

Regulatory Appraisal

The Council Tax (Valuation Bands) (Wales) Order 2003

1. Purpose and Intended Effect of the Measure

The council tax was first introduced in April 1993 to replace the community charge. Under the council tax each property in Wales was allocated to one of eight broad valuation bands (A to H) based on its value as at 1 April 1991. The eight valuation bands are set out in section 5 of the Local Government Finance Act 1992, and have remained unaltered since their introduction. Consequently, they are now some 12 years old and are not representative of current property values.

Valuations for council tax purposes are carried out by the Valuation Office Agency (VOA), an independent agency of the Inland Revenue. Under the existing regulations, properties can only be revalued on sale. As such a property allocated to a valuation band in 1993, which has not been sold, will still be in its original band in 2003 even if it has been substantially extended or altered.

In recent years there has been an increasing number of claims that the council tax system is becoming discredited. The National Assembly for Wales issued a consultation paper entitled "Simplifying the System: Local Government Finance in Wales" in September 2000 which sought to address these concerns. Proposals for an early revaluation of all Welsh homes and a statutory revaluation cycle for council tax along the same lines as business rates received widespread support. Accordingly plans for a council tax revaluation were set in motion with the undertaking made in Chapter 7 of the Welsh Assembly Governments policy statement "Freedom and Responsibility in Local Government" to "*publish the new council tax bands in summer 2003*"

The overall aim of revaluation and rebanding is that the yield from council tax should remain the same across Wales. The redistributive effects of revaluation on the Local Government Revenue Settlement would mean that the pattern of distribution of revenue support grant would change in accordance with changes in local authority taxbases.

The Council Tax (Valuation Bands) (Wales) Order 2003 sets out the new council tax valuation bands as consulted on in June 2003 and agreed by the Welsh Assembly Government Minister for Finance, Local Government and Public Services. Following the introduction of the Order a new valuation list will be produced on 1st September 2004 and will be used to set council taxes from 1 April 2005.

Risk Assessment

The council tax and the system of banding is generally understood and accepted by council taxpayers and delivers predictability on tax bills. However the use of 1991 property values seems incongruous in light of changes within the housing market in Wales since 1991.

It is considered that revaluation will redistribute the tax more fairly across the population of Wales, The introduction of an additional higher value band (band I) for the very expensive properties would add some progressivity to the banding system.

There is a risk that continued use of old values could undermine the credibility of the council tax system in Wales

Options

The development of options for council tax revaluation took place in the Council Tax Revaluation Working Group (CTRWG) during 2002. Options were also discussed with the Local Taxation Working Group.

Proposals and commentary were set out in the "Council Tax Revaluation and Rebanding 2005" consultation papers issued in December 2002 and, June 2003. Both of these are available on the National Assembly website.

Benefits

The main benefit of undertaking a council tax revaluation and rebanding of all Welsh domestic properties is that it will ensure that the valuation list used for council tax purposes accurately reflects the current housing market.

Accuracy in the banding of properties for council tax is of major importance in ensuring that councils collect the right amounts of tax. As such the principle of fairness will be upheld and the credibility of the council tax system will be reinforced.

Costs

Council tax revaluation is an emotive subject and might lead to an initial increase in the number of queries to local authority revenues departments and Local Government Finance Division.

Consequent on increased council tax bands will be a change to Local Authorities billing arrangements, because some properties will change bands, and the new Band I will have to be included. Local authorities have over ten years experience of council tax billing and collection and are well accustomed to the challenges of making annual changes (e.g. direct debit amendments and pursuing debtors). Economies of scale in their operations have been developed and high collection levels have been maintained. Local authority IT systems are well advanced but will require upgrading to reflect new band values. These are not significant system changes and will feature as part of routine upgrades provided by local authority's chosen software suppliers. Overall, although revaluation will deliver change and local administrative systems will need to be updated it is considered that the changes should be absorbed within existing running costs.

As part of the Local Government Revenue Settlement process any perceived variation in current local authority expenditure which might arise in relation to council tax revaluation can be discussed with the Welsh Local Government Association (WLGA) under the auspices of the Expenditure Sub Group.

Consultation

Once the decision to undertake a council tax revaluation had been taken a Council Tax Revaluation Working Group (CTRWG) was established in conjunction with the WLGA.

CTRWG consisted of representatives from Local Government Finance Division, the Assembly's Statistical Directorate, and the VOA, WLGA and local authorities in Wales. The group discussed a number of options and reviewed several exemplifications of house sales data provided by the VOA before reaching a consensus on the best options available.

In December 2002 these options were presented in a consultation paper. The paper was sent to local authorities, the WLGA and 250 interested organisations. It was also placed on the Assembly's Internet site and received widespread publicity through television and the press.

The consultation period closed on 29 January 2003. Of the 34 responses received, 50% supported the proposed bandwidths, 68% were in favour of the introduction of a band I and 47% preferred the retention of the existing proportions. However, concerns were expressed by some respondents that as the proposed valuation bands were based on property sales up to August 2002, they would not be representative of property prices at AVD – Antecedent Valuation Date (ie. Common valuation date).

The Welsh Assembly Government took these concerns on board, and commissioned additional exemplifications based on data up to and including 1 April 2003. These showed significant movement between the valuation bands arising from those exemplifications, and those consulted on in December 2002. Consequently it was decided to consult on the more up to date band values.

A second consultation was issued in June 2003. It contained new proposals for the valuation bands and announced the decision of the Minister for Finance, Local Government and Public Services to retain the existing proportions between the bands and introduce a new band I at the upper end of the scale.

While there were some calls for a band below the existing band A, and for a variation in the proportions, the majority of the respondents were in favour of the revised proposals, with only 3 respondents opposed to them.

Significant Costs

The administrative costs of the consultation and preparation of the Order are containable within existing Assembly budgets. The Assembly will fund the VOA to make preparations and carry out the revaluation. The cost of this work is £4.8million, with payments spread over the 2002/03, 2003/04 and 2004/05 financial years. A further £3.2 million will be provided for the clearance of council tax appeals that are expected following the introduction of the valuation list on 1 April 2005.

As part of a publicity campaign, an all door leaflet drop to all houses in Wales was completed in Summer 2003. A further leaflet drop in late 2004 is estimated to cost in the region of £150,000.

Review

Local Government Finance Division will continue to review the efficacy of council tax regulations and supporting mechanisms with local authorities, VOA, Valuation Tribunals, and other interested parties through monitoring and joint working groups.

Provision has also been made in primary legislation for a statutory revaluation cycle by way of the Local Government Act 2003. After 2005 the next revaluation is envisaged in 2013.

After 1 April 2005, council tax payers can lodge proposals with the VOA to alter an entry on the new valuation. If it is not agreed a Valuation Tribunal will hear an appeal.

Summary

Council tax revaluation is required to ensure that the system retains credibility and relevance. It will also ensure that local authorities collect the correct amounts of tax relative to up to date property values

The costs of the Order and the revaluation will be borne by the Assembly. The aim of revaluation is not to increase the total amount collected from council tax across Wales. It is estimated that three quarters of taxpayers in Wales will benefit or be unaffected by new council tax bands.