.0%	1.1%	1.0%	0.8%	0.5%	0.9%
Expanded: 12-band less regressive						
Gain >£500	2.2	4.7	6.9	6.9	4.5	5.0
Gain £200–£500	10.5	28.5	25.3	25.0	19.6	21.8
Gain £50–£200	7.4	14.7	16.2	14.7	11.0	12.8
Lose or gain £0–£50	71.9	36.8	23.0	19.9	9.4	32.2
Lose £50–£200	4.2	7.0	13.5	13.7	14.8	10.6
Lose £200–£500	1.6	4.4	8.2	10.7	17.6	8.5
Lose >£500	2.3	3.8	7.1	9.1	23.1	9.1
Average gain among gainers (£)	285	296	311	332	326	312
<i>Measured as % of net income</i>	1.7%	1.2%	0.9%	0.7%	0.4%	0.7%
Average loss among losers (£)	373	341	382	424	521	442
<i>Measured as % of net income</i>	2.2%	1.4%	1.1%	0.9%	0.6%	1.0%

Note: Gains (losses) among gainers (losers) includes those whose bill changes by at least £50. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Pensioners

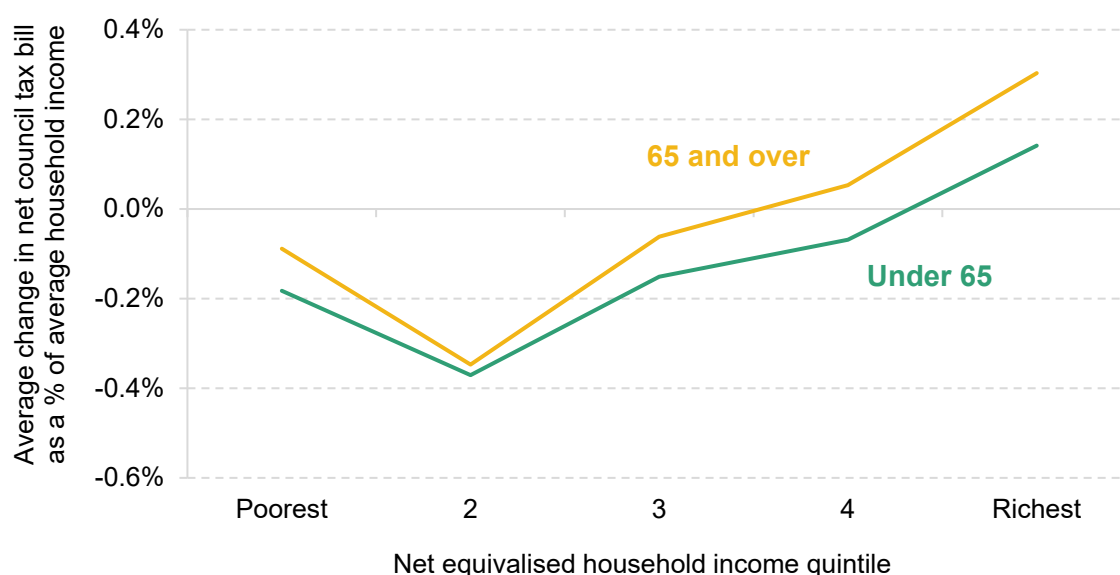
It is worth noting that some subgroups of the low-income population could be more likely to lose than others. We explore these briefly now, although it should be noted that the sample sizes underlying the following analyses are small, so the results are subject to larger margins of error.

Pensioners might have bought their house many years ago when their incomes were higher and property values much lower. We therefore might expect a larger proportion of low-income pensioner households to be living in high-value properties than working-age households, who likely bought or rented the property more recently.

Figure 4.16 shows that low-income pensioners would gain less on average than low-income non-pensioners from a revalued and less regressive council tax system (**expanded reform**).

Part of the reason for this, though, is that low-income pensioner households are more likely to be receiving CTRS, meaning that they do not see benefit from falls in their gross bill. A key reason for this is the higher-income limits for receiving support for pensioners. Table 4.2 shows that 86% of pensioner households in the poorest income quintile see a change in their bill of within £50 a year, compared to 72% of all households. Low-income pensioner households who do see a significant change in their bill are far more likely to experience a decrease than an increase.

Figure 4.16. Change in average net council tax bill from the example expanded reform, by income level and age of oldest household member



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7-10 and TAXBEN, the IFS tax and benefit microsimulation model.

Table 4.2. Percentage of gainers and losers from the example expanded reform, for pensioner households by income level, assuming full take-up of CTRS

	Income quintile group					
	Poorest	2nd	3rd	4th	Richest	All
Gain >£500	0.3	4.1	5.2	3.8	2.3	3.3
Gain £200–£500	5.0	20.8	22.4	25.3	20.5	19.2
Gain £50–£200	4.8	16.1	11.5	11.2	7.7	10.7
Lose or gain £0–£50	85.8	44.8	32.5	23.3	8.4	38.9
Lose £50–£200	1.8	8.1	12.2	14.8	13.1	10.1
Lose £200–£500	0.8	3.4	8.7	8.7	16.5	7.4
Lose >£500	1.4	2.7	7.4	12.9	31.5	10.5
Average gain among gainers (£)	260	278	315	337	317	307
<i>Measured as % of net income</i>	1.9%	1.3%	1.1%	0.8%	0.4%	0.8%
Average loss among losers (£)	350	284	376	435	594	461
<i>Measured as % of net income</i>	2.5%	1.3%	1.3%	1.1%	0.7%	1.3%

Note: Gains (losses) among gainers (losers) includes those whose bill changes by at least £50. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Residents of more expensive parts of Wales

Assuming that grant funding is redistributed across councils to compensate for changes in local tax bases under the various reforms, low-income residents of more expensive parts of Wales would also be more likely to see their bills increase.¹⁷

This is shown in Figure 4.17 – on average, households of all income levels in Monmouthshire, Cardiff and the Vale of Glamorgan (denoted by MCV) see smaller gains (bill decreases) and bigger losses (bill increases) than in the rest of Wales under the example of **expanded reform**.

¹⁷ If grant funding were not adjusted, then councils with high-value properties would retain the benefits of their larger tax bases in full, and could reduce the tax rate they charge, meaning no change in the average tax bill charged by a council. Low-income households in high-value areas would therefore generally gain or lose similar amounts to those in parts of the country with low-value properties.

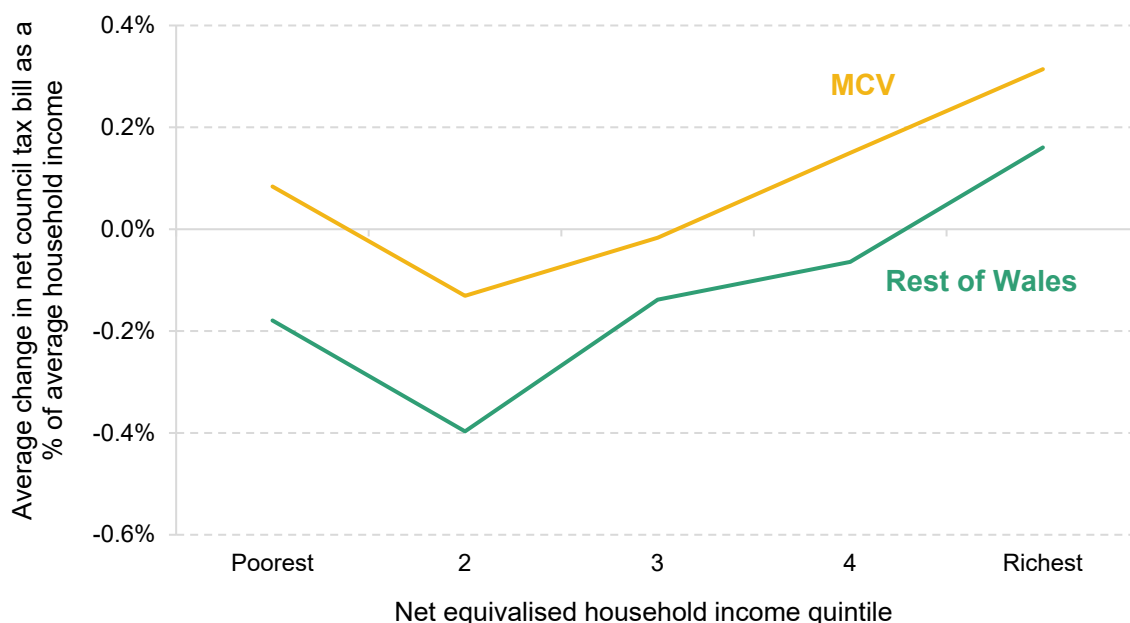
Still, Table 4.3 shows that the majority of the poorest households in these more expensive areas, 67% of the poorest income quintile, would see little change in their annual bill. This is because the CTRS protects many of those whose bill changes, whether that be an increase or a decrease. A further 17% would see their bill fall. A small group, 7.7% of the poorest income quintile, would see a large rise in their bill of more than £500 per year.

Table 4.3. Percentage of gainers and losers from the example expanded reform, for residents of MCV by income level, assuming full take-up of CTRS

	Income quintile group					
	Poorest	2nd	3rd	4th	Richest	All
Gain >£500	0.9	6.1	6.8	10.2	4.3	5.9
Gain £200–£500	8.9	22.9	23.3	12.2	8.5	14.9
Gain £50–£200	7.0	15.4	12.6	9.6	9.2	10.7
Lose or gain £0–£50	67.2	26.6	15.5	23.8	10.4	24.4
Lose £50–£200	7.6	12.0	15.6	14.2	13.1	12.9
Lose £200–£500	0.8	7.1	14.3	14.6	20.5	13.1
Lose >£500	7.7	9.8	12.0	15.4	34.1	18.0
Average gain among gainers (£)	298	302	352	379	318	335
<i>Measured as % of net income</i>	2.0%	1.2%	1.0%	0.8%	0.4%	0.7%
Average loss among losers (£)	331	316	330	454	511	434
<i>Measured as % of net income</i>	2.2%	1.2%	1.0%	0.9%	0.6%	0.9%

Note: Gains (losses) among gainers (losers) includes those whose bill changes by at least £50. Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale. MCV stands for Monmouthshire, Cardiff and the Vale of Glamorgan.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 4.17. Change in average net council tax bill from the example expanded reform, by income level and area

Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale. MCV stands for Monmouthshire, Cardiff and the Vale of Glamorgan.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

4.4 Incidence

In our analysis so far, we have assumed that changes in council tax do not affect rents. But rents – at least private-sector rents – are determined by the supply of and demand for rental properties. If the supply of property is relatively fixed, as is likely the case at least in the medium run, private landlords are likely to adjust the rent they charge over time in response to market demand, in effect compensating at least partly for rises and falls in council tax. That is, council tax could be partly incident on owners of privately rented properties rather than on tenants. Social rents, which are set by a formula, are perhaps less likely to adjust to changes in council tax.

These likely changes in rents, when combined with the operation of the benefit system and CTRS, can mean quite complex changes in renters' disposable incomes – with changes in tax bills, rents and benefits interacting. For example, Figure 4.15 showed that under the less regressive 12-band system (expanded reform), average net council tax bills among households that rent privately would fall by around £80 per year. If rents did not change, renters' net incomes would increase by the same amount, on average. However, if landlords were able to

increase rents as a result of the subsequent higher demand for property, much and perhaps all of these gains could be transferred to landlords.

What matters when landlords set rents is the demand for properties – which in turn will be affected by the net change in bills and disposable incomes faced by all the potential renters of a property. But what matters for an individual renter's disposable income is their own change in net bill, change in rent and change in benefit payments. This means that two renters seeing the same change in gross bill and same change in rent could see different changes in their disposable income.

For example, a renter may have too high an income to benefit from the CTRS and so bears in full any change in tax bill, be that an increase or decrease. However, because some potential renters have their council tax fully covered by the CTRS and are not affected by any change in bill, the average change in net bill for potential renters of that property would be smaller. This means that even if their landlord changed their rent to offset the average change in net bill, this particular renter would still be somewhat better off if the council tax bill for their property was reduced (and somewhat worse off if it were increased).

Conversely, a renter whose income was low enough to be entitled to CTRS would see no change in their net council tax bill, but would still be affected by changes in the rent charged by landlords unless they were among the lucky few to have their rent fully covered by Universal Credit local housing allowance rates.¹⁸ Such a household could be *worse off* if the council tax due on the property it lived in fell as a result of revaluation and reform: because they are in receipt of full CTRS they would not see a reduction in their net bill, but they would still be affected by the increase in rent driven by increased demand for the property they live in. On the other hand, such a household could be *better off* if the council tax on the property it lived in increased.

These effects mean that, counterintuitively, the Welsh Government may need to stand ready to provide additional support (for example, through discretionary housing payments) to low-income households in receipt of full CTRS in private sector rental properties whose gross tax bill falls as a result of revaluation and reform. In the previous discussion on bill increases for low-income households, where we assumed bill changes were fully incident on the occupier, we highlighted the important role that CTRS plays in insulating poorer households from large bill changes. But, if bill reductions lead to increases in rents, and the benefits households receive do

¹⁸ Recent IFS research suggests that just 2.5% of private rental properties being advertised on Zoopla were advertised at less than the local housing allowance rates applicable in Wales as of Q1 2023 (Waters and Wernham, 2023).

not adjust accordingly, then CTRS could actually result in some of the poorest households seeing their net income fall.

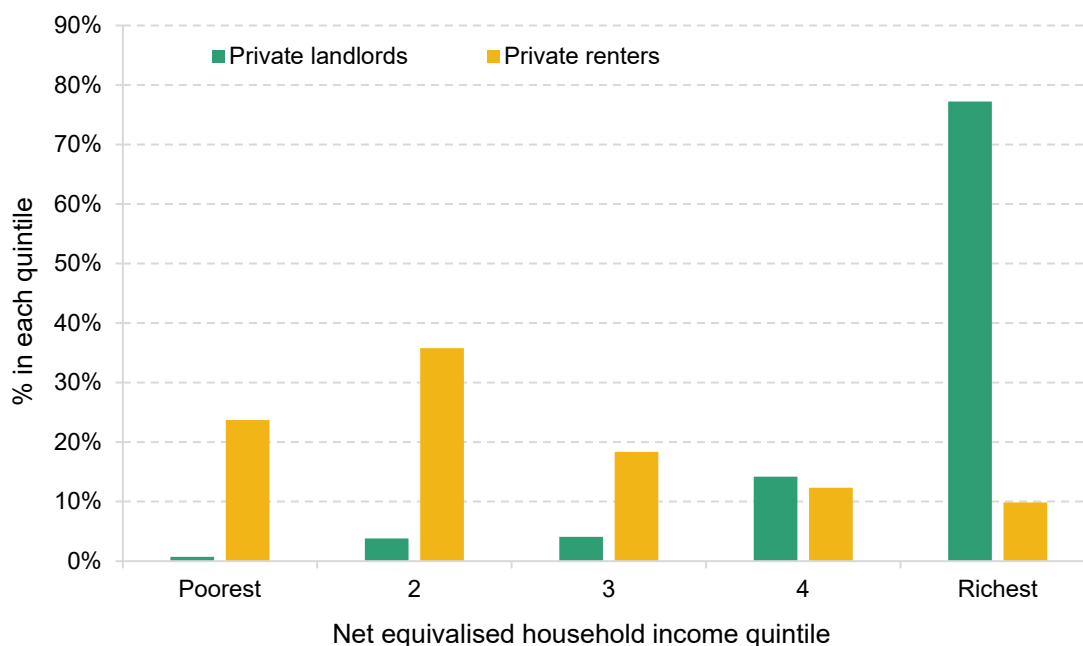
In contrast, in the social rental and owner-occupied sectors, it is households whose income is just too high to receive CTRS but who live in properties seeing gross tax bill increases that the Welsh Government may need to monitor – which is more intuitive. Low-income pensioners, one group who we might be concerned could lose out from council tax reform, are far more likely to fall into this category. Just 3% of pensioners in the poorest income quintile are living in privately rented accommodation; for the rest, CTRS will provide protection as we have discussed. We return to these issues in the concluding chapter of this report when discussing transition and mitigation measures.

Bearing these subtleties in mind, if the incidence of council tax revaluation and reform is shifted on to private sector landlords via changes in rents, the reform is likely to be less progressive with respect to income than set out in Figure 4.4. This is because landlords have higher income, on average, than private sector tenants.

Figure 4.18 shows the distribution of private landlords and renters by household income. Private landlords are heavily concentrated in the richest income quintile, with almost 80% of them in this group. Less than 10% of private landlords fall in the bottom 60% of the income distribution. Private renters are more dispersed, but tend to be located further down the income distribution. 70% of them have income below the median, while only 10% are in the highest-income 20%. If incidence is shifted on to (generally richer) landlords, then they will gain from cuts in council tax bills rather than their (generally poorer) tenants, rendering the reforms less progressive than our modelling above suggests.

4.5 Summary

This chapter has investigated the effects of the Welsh Government's three approaches to reform and a 12-band proportional system on the bills of households of different income levels, composition, age, disability status, ethnic group and housing tenure. We find that **minimal reform** (pure revaluation) would broadly affect households with different characteristics in a similar way. In every group of households, there would be some seeing their bills rise and some seeing their bills fall, but on average the effects of revaluation would be small for the vast majority of categories we consider. Reforms that make the council tax system less regressive, the other two examples we consider and the proportional benchmark have effects that vary more substantially across different types of household. The direction of these effects is usually the same for all three – the type of household that benefits from modest reform is highly likely to benefit from expanded reform, but the extent of change can differ quite significantly.

Figure 4.18. Distribution of private landlord and private renter households, by household income quintile

Note: Private landlords are identified as households that receive any rental income. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

Average changes from reforms can sometimes mask larger, but offsetting effects. This is not the case for **minimal reform** – the distribution of net bill changes shows that the majority of households would see their annual bill stay within £50 of its current value under a pure revaluation. Reforms that reduce the regressivity of the system would lead to both greater numbers of bill changes and bigger changes. More households would see their net bills fall than rise under such reforms, although this is because the average bill increase is bigger than the average bill decrease (all the reforms we model are revenue-neutral). More progressive systems would amplify these effects, under the **12-band proportional system** we use as a benchmark, almost half of households would see big falls in their net bill, but 5% would see their net bill rise by more than £1,000 annually.

We also explore what the average change in net council tax bill would be for different households under the four reforms. The effects of **minimal reform** are universally small – the average change in net bill for all the types of household we consider is less than £50 per year. The other systems we model, which are less regressive with respect to property value, would lead to bill decreases for low-income houses and bill increases for richer households. In cash terms, average bill increases would be larger than average bill decreases – although this means

that more households benefit rather than lose. As a percentage of household income, the average loss for the richest fifth of households is roughly the same as the average gain for the poorest fifth of households, with the second-poorest fifth gaining more.

Working-age households with a single adult are likely to benefit from council tax reform which makes the tax rates less regressive, whereas pensioner couple households would face the biggest average bill increases. In general, younger households would be the biggest beneficiaries of such reforms, whereas older households would see bill increases on average – the largest for those households where the oldest member is aged between 50 and 64. Households with an individual receiving disability benefits would also gain under less regressive reforms, as would households living in rented accommodation.

As there is often concern that council tax reform could lead to large numbers of low-income households facing large bill increases, we considered just how many low-income households could lose out from the reforms we model. The majority of low-income households would see very little change in their net council tax bill from revaluation and reform, instead the amount of CTRS they receive adjusts in response to changes in gross bill. This is the case for pensioners and residents of more expensive areas of Wales as well, although these groups would benefit less than other households from reform.

The analysis in this chapter assumes that changes in council tax bills are incident on the occupier of a property. Alternative assumptions about incidence, namely that changes are incident on the owner of a property, alter the effect of reforms. Assuming that bill changes are passed through to rents, and so incident on landlords or owner-occupiers, reduces the progressivity of reforms. This is because landlords are generally high-income households, whereas renters are located further down the income distribution. It also changes who could lose out from reform – if bill falls are translated into rent rises, then households receiving full CTRS and benefits to help with their housing costs could see their net income fall even though their net bill is unaffected.

5. Potential impacts on property values

Because property prices are determined by the supply of, and demand for, housing, changes in council tax bills would be expected to be reflected over time in properties' market values.

Properties that see a fall in their council tax bills would be expected to rise in value, whilst those that see a rise in their bills would be expected to fall in value, in a process called capitalisation. Economic theory suggests that tax changes will be highly capitalised into property prices where housing supply is relatively fixed (Oates, 1969).

A number of studies provide evidence of significant capitalisation of property taxes in the UK. Bond et al. (1996) find that 45%–85% of changes in business rates fed through into changes in commercial property rents in the course of just a few years, whilst a more recent study by Bond, Gardiner and Tyler (2011) finds that reductions in business rates in enterprise zone areas are almost entirely capitalised into rents. Housing supply in the UK is found to be unresponsive to property prices (Caldera Sanchez and Johansson, 2011), which, all else equal, would imply a high degree of capitalisation. Studies find that local public goods provision – the corollary to local taxes – is highly capitalised into property prices in the UK; see, for example, Hilber, Lyytikäinen and Vermeulen (2011) on grant funding and Gibbons and Machin (2008) on school quality. Many studies on other countries have also found nearly full capitalisation of property taxes (Capozza, Green and Hendershott, 1996; Palmon and Smith, 1998; Høj, Jørgensen and Schou, 2018).¹⁹ There is therefore strong empirical backing for the theoretical prediction that property prices would be affected by changes to property taxes such as council tax.

For owner-occupiers, the reason for capitalisation is straightforward: when deciding how much they are willing to pay for a home, owner-occupiers will consider the future costs of occupying that property, including the stream of council tax payments that they would have to pay (as well as any amenities those council tax payments pay for). For landlords, the logic of capitalisation is the same once we realise that council tax is likely to be shifted to a large extent on to them, as discussed in Section 4.4 – that is, a rise (fall) in council tax reduces (increases) the rent they are able to charge on the property, therefore reducing (increasing) the value of the property to them.

¹⁹ For a literature review, see Hilber (2015).

The amount by which property values change depends not only on the change in council tax bills, but also on the rate by which future tax payments are discounted. The more (less) households discount the future, the smaller (larger) the impact on market values, because future tax payments are worth less (more) in today's terms.

In this chapter, we therefore consider the potential impact of the example reforms modelled in this report (including the benchmark 12-band proportional system) on property values in Wales. We model the effect of complete capitalisation (that is, when changes in bills are fully reflected in changes in property values), which can be seen as the upper bound on potential impacts. In particular, we model capitalisation as a one-off change in property values by the discounted change in tax liability, assuming that this change in tax liability is permanent. This does not mean that we assume that there will be no further revaluations of council tax – the Welsh Government proposes to legislate for regular (initially five-yearly) revaluations, so such an assumption would be unwise. But it does mean that we assume that households do not expect subsequent revaluations and reforms to systematically increase or reduce their tax bills. This could be because they expect no change in their bill in future revaluations – for instance, if they expect their property's value to increase in line with the Welsh average and stay in the same tax band – or because they feel increases or decreases in their bill in future are equally likely.

In undertaking this analysis, we need to make two further assumptions:

- First is the discount rate that households use to value the changes in council tax bills in future years. We use a 2% real discount rate as our central estimate, which is broadly consistent with the Office for Budget Responsibility's assumptions about long-term real interest rates, and we discuss how different assumptions about the discount rate affect our results.
- Second is the extent to which the April 2023 estimates of property values being used to put properties into bands and for this analysis already reflect households' expectations of the impact of council tax revaluation and reform. If we assume that property values had not yet been affected by the prospect of council tax revaluation and reform, then the changes in property values that we estimate are relative to their April 2023 estimates. For example, an estimate of a £10,000 change in value would mean £10,000 relative to April 2023 values. We think this is a reasonable assumption, at least as an approximation, because while the Welsh Government had confirmed its intention to revalue and reform council tax by then, it would have been difficult so far for households to work out the likely effects on any particular property, not least due to uncertainty about the precise detail of the reforms. However, the broad direction of change – revaluation and greater progressivity – has been clear for some time. If households had already started to price in the potential effects of revaluation and reform of council tax to how much they are willing to pay for particular properties, part of the impact on values that we estimate could already be reflected in

property values. For instance, April 2023 values may already have adjusted to reflect part of the £10,000 estimated change in value in the aforementioned example.²⁰

In interpreting our estimates of impacts on property values, it is also important to note that people whose bill rises (falls) do not lose (gain) twice over from both the increase (fall) in their tax bill and the fall (increase) in the value of their property. On the one hand, if they continue living in the property indefinitely, they lose or gain as a result of the change in their tax bill; on the other, if they sell and move, they lose or gain as a result of the change in their property value. However, capitalisation does mean that it is the owner of a property at the time of revaluation and reform who loses or gains: future purchasers will pay less (more) for the property if the tax bill associated with it is higher (lower).

The rest of this chapter proceeds as follows. We first summarise our estimates of the overall effects on property values of the different example reforms we are modelling under full capitalisation, and discuss how sensitive estimates are to assumptions about the discount rate. Next, we examine potential changes in property values across council areas and LSOAs. We then examine changes across households of different income levels.

5.1 Overall effects

Figure 5.1 shows how the example reforms would affect average property values if changes in council tax were fully capitalised into values. We group properties in Wales into 100 equally sized groups based on their current property value, and plot the average property value in each group after the reform. Note that since the reforms we model are revenue-neutral, they would have no effect on average property values across all of Wales.

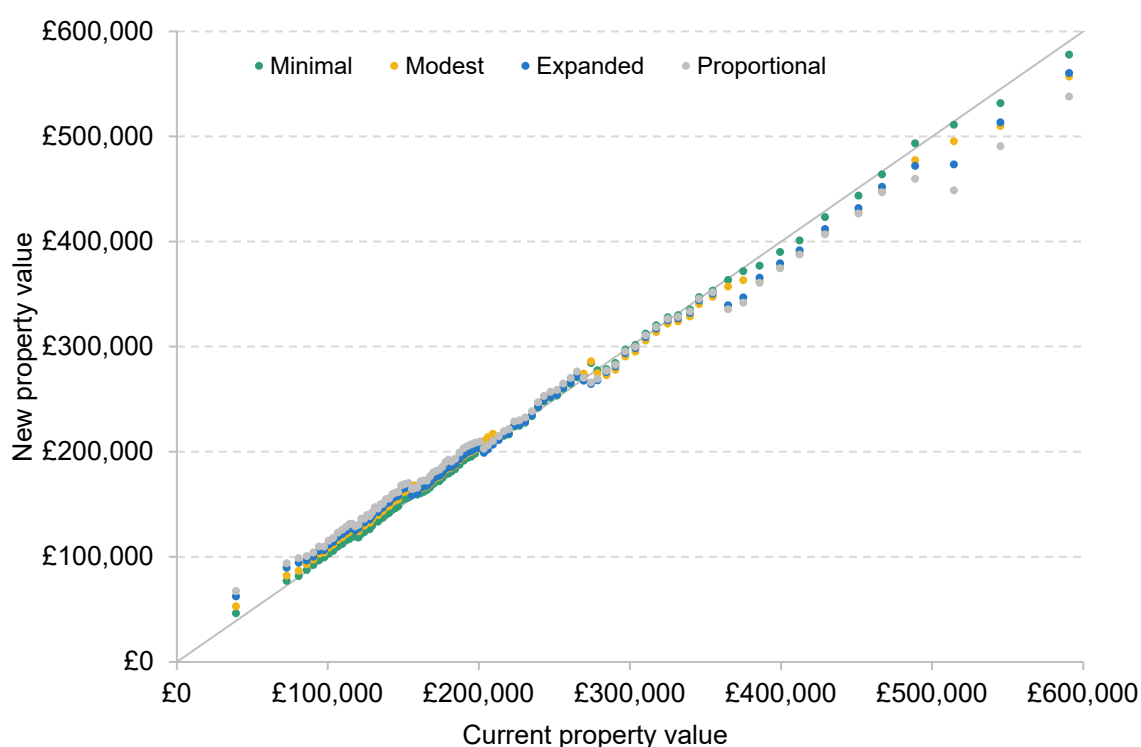
Minimal reform, a pure revaluation, would have little effect on the distribution of property values. The lighter green dots in Figure 5.1 lie very close to the 45-degree line, which means that properties of a given value (say £200,000) today would still be worth, on average, approximately the same amount on average (around £200,000) after revaluation. This reflects the fact that while some properties of this value would move up one or more council tax bands and see their tax

²⁰ Indeed, if in April 2023 households had expected the Welsh Government to make council tax fully proportional to value, they would have been expecting bigger increases in bills for high-value properties and bigger reductions in bills for low-value properties than the Welsh Government is now consulting upon. In that case, property values could have already fallen more for high-value properties and risen more for low-value properties than would be the case once households know the actual reform that will be implemented. In theory this could mean that while relative to there being no revaluation and reform, the reforms ultimately implemented would reduce the value of high-value properties (due to increases in tax bills on these properties), values would increase relative to April 2023 (due to increases in tax bills on these properties being smaller than expected at that point).

bills rise and value fall, others would move down one or more council tax bands and see their tax bills fall and value rise.

If council tax were made less regressive, values would increase for lower-value properties and decrease for higher-value properties, reflecting the fact that council tax bills would go down and go up for these different groups. The scale of the changes would depend upon the scale of the reforms undertaken. For example, with a 2% real discount rate, the cheapest tenth of properties would see their value increase by 11% in the example **modest reform**, 18% in the example **expanded reform** and 23% in the **12-band proportional system**. Conversely the most expensive tenth would see their value fall by 4%, 5% and 9%, respectively, under these example reforms. However, as Figure 5.1 shows, the majority of properties are clustered at values below £350,000 and would see their values rise or little changed, on average, as a result of the reform. And it is also worth bearing in mind that average property values in Wales are currently around one-third higher than prior to the COVID-19 pandemic, and two-thirds higher than 10 years ago.

Figure 5.1. Estimated effect of reforms on property values, 2% real discount rate

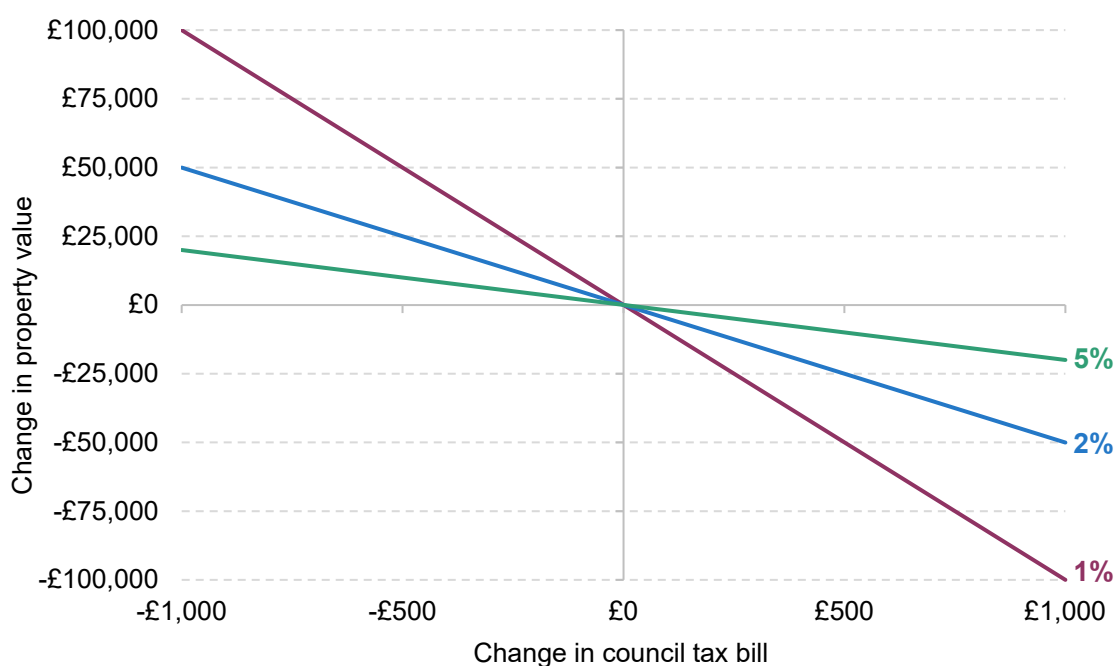


Note: The figure shows 100 bins of current property values. It omits the three highest bins at around £676,000, £817,000 and £1,184,000.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

The estimated change in property values from a given change in council tax liabilities is highly sensitive to the discount rate assumed, as shown in Figure 5.2. For example, if council tax changes are fully capitalised into property values, an increase in annual council tax bills of £500 would reduce property values by £25,000 under a 2% discount rate. If a 5% discount rate is assumed instead, property values would fall by just £10,000; under a 1% discount rate, property values would fall by £50,000.

Figure 5.2. Changes in property value due to capitalisation of changes in council tax bills under different assumptions about discount rates



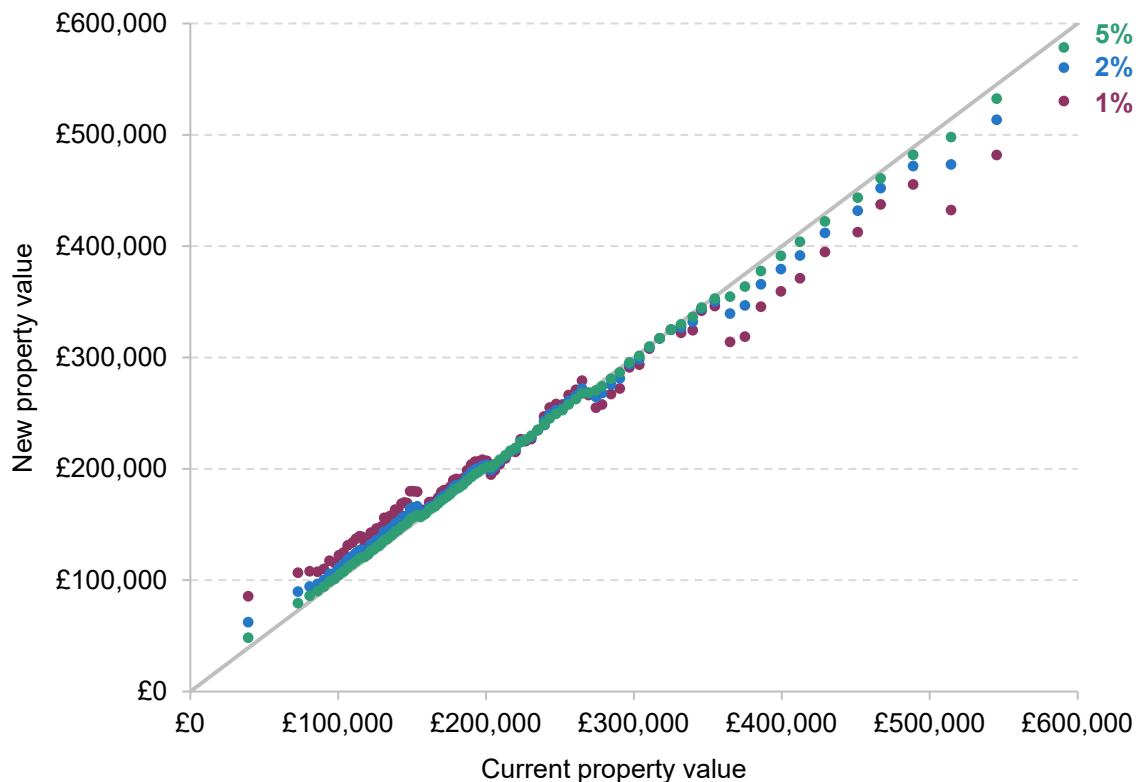
Source: Authors' calculations.

As a result, our estimates of changes in property values shown in Figure 5.1 are also highly sensitive to assumptions about the discount rate.

Figure 5.3 shows how our estimates of the impact of the example expanded reform (12-band less regressive system) vary when using the two alternative discount rates: 1% and 5%. If households discount future tax payments more heavily, by 5% rather than 2%, then the reform would have a much smaller effect on property values in Wales. For the cheapest tenth of properties, this would imply a 7% increase in values rather than 18%, whereas for the most expensive tenth it would mean values falling by 2% rather than 5%.

On the other hand, if households place a higher value on future tax payments, having a discount rate of just 1%, expanded reform would lead to a larger increase in values for lower-value properties (36% for the cheapest tenth) and larger falls in values for higher-value properties (10% for the most expensive tenth).

Figure 5.3. Effects of expanded reform on property values under different assumptions about the real discount rate



Note: The figure shows 100 bins of current property values. It omits the three highest bins at around £676,000, £817,000 and £1,184,000.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

5.2 Effects across places

As with changes in average tax bills, changes in average property values across council areas if tax bills are capitalised will depend crucially on whether grant funding is redistributed to reflect changes in tax bases. If it is not, each council and PCC would still need to raise the same revenue if it wanted to maintain spending, and hence charge the same average tax bill. Thus, average property values would be little changed across council areas,²¹ even though within council areas some properties (for example, moving up a band) would see their tax bill rise and value go down, and others vice versa.

²¹ As discussed in Chapter 3, there would not be zero effect on average bills and hence on average property prices by council area, because of changes in how much residents in each council contribute to the PCC's council tax revenue requirement. But these changes would be modest, reflecting the fact that the PCC precepts account for around 17% of overall bills.

With full adjustment in grants, average tax bills would change to reflect changes in tax bases if councils wanted to maintain spending levels. This would lead to more significant changes in property values by council area if these changes were capitalised.

Table 5.1 shows our estimates of the effect on average property values by LA under each of the example reforms, assuming a 2% discount rate. It shows that:

- The effects of **minimal reform** on average property values by council would be relatively modest. In areas where property values have previously risen fastest, and hence more properties would move up bands and see higher average bills as a result of revaluation – such as in the south-east and north-west – we estimate that average property values would fall a little. Average values would rise a little in areas where average bills would fall as a result of revaluation – most notably in North East Wales. But the average change would be below £4,000 in all but four: Gwynedd (down around £4,300 or 1.8%), Denbighshire (up £5,900 or 2.9%, Flintshire (up £4,800 or 2.1%) and Wrexham (up £4,700 or 2.2%). And even for these areas, the changes are relatively modest in the context of the changes that take place year-to-year.
- If council tax were also made less regressive, the effects would be significantly greater, and would narrow gaps in property values between high-price and low-price parts of Wales, acting to reduce geographical wealth inequality. For example, under the example of **expanded reform**, our estimates suggest that average values in Wrexham, Blaenau Gwent and Denbighshire would increase by around £6,200, £7,200 and £8,600, respectively. Conversely, average values in Monmouthshire and the Vale of Glamorgan would fall by around £15,900 and £13,300, respectively. This would see the ratio of property values in Monmouthshire relative to Blaenau Gwent fall from 2.8 times as high to 2.55 times as high. However, the fall in Monmouthshire, which is equivalent to around 4.2%, is relatively small in the context of price rises in recent years. For example, prices rose by 30% between January 2020 and September 2023, and are now nearly double their September 2013 level.

As already highlighted, though, the impact of revaluation and reform on property values would depend on the discount rate with which property purchasers discount future tax bills (and rental receipts, in the case of landlords). This is illustrated in Table 5.2, which shows the effects of the example of **expanded reform** by council area under discount rates of 1%, 2% (our main assumption) and 5%.

Table 5.1. Effect of reforms on property values by council, 2% real discount rate

Local authority	Average value	Minimal	Modest	Expanded	12-band proportional
Blaenau Gwent	£136,278	−£1,715	+£4,606	+£7,188	+£12,086
Bridgend	£213,745	−£19	+£1,373	+£1,662	+£3,751
Caerphilly	£189,532	−£1,492	+£1,845	+£2,412	+£5,815
Cardiff	£286,402	+£879	−£2,598	−£3,628	−£6,989
Carmarthenshire	£218,544	+£769	+£1,895	+£2,178	£3,613
Ceredigion	£264,811	−£572	−£2,715	−£3,261	−£4,113
Conwy	£241,626	+£529	−£85	−£394	−£242
Denbighshire	£202,948	+£5,949	+£8,091	+£8,588	+£10,810
Flintshire	£228,668	+£4,776	+£5,239	+£4,935	+£6,368
Gwynedd	£241,163	−£4,285	−£4,781	−£4,956	−£5,207
Isle of Anglesey	£254,387	−£3,594	−£5,130	−£5,540	−£6,504
Merthyr Tydfil	£165,212	−£3,535	+£1,110	+£2,723	+£6,621
Monmouthshire	£382,019	−£3,299	−£13,383	−£15,946	−£27,967
Neath Port Talbot	£171,574	−£383	+£3,912	+£5,014	+£8,882
Newport	£231,159	+£637	+£815	+£531	+£1,209
Pembrokeshire	£258,897	−£1,744	−£3,698	−£3,986	−£5,289
Powys	£282,050	−£712	−£4,248	−£4,906	−£7,852
Rhondda Cynon Taf	£166,775	−£1,312	+£2,875	+£4,501	+£8,086
Swansea	£206,824	+£2,350	+£3,941	+£4,496	+£5,715
Torfaen	£207,545	−£2,024	−£217	+£55	+£2,543
Vale of Glamorgan	£351,744	−£3,469	−£11,135	−£13,288	−£23,524
Wrexham	£214,977	+£4,714	+£6,049	+£6,170	+£7,624

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics.

Table 5.2. Effect of the example expanded reform on average property values under different discount rate assumptions

Local authority	Average value	1% discount rate	2% discount rate	5% discount rate
Blaenau Gwent	£136,278	+£14,377	+£7,188	+£2,875
Bridgend	£213,745	+£3,325	+£1,662	+£665
Caerphilly	£189,532	+£4,824	+£2,412	+£965
Cardiff	£286,402	-£7,255	-£3,628	-£1,451
Carmarthenshire	£218,544	+£4,357	+£2,178	+£871
Ceredigion	£264,811	-£6,522	-£3,261	-£1,304
Conwy	£241,626	-£788	-£394	-£158
Denbighshire	£202,948	+£17,177	+£8,588	+£3,435
Flintshire	£228,668	+£9,870	+£4,935	+£1,974
Gwynedd	£241,163	-£9,912	-£4,956	-£1,982
Isle of Anglesey	£254,387	-£11,079	-£5,540	-£2,216
Merthyr Tydfil	£165,212	+£5,447	+£2,723	+£1,089
Monmouthshire	£382,019	-£31,892	-£15,946	-£6,378
Neath Port Talbot	£171,574	£10,027	+£5,014	+£2,005
Newport	£231,159	+£1,062	+£531	+£212
Pembrokeshire	£258,897	-£7,972	-£3,986	-£1,594
Powys	£282,050	-£9,812	-£4,906	-£1,962
Rhondda Cynon Taf	£166,775	+£9,001	+£4,501	+£1,800
Swansea	£206,824	+£8,991	+£4,496	+£1,798
Torfaen	£207,545	+£109	+£55	+£22
Vale of Glamorgan	£351,744	-£26,575	-£13,288	-£5,315
Wrexham	£214,977	+£12,341	+£6,170	+£2,468

Source: Authors' calculations using the VOA's property value estimates, Welsh Government tax base and council tax level statistics.

Table B.15 in Appendix B contains maps which show estimated impacts on value by LSOA under these different discount rates. These are included to show that within council areas where the average property value would increase, for example, under a given reform, there are neighbourhoods where average property values would likely decrease. For instance, while the average property value in Swansea would increase under less regressive council tax systems, the average in many LSOAs in the west of the city (the more affluent part) would increase.

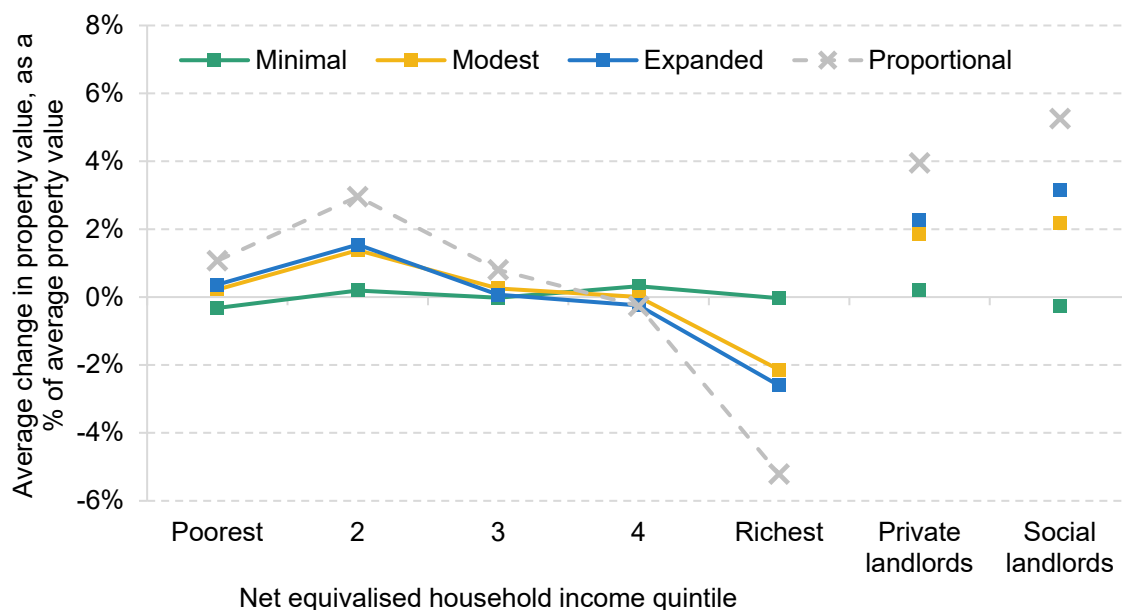
Conversely, while the average property value in Cardiff would increase in value on average under such a system, it would fall in large parts of the city, particularly around Cardiff Bay. And while average values would fall for most rural council areas, they would increase in many of the main towns and settlements. The precise estimates for LSOAs should be treated with even more caution than those for councils though, as the changes in net bills facing current residents (which we use in our estimates of changes in property value) may be a less reliable guide for the changes in net bills for *potential* residents – which is what matters for property values for such small areas. For example, if an LSOA currently has many properties in receipt of the single-person discounts but is also attractive to multi-resident households, we may be somewhat understating the change in property value for that LSOA.

5.3 Effects by household income

This section considers how revaluation and reform would affect the property values of households across the income distribution. We can only do this for owner-occupied properties, as we do not have information on the value and location of rental properties owned by landlords. We therefore show the average impact across all privately rented properties. As discussed in Section 4.4, private landlords are strongly concentrated towards the top of the income distribution, so changes in the value of privately rented properties would generally be borne by higher-income households. The impact on social housing values is shown for completeness, but we do not comment on these results as the changes are not directly borne by households.

Figure 5.4 shows the average change in property value as a percentage of average property value, for owner-occupiers of different income levels. **Minimal reform** (pure revaluation) would have little effect on average values across the income distribution, or on the values of privately rented properties. Under reforms that make the tax rates less regressive, low-income owner-occupiers and private landlords would see their properties appreciate in value. The richest owner-occupiers, those in the highest-income quintile, could expect to see their property value fall.

Figure 5.4. Average change in property value, by household income quintile, as a percentage of average property value



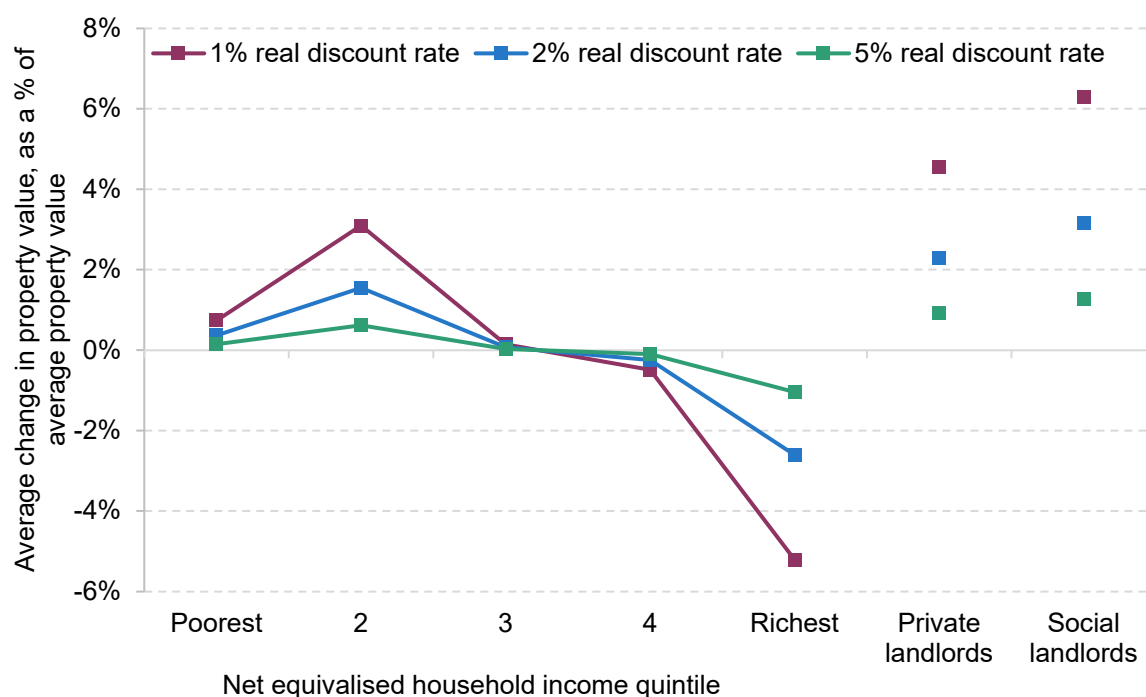
Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

The extent to which property values would change depends on the nature of the reform. Under the example **expanded reform**, property values would increase by an average of 1.5% for owner-occupiers in the second poorest quintile group and decrease by 2.6% for the richest quintile. Equivalent figures under the **modest reform** would be a little smaller (+1.4% and -2.1%, respectively), while under the benchmark **12-band proportional system** they would be notably larger (+3% and -5.2%, respectively). For both private and social landlords, the average value increase would be roughly 2 to 3 percent under the **modest reform** and **expanded reform** systems, compared to 4 to 5 percent under the **12-band proportional system**.

As before, these results are sensitive to assumptions about the discount rate. Figure 5.5 shows, for **expanded reform**, how the estimates of changes in property value vary under different assumptions about the real discount rate. If we assume a lower discount rate of 1%, meaning households care more about future tax payments, then the changes in values would be larger. The second income quintile would see values increase by an average of 3%, whereas the richest quintile would see property values fall by over 5%. If instead we assume a higher discount rate of 5%, the changes in property values would be more muted. This would mean almost no change for most owner-occupiers, and a 1% fall in average values for those in the richest income quintile. Similarly, the values of privately rented properties would increase by 4.5% under a 1% discount rate assumption, but only 0.9% if using a 5% discount rate instead.

Figure 5.5. Average change in property value under the example expanded reform, by household income quintile, as a percentage of average property value, under different real discount rate assumptions



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits and adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 7–10 and TAXBEN, the IFS tax and benefit microsimulation model.

5.4 Summary

This chapter has explored the potential impact on property prices of revaluation and reform of council tax, assuming that bill changes are fully capitalised. We find that pure revaluation (minimal reform) would have little effect – properties of a given value today would be worth roughly the same on average after a pure revaluation. Average values in different areas would also be only modestly affected. Reforms that reduce regressivity would increase the value of lower-value properties and reduce the value of higher-value properties, because these see bill decreases and increases, respectively. This would reduce geographical wealth inequality between different areas, and reduce wealth inequality between households of different income levels. These qualitative findings are invariant to how households value future tax payments, but the size of the impacts does depend on this. If households value future tax payments more than we have assumed, then changes in property values would be bigger. On the other hand, if households value these payments less, then changes in property values would be smaller than our central estimates.

6. Conclusions

So far in this report we have focused mainly on quantifying the effects of the example council tax reforms described in the Welsh Government's consultation document. In this concluding chapter, we assess the merits of the proposals.

Our overall view is that the Welsh Government's proposed direction of travel on council tax is very welcome. Any minor quibbles over details should be seen in that context.

6.1 Revaluation

Revaluation is unambiguously a good idea. It is absurd that we tax people based on 20-year-old property valuations (let alone 32-year-old valuations, in England and Scotland), and it is hard to see any principled objection to bringing valuations up to date.

Legislating for regular revaluations in future is even better, making it less likely that valuations will become so out-of-date again. The consultation document envisages five-yearly revaluations initially, with a view to potentially moving to three-yearly revaluations in the longer term if the process works well; the Welsh Government would 'retain flexibility to shorten or lengthen the intervals'. There is a case for moving immediately to three-yearly revaluations: aside from the principled advantage of reflecting contemporaneous property values more accurately, more frequent revaluations are likely to be easier to deliver, as the changes in values (and therefore bills) each time are likely to be smaller and the process seen as more routine rather than a potentially controversial special event. The administrative costs of more frequent revaluations should be lower now that they are mostly based on computer modelling rather than manual assessments. There is also a case for entrenching whatever interval is chosen in legislation rather than retaining discretion, to give households and councils more certainty and to reduce the temptation for ministers in future to delay revaluations for reasons of short-run political expediency, which can become a bad habit. Nevertheless, the proposal in the consultation document is a good one.

6.2 The timing of reform

Less welcome is that the consultation document opens up the prospect of potential delay from the previously stated intention of implementing revaluation and reform in 2025. There is no obvious economic or administrative need for, or benefit from, delay (as opposed to having a

gradual transition for households seeing large changes in bills, for which there is a case). We recognise that reform is politically challenging: it creates losers as well as winners, and the more radical the reform, the bigger the gains and losses. But reform is needed – indeed, already long overdue – and delay would not make it any easier. Both Labour and Plaid Cymru committed to updating council tax in their 2021 election manifestos, and that shared commitment was repeated in the Co-operation Agreement between them; it is hard to imagine more propitious circumstances in which to proceed. The Welsh Government should go ahead with revaluation and reform in 2025 as originally planned; it is only a pity that, by raising the prospect of possible delay, the consultation document may have created more uncertainty for households and councils.

6.3 Reducing regressivity

The appropriate degree of progressivity in the tax system is a political choice. But a stated aim for reform is to make council tax more progressive (or, at least, less regressive). The expanded approach would fulfil that aim better than the others suggested in the consultation document.

Reforming council tax is quite an economically efficient way to redistribute, as it does not weaken work incentives or create tax avoidance (or evasion) opportunities like income-based redistribution does. Indeed, making council tax less regressive should help in that respect, by reducing reliance on means-tested CTRS. Since we expect council tax reform to affect the prices of different kinds of properties, the other main incentive effects of reform would be to reduce the current bias towards building high-band rather than low-band properties, which would be welcome, and to weaken the incentive to improve properties and then sell them, which would be unfortunate but does not seem of first-order importance.

If the Welsh Government did not want policy to be more progressive overall, it has powers to make offsetting changes to land transaction tax and/or income tax.

It is not obvious why we should want the property tax in particular to be regressive when taxes on other forms of consumption and wealth are not. There is much to be said for going further than the Welsh Government proposes, by making council tax fully proportional to property value, as proposed by the Mirrlees Review (and many others since). But there are legitimate reasons not to do that in one giant leap. The examples of ‘less regressive’ systems illustrated in this report show how the Welsh Government could go part-way, and they are just examples: it could choose relativities to go further or less far in that direction.

6.4 Adding more bands

Adding more bands allows for a more fine-grained relationship between property value and tax liability.

As discussed in Chapter 2, ideally the Welsh Government would go further and move away from a banded system altogether, levying the tax as a percentage of an exact property valuation, as many other jurisdictions (including Northern Ireland) do. We are not well placed to judge whether the Welsh Government's argument for sticking with relatively wide bands – that it would reduce the challenges associated with valuation – is a good one. But we note that when it comes to appeals, in principle the effect is ambiguous, as giving properties more precise valuations might leave more people believing their valuation was wrong but would also avoid such big jumps in tax liabilities across bands and leave appellants more exposed to being moved up rather than down, reducing the incentive to appeal.

A banded system also creates unfairness between households just either side of the thresholds, who have very similar property values but must pay very different amounts of tax. With a given number of bands, making the tax rates less regressive would actually exacerbate this unfairness, as the jump in tax bills at thresholds would be bigger. It can be alleviated by having more, narrower bands, so that the jump in liabilities at any one threshold is smaller – or again, ideally by moving from a banded to a continuous system.

6.5 Discounts

While reviews of council tax discounts are ongoing, the consultation document provides an update on these reviews.

By far the biggest discounts from council tax are the means-tested CTRS and the 25% one-adult (or single-person) discount.

The Welsh Government proposes 'to consult on further changes to the Council Tax Reduction Scheme to make council tax reductions easier to access and simpler to administer'.

Improvements may be possible, for example through increased sharing of data with the Department for Work and Pension and His Majesty's Revenue and Customs (HMRC). But, in any case, the CTRS in Wales (and that in Scotland) does not face the same challenges as in England, where localisation and cuts from 2013 increased complexity, reduced support for low-income households and led to falling council tax collection rates as arrears increased among those who would not previously have had to pay any council tax (Adam, Joyce and Pope, 2019). The Welsh and Scottish Governments decided not to follow that route, maintaining common

schemes across the whole of their respective nations that broadly mirror the Britain-wide scheme that was in place until 2013.

More troubling is that the consultation document proposes 'committing to retain the one-adult discount and to keep the level of discount at 25%'.

Keeping the discount at 25% of council tax liability would be unfortunate.

Whether and how much to redistribute from multi-adult to single-adult households is, again, a political decision. But it is not clear why the extent of that redistribution should be related to the value of the property they occupy. Because the cash value of the discount depends on the council tax band the property is in, it encourages inefficient use of the housing stock, with single-adult households living in bigger properties, and multi-adult households living in smaller properties, than they otherwise would. Less council tax is payable in total if a single person occupies an expensive property and a couple a cheap property, than the other way round. With property scarce, a discount that makes it scarcer for those who most need space does not look like sensible policy. Although much less widely discussed than the out-of-date valuations and regressive structure, this is a major weakness of the current council tax system.

It could be fixed by making the size of the discount independent of the property's council tax band: setting the discount equal to, say, 40% of the Band A rate (or 20% of the Band D rate, or similar), regardless of what band the claimant's property is actually in. If desired, the level of discount could be chosen to be revenue-neutral, maintaining the overall generosity of support for single-adult households but removing the current incentive for inefficient use of the housing stock. Such a change would also go further towards making council tax less regressive, increasing the generosity of the discount for those in low-value properties and reducing it for those in high-value properties.²²

6.6 Addressing losers from reform

Any meaningful reform creates winners and losers.

Households and areas whose properties have risen by more than average since 2003 would lose from revaluation, while those whose properties have risen by less than average would gain.

²² As before, if the Welsh Government did not want this greater progressivity, it could offset it elsewhere, either within council tax (by adjusting the relativities between bands) or by making land transaction tax or income tax less progressive.

Making the rate structure less regressive would benefit households and areas with low-value properties at the expense of those with high-value properties.

The pattern of net winners and losers therefore depends on the specific reform adopted.

Geographically, areas where properties are worth more than average *and* have risen in value more than average (such as Monmouthshire and the Vale of Glamorgan) would see increases in average bills under any plausible revaluation and reform, while conversely areas such as Rhyl and Wrexham, which have property values that are (now) below average and have risen less quickly than average, would gain from any plausible reform. But other areas might win or lose depending on the specific reform. Average bills in parts of the South Wales Valleys would increase under minimal reform (pure revaluation) but fall if council tax were also made less regressive; average bills in more affluent parts of Cardiff and Swansea would fall or be little changed under a minimal reform but increase under a less regressive system. Similar considerations apply to individual households within council areas.

Importantly, we find that making council tax less regressive as well as revaluing properties would increase the number of winners relative to the number of losers – though the losses among those who did lose would be larger (the aggregate increases and reductions in bills must always sum to zero for a revenue-neutral reform). This includes in the more rural counties of Wales and, in particular, Gwynedd and the Isle of Anglesey, where far more households would gain under the modest and expanded approaches than under the minimal pure revaluation, despite the average loss for households in these areas being slightly higher under such less regressive systems.

But any plausible reform would create significant numbers of losers, and it is reasonable to be concerned about them – especially low-income losers.

It is important to emphasise that while some low-income households would lose from making council tax less regressive, a much larger number would gain. There are far more low-income households living in low-band properties who currently have to pay substantial amounts of council tax and would see that reduced, than low-income households in high-band properties who would see their bill increase further.

It is also important to note that many of those on low incomes would be insulated from any rise or fall in their gross council tax liability by CTRS.

Nevertheless, there would still be some low-income households who lose from reform. This includes households who see their gross council tax liability increase and either do not take up their CTRS entitlement or are slightly above the income or asset cut-off for CTRS but still of relatively modest means. A less obvious group of potential low-income losers is tenants whose

gross council tax liability *falls* but who do not gain from that as their CTRS falls pound-for-pound, while their landlord might put up their rent as other potential tenants might be willing to pay more for a property when the council tax bill for the property is lower.

There are several ways that losses from reform could be mitigated. One is by phasing in increases in bills gradually, giving households time to adapt – including by moving to a less-expensive property – before facing the full change in tax bill.

The consultation document proposes that those whose bills rise would have the increase phased in over a number of years, while those whose bills fall would see the benefit immediately. This asymmetric approach to transition mirrors the approach the Welsh Government took at the last council tax revaluation in 2005 and takes for business rates revaluations, but differs from what happens at business rates revaluations in England, where the cost of phasing in increases in tax bills is paid for by phasing in decreases too. The asymmetric transitional arrangements proposed for Wales have obvious appeal. But they mean being more generous in the short term than in the long term, and paying for them puts more (short-term) strain on either Welsh or local public services and taxpayers, depending on whether the Welsh Government provides additional funding to cover the cost of transitional relief or requires local councils to pay for it themselves.

Beyond this, the consultation document gives little more information on exactly how transitional protections would be designed, deferring the details until the underlying reform plan has been decided. When Wales last implemented a revaluation in 2005, it based transitional protection on movements across council tax bands. But when the number of bands and the relative tax rates applied to them change, that approach makes less sense. In our view, it would be better simply to cap the (cash or percentage) year-on-year increase in the tax on any given property as a result of revaluation and reform.

As well as phasing in increases in bills gradually, the Welsh Government has other options for mitigating any negative impacts on low-income (and potentially other) households:

- Discretionary housing payments could be used on a case-by-case basis. This might, for example, be useful for those households in the private rental sector with the lowest incomes, whose council tax bill is covered in full by CTRS, but who see an increase in their rent following reductions in the gross bill for their property (because other potential tenants are now willing to pay a higher rent).
- To help those households who do not quite qualify for CTRS at the moment, the levels of income and/or assets above which CTRS is withdrawn could be increased, or the rate at which support is withdrawn as income rises could be reduced. Different options would target slightly different groups. Measures to improve take-up of CTRS would also help. As noted above, the Welsh Government is currently reviewing the details of the CTRS scheme.

- A more targeted approach than a general expansion of the CTRS would be to introduce a special scheme offering more generous support only for those seeing their tax bills increase as a result of the reform of council tax: for example, those in Bands E or above under the modest or expanded approaches. Such a scheme was implemented in Scotland in 2017 when the relative tax rates on properties in Bands E to H were increased: households in roughly the bottom half of the income distribution were in effect exempted from the increases (but still had to pay their pre-reform council tax bills) via an add-on to Scotland's existing CTRS.
- Another option, aimed at supporting the asset-rich but cash-poor households often highlighted for concern, would be to allow homeowners who are unable to pay their council tax bill out of their current income to defer paying their council tax for a period of time – for example, until sale of the property, death, or five years, whichever is soonest. This would, in effect, be a loan of the tax liability from the Welsh Government or councils. Crucially, any deferral should apply with a market interest rate on the deferred liability – as happens in Ireland and in British Columbia, both of which operate such a scheme – so that households are not encouraged to defer payment unless they need to, and the Welsh Government and councils do not lose out financially from deferring the bill.

The second and final of these options are discussed in more detail in Adam et al. (2020).

6.7 Conclusion

The specific reforms that we have analysed in this report are only examples: the Welsh Government has yet to decide exactly what reform it will implement. There are still details to iron out and improvements that could be made. It is also worth reiterating that the effects of revaluation and reform on council tax bills (and spending on local services) would depend not only on the Welsh Government's decisions but on how councils set their Band D rates in response.

Yet even with these caveats and uncertainties, the direction of travel proposed would represent a clear and major improvement on the status quo. The Welsh Government should go ahead with revaluation and reform of council tax in 2025. And England and Scotland, where reform is even more desperately needed, should follow suit.

Appendix A. Methodology

A.1 Place-based analysis

To conduct our council-level and LSOA-level analysis, we use the VOA's property attributes datasets and initial estimates of property values as of April 2023, in conjunction with data from the Welsh Government on 2023–24 Band D council tax rates by council area, and the share of properties subject to different exemptions, discounts, premiums and the means-tested CTRS by council, neighbourhood (LSOA) and existing tax band. Together, these data allow us to model the standard *gross* council tax bill (i.e. the bill before any exemptions, discounts, premiums and the CTRS) for every property in Wales under the current council tax system and any reform system, as well as the average *net* council tax bill (i.e. the bill after any exemptions, discounts, premiums and the CTRS) for each council and neighbourhood for the current and any reform system.

Matching exemptions, discounts, premiums and the means-tested CTRS by LSOA and band provides for more accurate modelling of changes in average net bills than matching these variables by council and band. However, in some instances, the LSOA–band level data provided to us by the Welsh Government are incomplete: for example, for a number of councils, the data do not distinguish between empty property and second home premiums, and information on 50% discounts is missing or very partial for a number of councils. For this reason, we scale the share of properties receiving each exemption, discount and premium in the LSOA–band data so that when aggregated at the council level, it matches the council–band data also provided to us (which do not suffer from these problems).

These data on exemptions, discounts, premiums and the CTRS relate to properties' *current* council tax band. When modelling revalued and reformed systems where some properties would be in a different band to their current band, we assume that the share of properties subject to each exemption, discount, premium and the CTRS would be the same for properties going up, down or remaining in the same band. For example, if half of properties currently in Band B in a given LSOA are subject to the 25% single-person discount, we assume that it would be half for each of: properties that stay in Band B; properties that drop down to Band A; or properties that move up to Band C or higher. This will not be exactly true but, in the absence of property-level data on exemptions, discounts and premiums, it is the best feasible approach available, and any errors introduced by this approach are likely to be small in the context of the example policy reforms being modelled in this report.

A.2 Household-level analysis

To conduct the household-level analysis, we use data from four consecutive waves (7–10) of Understanding Society, a representative panel survey. This covers households interviewed between January 2015 and April 2020. Since it is a panel, there are some households who appear more than once, although we treat each household–wave observation individually. This gives us an initial sample of 5,559 ‘households’ in Wales.

In order to model reforms to council tax at the household level, we need (a) up-to-date property values, (b) current council tax bands and (c) council tax liabilities at the LA level, taking into account LA-specific tax rates, eligibility for discounts and exemptions (such as the single-person discount and student exemptions) and the CTRS. We abstract from empty home discounts, as our data only capture information on primary residences, and from disability-related discounts that cannot be identified in the data. We are unable to model whether households meet asset requirements for CTRS due to a lack of information on assets in the Understanding Society data.

The process for deriving up-to-date property values is described in detail at the end of this section.

We use linked VOA data to determine households’ current council tax bands. It is worth noting that the Understanding Society data also contain self-reported council tax bands. However, we consider these to be less reliable than the council tax bands from the administrative data: they differ from the VOA data in more than a third of all cases, and the distribution of self-reported council tax bands differs from the VOA data on all properties in Wales. (Specifically, self-reports tend to overstate the share of properties in Band D, which may reflect the fact that the Band D rate is often listed at the top of council tax bills.)

Linked VOA data are not available for 23% of the households in our data. In these cases, we use the households’ self-reported council tax band. If we have no linked VOA band or self-reported band, we impute their council tax band using their reported house value or rent, LA and property characteristics. This is done using an ordered logistic regression, run separately for homeowners, private renters and social renters. For each tenure type, we regress VOA-linked council tax band on (log) self-reported house price or monthly rent (whichever is relevant), housing characteristics (house type interacted with number of rooms), location characteristics (rurality, IMD decile) and LA dummies. We then randomly select a council tax band for those with missing values from the predicted probability distribution.

Because of the small sample size in Wales, the imputation is done jointly for England and Wales, controlling for country and upper-tier LAs and allowing the effects of IMD deciles to differ for Wales and England (because they are separately defined). The results are robust to

alternative imputation methods, including an ordered probit regression and nearest-neighbour matching based on reported house value or rent, dwelling type, upper-tier LA and the number of rooms.

Table A.1 shows the distribution of council tax bands using different data sources. It shows that the distribution of council tax bands in Understanding Society (USoc), using linked VOA data and including imputations (row 4), closely matches the distribution of council tax bands in Wales as a whole (row 1). We further reweight our data so that they match the distribution of council tax bands in the administrative data. The final sample closely matches the (representative) overall Understanding Society sample in terms of the distributions of income, local area deprivation (IMD), age of oldest household member and household size.

To calculate council tax liabilities, the impacts of reforms are modelled using the IFS tax and benefit microsimulation model, TAXBEN. This contains council tax rates at the LA level, as well as information on the Welsh CTRS. We model reforms under the 2023–24 tax and benefit system (which corresponds to Q2 2023), assuming that benefit cuts that apply to new claimants or children (such as the two-child limit) are fully in place. This allows us to capture the long-run effect of revaluation and reform. We drop 1,202 households with incomplete information on incomes and household characteristics. We drop a further 15 households for which we are unable to impute council tax bands. This leaves us with a final sample of 4,342 households in Wales.

Table A.1. Distribution of council tax bands in different data sources (%)

Data source	Council tax band								
	A	B	C	D	E	F	G	H	I
1. VOA: all Wales	14.6	21.0	21.7	16.2	13.4	8.1	3.7	0.9	0.4
2. USoc: self-reported	13.2	20.8	18.0	20.1	13.1	6.6	6.0	2.2	0.1
3. USoc: VOA	13.8	23.9	20.5	15.6	13.9	7.4	4.0	0.5	0.5
4. USoc: VOA with imputations	14.4	22.1	20.3	16.7	14.0	7.2	4.4	0.7	0.3

Source: Valuation Office Agency (2019) and Understanding Society waves 7–10.

Assumptions on grant adjustment

As discussed in Chapter 3, the impact of revaluation and reform of council tax will depend crucially on whether grant funding is adjusted to reflect changes in the tax bases of different LAs. In the place-based analysis, we can explicitly account for this, working out how much each council would need to change its tax rates and average tax bills if grants are and are not adjusted. However, in the household-level analysis, we are unable to do this as samples at the LA level are too small to be properly representative. Instead, we adjust the council tax rates that all households in Wales face by the same proportion so that reforms are revenue-neutral across Wales as a whole. It turns out that when tax rates are fairly similar across LA areas, as is the case in Wales, this approach will lead to estimates closer to what we would obtain if we were able to model full grant adjustment, rather than no grant adjustment.

Hedonic regressions for household-level analysis

The Understanding Society data contain self-reported property values for homeowners, which we uprate to Q2 2023 using the LA-level House Price Index for the appropriate dwelling type (detached, semi-detached, terraced, etc.).

We regress property values for homeowners on property characteristics (dwelling type, number of bedrooms and other rooms, existing council tax band), location characteristics (LA, rurality, population density, LSOA deprivation levels²³) and household characteristics (income, household composition and demographics²⁴). The estimated coefficients from this regression are then used to predict property values for renters. Note that the aim of this exercise is to predict property prices as closely as possible, not to model the price of specific housing amenities – it is not a ‘hedonic regression’ in the traditional sense of the term. As such, variables that do not directly affect property values that are nonetheless predictive of property values, such as household incomes and the number of children in the household, are included in the regression.

The regression explains 72% of the variation in property values for homeowners in Wales. Regression coefficients for the main characteristics are listed in Table A.2. Property prices are regressed in log form. To impute values for rental properties, a random error (drawn from the distribution of errors among homeowners) is added to the predicted log property price, which is then converted back into pound values. To ensure that our results are robust to these random draws, we impute 20 property values for each household based on 20 randomly drawn error terms. The results we present are averages over all 20 imputations for each household.

²³ Based on deciles of specific components of the IMD: income, employment, housing, education and health.

²⁴ These include whether the household contains a couple, the number of adults, the number of children in different age groups, the highest qualification in the household, the age of the oldest household member and whether anyone in the household is in receipt of disability benefits or reports having a long-standing illness or disability.

It is possible that the approach of imputing property values for renters based on a regression for owner-occupiers could lead us to overstate (understate) the values of rented properties, if they are systematically less (more) desirable than owner-occupied properties with the same observed characteristics. This would in turn lead us to overestimate (underestimate) the council tax liabilities of households that rent after revaluation and reform. However, controlling for unobserved differences is difficult and beyond the scope of this project.

Table A.2. Regression of log property prices, selected coefficients

Variable	Coefficient	Standard error
Dwelling type (ref: detached)		
Semi-detached	-0.106	(0.0160)
Terraced	-0.198	(0.0198)
Flats/Maisonettes	-0.272	(0.0593)
Other dwelling type	0.0922	(0.184)
Dwelling type unknown	-0.0555	(0.0231)
Number of bedrooms (ref: 1)		
2	-0.0272	(0.0604)
3	0.0289	(0.0607)
4	0.144	(0.0624)
5	0.209	(0.0697)
6	0.367	(0.0729)
7 or more	0.323	(0.0826)
Number of other rooms (ref: 1)		
2	0.0578	(0.0127)
3	0.0685	(0.0172)
4	0.135	(0.0324)
5	0.215	(0.0405)
6	0.207	(0.0655)
7 or more	0.300	(0.0637)

Table A.2. Continued

Variable	Coefficient	Standard error
Council tax band (ref: Band D)		
A	−0.438	(0.0363)
B	−0.316	(0.0216)
C	−0.140	(0.0173)
E	0.181	(0.0178)
F	0.335	(0.0227)
G	0.452	(0.0327)
H	0.736	(0.0507)
I	0.877	(0.0707)
Interview quarter	Yes	
Household composition (couple, number of adults, number of children aged 0–2, 3–4, 5–11, 12–15)	Yes	
Demographics (highest qualification, age of oldest household member, self-reported disability or long- standing illness, disability-related benefits)	Yes	
Location (rurality, upper-tier LA dummies, population density and squared, LSOA-level deprivation deciles)	Yes	

Source: Understanding Society waves 7–10.

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