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The Council Tax (New Valuation Lists for England) Bill

Bill 57 of 2005-06

The Bill was introduced into the House of Commons on 13 October 2005.

The Government announced in July 2001 that it would carry out a general revaluation of domestic properties for council tax purposes in England with effect from 1 April 2007 with future revaluations taking place at maximum intervals of ten years. This was implemented by the *Local Government Act 2003*.

In September 2005, the Government announced that it was extending the remit and timescale of the Lyons Inquiry into local government finance and that, in the light of this, it did not think it sensible to proceed with the current timetable for revaluation.

The Bill removes the requirement for a general revaluation to be in place by April 2007 and for there to be subsequent periodic revaluations. It gives the Secretary of State the power to specify by order the date of a revaluation.

Keith Parry

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Summary of main points

1. There has been no general revaluation of domestic properties in England since 1993 when council tax was introduced. The Labour Government announced in July 2001 that a revaluation would be undertaken as at April 2007, and that future revaluations would be carried out at least every ten years. This was given statutory basis by the *Local Government Act 2003*.

2. Following the conclusion of the Balance of Funding Review in July 2004, the Government asked Sir Michael Lyons to conduct an independent inquiry into local government finance including possible reforms of the council tax system. In September 2005, the Government extended the remit and the timetable of the Lyons Inquiry. Simultaneously, it announced that it would legislate to postpone revaluation so that it could take place "...as part of a fully developed package of funding reforms, rather than as a precursor to them, and at a moment of greater financial stability for local authorities."

3. The Bill seeks to do three things. It:

- Removes the requirement for new valuation lists to be compiled in relation to English billing authorities on 1 April 2007;
- Takes away the requirement for subsequent revaluations in England to be carried out at maximum intervals of ten years;
- Empowers the Secretary of State to set the date for the next revaluation and any subsequent revaluations by order.

4. There has been a revaluation of domestic properties in Wales with effect from 1 April 2005 and the Assembly Government made certain changes to the council tax banding structure. It was estimated that 58.4% of dwellings would stay in the same band, 8.2% would move down and just over one third of dwellings would move up by one or more bands. A transitional relief scheme is in force.

5. In Scotland, the Scottish Executive has established an independent Local Government Finance Review Committee to consider possible reforms to the council tax system as well as other forms of local taxation. Any decision on revaluation is likely to await the outcome of this review. Northern Ireland has a domestic rating system which is currently being reformed.

6. Some surveys of the likely impact of revaluation in England have modelled possible changes to the banding structure as well as assessing the effects of differential house price changes since 1991.

7. The Conservative Party opposes revaluation as a costly and unnecessary exercise that will lead to much higher council tax bills while this remains unreformed. The Liberal Democrats would abolish council tax and introduce a local income tax. They have supported calls for revaluation to be cancelled.

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I Revaluation policy

Before the *Local Government Act 2003*, there was no requirement for a regular revaluation of domestic properties for council tax purposes (although provisions exist for a regular five-year revaluation of non-domestic properties.¹) This means that residential properties in England and in Scotland are included on valuation lists originally drawn up on 1 April 1993 (the date the council tax was introduced), and assigned to one of eight valuation bands based on their 1 April 1991 values. In Wales, a revaluation of domestic property has been carried out and took effect in April 2005.

The 1998 white paper, *Modern Local Government: In Touch with the People* set out the Labour Government's view that "The council tax is working well as a local tax. It has been widely accepted and is generally very well understood."² The paper acknowledged that a revaluation of domestic property would be necessary at some point but made it clear that the Government did not intend to carry one out during the life of the 1997 Parliament.³

In September 2000, the green paper *Modernising Local Government Finance* sought views in September 2000 on whether a fixed cycle for council tax revaluations should be introduced:

5.5 Properties are revalued for business rates every five years, but there is no fixed revaluation cycle for domestic properties. In *Modern Local Government: In Touch with the People* we concluded that the current council tax valuation base remained broadly acceptable and was likely to remain so for the next few years. However, we are interested in views on whether there should be a statutory revaluation cycle for council tax as well as for business rates. This could make the tax fairer and more predictable. Revaluations might take place every six, eight or ten years to complement the business rate revaluation cycle.⁴

In July 2001, the then Local Government Minister, Nick Raynsford, announced a council tax revaluation which would take effect in April 2007. Subsequent revaluations were to be carried out on a ten-yearly cycle:

Ms Atherton: To ask the Secretary of State for Transport, Local Government and the Regions what plans he has to revalue domestic properties in England for council tax purposes; and if he will make a statement. [6528]

Mr. Raynsford: I propose that there should be a 10-yearly fixed statutory cycle of council tax revaluations. Work on the first revaluation should start in 2005, with council tax bills based on updated property values issuing in 2007. Revaluations

¹ Under the *Local Government Finance Act 1988*

² Cm 4014, Para 5.21, available at http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/page/odpm_locgov_605468.hcsp

³ Ibid, paras 5.23-25

⁴ DETR. Available at www.local.dtlr.gov.uk/greenpap/part5.htm

will not, of course, lead to any overall increase or decrease in the council tax yield.

Regular revaluations will ensure that the council tax burden is distributed fairly on the basis of more up-to-date property values. Respondents to last year's Green Paper on local government finance were overwhelmingly supportive of the proposal to establish a fixed cycle for council tax revaluations. Setting out a timetable for revaluations gives local authorities a clear timetable and framework within which to make their financial plans.⁵

The White Paper *Strong Local Leadership – Quality Public Services*, published in December 2001 noted that there had been “strong support for a fixed cycle of council tax revaluation” among respondents to the green paper. It stated:

6.12 The Government will legislate to require properties to be revalued for council tax purposes every ten years. Work on the first revaluation will commence in 2005 and be completed in time for the council tax bills issued in 2007. The revaluation should not lead to a change in the overall council tax yield. We shall devise a transitional relief scheme in which the gainers contribute towards the costs of the losers for a transitional period.

6.13 Ahead of the revaluation we will listen to the views of taxpayers and local government about council tax bands and related matters. We shall legislate to make it clear that additional council tax valuation bands can be created without further primary legislation.⁶

The *Local Government Act 2003* implemented the Government's commitment to introduce a regular revaluation cycle. Section 77 of the Act amended the *Local Government Finance Act 1992* to provide for the revaluation for England to be completed before 1 April 2007, and for Wales before 1 April 2005. The reason for the discrepancy in dates was that the National Assembly wanted to conduct a revaluation by 2005 but it was not possible, because of the sheer scale of the task, to complete the English revaluation to the same timetable. The Act also provided for a ten year statutory revaluation cycle in both England and Wales, but the Secretary of State (or in Wales the National Assembly) could require a shorter cycle by order. Section 78 of the 2003 Act gave the Secretary of State (or in Wales the National Assembly) the power, by order, to vary the number of bands at the time of revaluation.

Nick Raynsford, discussing the revaluation, said:

What kind of reforms might we be talking about here? Well, there are changes such as the revaluation of domestic property, to which we are already committed and which is currently planned for 2007. This will make sure that people's tax bill is based on the up to date value of their house rather than its value in 1991. Revaluation is not by the way an exercise designed to raise more tax overall. Its overall impact will be neutral. But it is necessary to avoid the valuation base losing touch with reality. People would not think it right for income tax to be based

⁵ HC Deb 20 July 2001 Vol 372 c555W

⁶ *Strong local leadership – quality public services*, DTLR White Paper, Cm 5237, December 2001 http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/page/odpm_locgov_605686.hcsp

on 1991 income (though some might see benefits!). Similarly we can't continue to assess council tax on 1991 property values. At the same time as the revaluation we will consider the case for change to the existing bands.

We have the legal powers to adjust council tax bands, or have more - if this proves to be fairer. I must make clear today, though, that we are not committed to any particular changes in the banding system. But a point that came through strongly in the consultation was that people thought that council tax should be made more progressive - in other words, it should reflect more closely peoples' ability to pay and should more accurately reflect variations in property values. There are ways of doing this - for example, through a new banding system - and we will be asking for evidence on this. We may also consider whether any changes need to be made through alterations to the Council Tax Benefit system.⁷

Speaking at the Institute of Revenues, Rating and Valuations Conference Nick Raynsford said that the revaluation “does not mean council tax rises for everyone whose property has risen in value since 1991...for the vast majority of people whose property values will have increased broadly in line with the average, there is unlikely to be any change in banding. Only where the change in a property's value is significantly above or below the average is it likely to change bands. And there will be transitional protection to cushion the impact of such changes.”⁸

II The revaluation exercise

The Valuation Office Agency (VOA) states on its website that its officers take account of the size, age and character of a property, as well as the area in which it is situated, and use sales data from around the valuation date to arrive at the correct band for the property.⁹ The existing rules under which valuations are carried out – the *Council Tax (Situation and Valuation of Dwellings) Regulations 1992* (SI/1992/550) - specify that the dwelling's value is the price it would have fetched on the open market if sold by a willing vendor on the following assumptions:

- a) that the sale was with vacant possession;
- b) that the interest sold was the freehold or, in the case of a flat, a lease for 99 years at a nominal rent;
- c) that the dwelling was sold free from any rent charge or other incumbrance;
- d) except in a case to which paragraph (3) applies, that the size, layout and character of the dwelling, and the physical state of its locality, were the same as at the relevant date;
- e) that the dwelling was in a state of reasonable repair;
- f) in the case of a dwelling the owner or occupier of which is entitled to use common parts, that those parts were in a like state of repair and the purchaser would be liable to contribute towards the cost of keeping them in such a state;

⁷ 15 November 2003, speech to Devon County Council conference

⁸ Nick Raynsford, Speech to the IRRV conference, 12 October 2004, available at http://www.odpm.gov.uk/stellent/groups/odpm_about/documents/page/odpm_about_032174.hcsp

⁹ http://www.voa.gov.uk/council_tax/Counciltax-aguide.htm#A5

- g) in the case of a dwelling which contains fixtures to which this sub-paragraph applies, that the fixtures were not included in the dwelling;
- h) that the use of the dwelling would be permanently restricted to use as a private dwelling; and
- i) that the dwelling had no development value other than value attributable to permitted development.

A note on the progress of the revaluation exercise, and an appeal for local authorities to share information on alterations to dwellings with the VOA, was given in an ODPM *Council Tax Information Letter* in March 2005:

The first revaluation since the introduction of council tax in 1993 is a huge undertaking with 22.1 million dwellings in England to account for. Listing Officers, the statutory officers with responsibility for council tax bandings employed by the VOA, are keen to ensure that the bandings applied are fair and accurate from the outset. They have digitised their paper-based records of property attributes but have some gaps; for example where alterations have been made but there has been no sale to trigger a review of the council tax band.¹⁰

A consultation paper on extending the amount of information available on the council tax valuation list was published on 12 October 2004.¹¹ The consultation paper sought views on various issues including whether the valuation list should include certain property attribute information such as, for example, the number of rooms and floors and the type of property; whether a draft list should be published ahead of the main list so that taxpayers would be able to check the information it contained; and whether the VOA should issue a notice to each council tax payer showing relevant property information upon which the banding has been based.

Two parliamentary answers from Treasury ministers in June 2005 caused a certain amount of press comment concerning the powers of listing officers to inspect premises and the impact of home improvements on property valuations.¹² These were as follows:-

Mrs. Spelman: To ask the Chancellor of the Exchequer whether the Valuation Office Agency will have powers to enter residential premises when inspecting them during the forthcoming council tax revaluation process in England. [4174]

Dawn Primarolo: It is a function of the listing officers, throughout the Valuation Office Agency, to carry out valuations for the purposes of compiling the new lists on 1 April 2007. Section 26(1) of the Local Government Finance Act 1992 provides power of entry for inspection, subject to the requirements of section 26(2) and 26 (3), to provide written notice and production of authorisation.

Mrs. Spelman: To ask the Chancellor of the Exchequer whether the Valuation Office Agency will take into account the (a) number of bathrooms, (b) number of bedrooms, (c) floor area, (d) age of the property, (e) off-street parking, (f) out-

¹⁰ Office of the Deputy Prime Minister, *Council Tax Information Letter 1/2005*, 8 March 2005 - <http://www.local.dtlr.gov.uk/finance/ctax/ctil.htm>

¹¹ *Council Tax Revaluation in England: Publication of Property Information, a Consultation Paper*, ODPM, October 2004, available at <http://www.local.odpm.gov.uk/finance/ctax/propcons.doc>

¹² See, for example, "Taxed for improving your home" *Daily Mail*, 17 June 2005

buildings, (g) conservatories and (h) size of garden when valuing a residence in the forthcoming council tax revaluation process in England. [4231]

Dawn Primarolo: It is the intention of the Valuation Office Agency, when assigning dwellings to bands for the forthcoming council tax revaluation, to reflect a number of property attributes, including all those referred to, where a value significance can be established.¹³

ODPM officials have stated that the fact that home improvements have been made does not necessarily mean that the council tax on the property will rise - the advantage of a banding scheme is that small changes in value are unlikely to change the band of a property. It would be unusual for small home improvements such as a front garden converted to a parking space or the erection of a garden shed to make a big impact on the house's value and therefore move the house up a band. Homes are valued on the basis that they are in a reasonable state of repair, so general redecoration or replacing a kitchen or bathroom is unlikely to affect the council tax band.

Where improvements do increase the value sufficient to change the banding, then this already leads to an increase in banding but only when the property is sold. The revaluation therefore involves an element of catching up to revalue properties which have been improved but not sold. This is necessary to ensure that, following the revaluation, properties of the same value in a particular area are taxed in a consistent way.¹⁴

The VOA's *Forward Plan 2005-2008* gave further information on the timetable for the revaluation exercise:

The revaluation for council tax is due to come into effect in April 2007. This is the biggest single challenge the Agency has faced for 15 years – 22 million properties have to be valued and placed in bands ready for publication of the draft list in September 2006.

For the first time we are using new technology to support a more accurate, effective and efficient revaluation. Subject to the final outcome of the recent public consultation we envisage making much more information available up front, so that – just as for the rating revaluation – council taxpayers will be able to check the key details we hold about their property and tell us if they believe these are wrong. Through this process we will be able to ensure that the assessments we place on properties are always based on the correct and up-to-date facts. We are also issuing questionnaires to households where we need to update our information before we start on the revaluation process.

During the Autumn of 2005 we shall start work on the valuation task itself and by 31 March 2006 we aim to have completed some 15 million valuations in total, each by reference to the common valuation date of 1 April 2005. Of course, this is only the first stage of the process, as we cannot ascribe the properties to valuation bands until the Government has made decisions on any new banding

¹³ HC Deb 15 June 2005 c386-7W

¹⁴ Information from ODPM officials, August 2005

structure following the outcome of the independent enquiry currently being conducted by Sir Michael Lyons, due to report by the end of 2005.¹⁵

III Cost and transitional arrangements

Answers to the following parliamentary questions gave an indication of the projected costs of revaluation:

Mr. Edward Davey: To ask the Deputy Prime Minister what the estimated cost to (a) his Department, (b) the Valuation Office Agency and (c) other Government agencies and bodies was of council tax revaluation for financial years (i) 2003–04, (ii) 2005–06 and (iii) 2006–07. [174358]

Mr. Raynsford: The information is as follows:

(a) The cost of council tax revaluation for the Office of the Deputy Prime Minister is not separately identified.

(b) The Valuation Office Agency estimated council tax revaluation costs are:

(i) 2003–04 is £7.6 million;

(ii) 2005–06 is £50.2 million, and

(iii) 2006–07 is £50.5 million.

(c) The cost of council tax revaluation for the Valuation Tribunal Service is not significant for these years. Some preparation work will be required in 2005–06 and 2006–07 but this is not separately identified.¹⁶

and:

Mrs. Spelman: To ask the Deputy Prime Minister what expenditure in total has been incurred so far on the council tax revaluation in England by (a) his Department, (b) the Valuation Office Agency and (c) other Government Departments and agencies. [9529]

Mr. Woolas: The information is as follows:

(a) The cost of council tax revaluation for the Office of the Deputy Prime Minister is not separately identified.

(b) The Valuation Office Agency incurred costs of £31.8 million up to 31 March 2005.

(c) The cost for the Valuation Tribunal Service is not separately identified.¹⁷

and:

Mrs. Spelman: To ask the Deputy Prime Minister what the estimated cost is of the council tax revaluation process in England. [4326]

Mr. Woolas: My hon. Friend the former Member for Shipley in a written reply to the hon. Member for Kingston and Surbiton (Mr. Davey) on 26 June 2003, *Official Report*, column 895W, indicated that the cost of council tax revaluation was in the region of £200 million including the cost of handling appeals. My hon. Friend explained that that was a very broad estimate because the cost would be affected by the methods used and that decisions on those had not yet been taken. The cost of the Valuation Office Agency's work in preparing for and delivering the

¹⁵ Valuation Office Agency, *Forward Plan 2005-2008*, <http://www.voa.gov.uk/publications/index.htm>

¹⁶ HC Deb 21 May 2004 Vol 421 c1278W

¹⁷ HC Deb 7 July 2005 c556W

council tax revaluation in England on 1 April 2007 is currently estimated at £139.3 million, excluding any element of contingency. This includes expenditure on electronic capture and enhancement of hard copy records and in development of an automated valuation model capability that will also benefit future revaluations. Beyond 1 April 2007, the Valuation Office Agency are currently estimating additional costs above baseline of around £38 million in 2007–08 arising from an expected increase in workload arising from appeals. Final costs will however depend in part on the recommendations of Sir Michael Lyons' independent inquiry into local Government funding.¹⁸

An indication of expenditure on the revaluation exercise up to the point at which the postponement was announced (20 September 2005) was carried in press reports on the following day. The *Daily Telegraph* reported:

Mr Miliband disclosed that £55-60 million had been spent on the revaluation exercise, but denied that the money had been wasted because the work would provide a "firm foundation" for the future.

Officials said £45 million was spent on bringing the Valuation Office Agency's systems up to date and transferring paper documents to computers. About 1,400 staff worked on the revaluation, but many were on short-term contracts, and every effort would be made to avoid compulsory redundancies.¹⁹

Section 79 of the *Local Government Act 2003* allowed for a transitional relief scheme which would phase in the impact of any changes in council tax bills arising from revaluation. The following parliamentary answer set out the Government's intention to introduce a self-financing relief scheme:-

Mr. Edward Davey: To ask the Deputy Prime Minister what contingency plans he has for consultation and legislation on transitional relief schemes in the event of a revaluation of properties for council tax purposes.

Mr. Leslie: The Office of the Deputy Prime Minister White Paper "Strong Local Leadership--Quality Public Services", published in December 2001, said that "ahead of revaluation we shall devise a transitional scheme in which those who gain from the revaluation will contribute to the costs of the losers.

The Local Government Bill contains provision for the establishment of such a transition scheme and the Office of the Deputy Prime Minister will consult on proposals for a transitional relief scheme ahead of revaluation. It is still far too early to say what effect the proposed 2007 revaluation will have on council tax bills and therefore what kind of transition scheme there might be.²⁰

¹⁸ HC Deb 5 July 2005 c 298-9W

¹⁹ "Labour accused of wasting £60m on council tax u-turn", *Daily Telegraph*, 21 September 2005. p6. Expenditure figures subsequently confirmed in a pq, HC Deb 25 October 2005 c327W

²⁰ HC Deb 26 June 2003 Vol 407 c895W

IV Revaluation and the Lyons Inquiry

A. The Balance of Funding Review

The Balance of Funding Review was set up by Nick Raynsford in January 2003.²¹ The aim was to review all aspects of the balance of funding between locally raised and centrally provided sources of revenue for local government. The Review Steering Group was chaired by the minister himself and brought together representatives of local and central government, business, the unions and other experts. It was envisaged that the group would summarise the main issues in its final report and set out the pros and cons of a range of options for changing the balance of funding.

The review reported 20 July 2004. Although it made no specific recommendations on revaluation, the review commented:

The Government is committed to revaluing properties for council tax purposes on the basis of 2005 property values. The new values will then be used as the basis for bills from 1 April 2007 onwards. The policy is that the total yield from the council tax will not increase as a result of the revaluation. Analysis presented to the Review by the New Policy Institute (NPI) showed that, unless the council tax system is reformed, revaluation will mean that the tax burden will be decreased in areas with lower than average increases in house prices since 1991 and increased in areas with above average increases. This could mean very large increases for some people on low incomes living in high value properties. People living in the lowest value properties would not be able to gain whilst those living in the highest value properties would be protected.²²

Announcing the outcome of the review, Nick Raynsford said:

...the review concludes that council tax should be retained but reformed. It has important advantages as a local tax. However, in the opinion of the group, it will need reform in order to help people on low incomes and to reduce the impact of revaluation. Further work will be needed on the options for such reform. A fair and effective system of council tax benefit will be a vital component of any reform package. It is clear, for example, that levels of take-up of council tax benefit among pensioners and others on low incomes remains low in comparison to other benefits.

As for council tax bands, the report concludes: "There is a clear case for reviewing council tax bands and the ratios between them at the time of revaluation."

I should point out that the Government have always made it clear that we would want to consider these issues with other stakeholders ahead of revaluation. But the report adds that "particular care is needed to ensure that council taxpayers on low incomes living in high value properties are not unfairly affected."

²¹ HC Deb 20 January 2003 c1WS

²² ODPM, *Balance of Funding Review – Report*, July 2004, para 18, available at <http://www.local.odpm.gov.uk/finance/balance/report.pdf>

It goes on:

"Further detailed work is now required on how council tax might be reformed, based on a clear vision of the direction of travel."

Far from proposing a trebling of people's council tax bills, the review states that

"the aim should be to avoid significant changes to the overall liabilities of taxpayers."²³

Philip Hammond, Conservative shadow local government minister, responded:

Because of the huge increases in council tax, running at three times the rate of inflation year after year under Labour's fat Government, no change is not an option. But neither is ignoring the underlying problem. Before operating on the patient, we need to diagnose the real underlying sickness: excessive burdens imposed on local government by Whitehall, with a constant torrent of red tape and regulations spewing out of the over-mighty, interfering ODPM, and a fiddled grant settlement. Only when the underlying disease is tackled will the various options for the reform of local government finance be able to deliver the desired result. In the meantime, hard-working families and pensioners across England face the prospect of yet higher bills from 2007, as a result of revaluation and rebanding. That will be the Minister's Department's contribution to Labour's third-term tax rises.²⁴

Edward Davey spoke on behalf of the Liberal Democrats whose policy is to replace council tax with a local income tax. He said:

The Minister talked about ideas for tinkering with council tax. Does he not realise that none of them will end its unfairness? Indeed, is it not a key finding of the review that even a reformed council tax would not help the balance of funding problem? Does not his support for revaluation and new council tax bands place a double threat of higher tax directly over the heads of millions of taxpayers?

B. The Lyons Inquiry

Following the conclusion of the Balance of Funding Review, the Deputy Prime Minister and Chancellor of the Exchequer commissioned Sir Michael Lyons to undertake an independent inquiry to consider the case for changes to the present system of local government finance. The Inquiry was announced on 20 July 2004 and was required to report by the end of 2005. Its initial terms of reference were to:-

- Consider, in the light of the report by the Balance of Funding Review, the detailed case for changes to the present system of local government funding
- Make recommendations on any changes that are and how to implement them; and

²³ HC Deb 20 July 2004 Vol 424 c177

²⁴ Ibid c182

- Take evidence from stakeholders

In particular, the Inquiry would:

- Make recommendations on how best to reform council tax, taking into account the forthcoming revaluation of domestic property;
- Assess the case for providing local authorities with increased flexibility to raise additional revenue and for making a significant shift in the current balance of funding;
- Conduct thorough analysis of options other than council tax for local authorities to raise supplementary revenue, including local income tax, reform of non-domestic rates and other possible local taxes and charges, as well as the possible combination of such options; and
- Consider the implications for the financing of possible elected regional assemblies.

The Inquiry would also consider, as appropriate, any implications that its recommendations have for other parts of the United Kingdom.

The Labour manifesto for the 2005 general election stated that "...we are committed to reforming council tax and will consider carefully the conclusions of the Lyons Review into local government finance." In September 2005, just a few months after the general election, David Miliband, the Minister of Communities and Local Government, announced an extended remit and timetable for the Lyons Inquiry. This was in conjunction with the decision to postpone revaluation (see next section). Additional terms of reference were as follows:-

- Consider the current and emerging strategic role of local government in the context of national and local priorities for local services; and the implications of this for accountability;
- Review how the Government's agenda for devolution and decentralisation, together with changes in decision making and funding, could improve local services, their responsiveness to users, and efficiency;
- In the light of the above, consider in particular: how improved accountability, clearer central-local relationships, or other interventions could help to manage pressures on local services; and changes to the funding system which will support improved local services;
- Publish a report or reports, as appropriate, in time for the Comprehensive Spending Review 2007.²⁵

Sir Michael's letter to stakeholders concerning his new responsibilities included the following comment:-

My work on council tax reform and on the wider funding issues remains relevant and I will make recommendations for change in my final report in 2006. My work

²⁵ ODPM News Release 2005/0193, *Government extends Lyons Inquiry and postpones council tax revaluation*, 20 September 2005, http://www.odpm.gov.uk/pns/displaypn.cgi?pn_id=2005_0193

to date suggests that, while council tax has suffered from problems relating to its rate of increase and perceived unfairness (both between areas and different groups of people) it continues to have real benefits as a local tax and is not “broken”.

For that reason I believe revaluation of the property tax base will be important in order to retain the credibility of council tax over time, though I understand the Government’s decision not to undertake revaluation at this time. Looking forward, it will also be important to consider the reform of council tax benefit, which may prove to be the most direct mechanism by which the fairness of council tax can be improved, and I will continue to examine the options over the coming months.²⁶

V The decision to postpone

The ODPM press notice announcing postponement and an extension to the remit of the Lyons Inquiry stated the following:-

The Government has also considered the issue of Council Tax revaluation in England, currently scheduled for April 2007.

The case for Council Tax revaluation – that it is right to maintain a fair alignment between house prices and council tax bands - is linked to wider questions about the structure of the Council Tax, and to the operation of Council Tax Benefit. It is also relevant that there are a number of other imminent changes in the local government finance system, including the move to three year budgets, the review of the local government finance formula, and the creation of a Dedicated Schools Budget, located in the DFES.

The Government has reached the view, therefore, that to proceed with the current timetable for revaluation would not be sensible. Sir Michael's analysis so far has led him to conclude that there may be a case for up to a year's delay in the implementation of revaluation. However, the Government has concluded that the balance of advantage lies with allowing the flexibility to revalue as part of a fully developed package of funding reforms, rather than as a precursor to them, and at a moment of greater financial stability for local authorities.

The Government is therefore announcing today that it is postponing the revaluation of council tax in England. It will legislate to substitute for the current revaluation date of 2007 a power to set a date for revaluation by secondary legislation. This will provide for revaluation to take place in such a way as to take full account Sir Michael Lyons’ work on the functions of local government as well as its financing. The Government does not believe that revaluation will occur during this Parliament. In the meantime preparatory work for a revaluation in 2007 is being stood down.²⁷

²⁶ <http://www.lyonsinquiry.org.uk/>

²⁷ ODPM News Release 2005/0193, *Government extends Lyons Inquiry and postpones council tax revaluation*, 20 September 2005, http://www.odpm.gov.uk/pns/displaypn.cgi?pn_id=2005_0193

The Royal Institution of Chartered Surveyors said that the delay was a “severe disappointment” and to be regretted. Sir Sandy Bruce-Lockhart, Chairman of the Local Government Association, said that the delay in implementing reform of local government finance until after the next election was “...very bad news for local government and council taxpayers alike”. The *Local Government Chronicle* commented:-

“It is painfully clear we will be well into 2007 before any decision [on reform of local government finance] is announced. This means any changes in the law would be unlikely to come into play before 2009, more than six years after the balance of funding review was announced. If no changes are made in the interim, council tax valuations would be 18 years out of date...”²⁸

Professor Tony Travers wrote:

There are real risks for local government if the local tax base is allowed to become old and discredited. Remember, it was the impossibility of revaluing the rate base in the late 1980s – and the reaction to a revaluation in Scotland – that helped pave the way to the community charge.²⁹

The decision was announced to the House by written ministerial statement on 10 October 2005 (c 5-6WS). David Miliband, the Minister of Communities and Local Government, regretted that the Government had not been able to make the announcement while the House was sitting but said that it was necessary to announce it immediately so that preparatory work could be stood down and costs kept to a minimum. Ministers emphasised in the opposition day debate on revaluation on 19 October 2005 that Government policy was to postpone but not to cancel revaluation. The Minister for Local Government, Phil Woolas, said:

“...we remain committed to council tax revaluation even though 2007 is not the right time for it. Council tax is related to property values. As we said in our 2001 White Paper, the Government fully recognise the importance of keeping property values up to date. That remains our position. We are postponing, not cancelling, revaluation.”³⁰

VI The Bill

The Bill is a short measure - just two clauses - and seeks to do three things. It:

- Removes the requirement for new valuation lists to be compiled in relation to English billing authorities on 1 April 2007;
- Takes away the requirement for subsequent revaluations in England to be carried out at maximum intervals of ten years;
- Empowers the Secretary of State to set the date for the next revaluation and of any further revaluations in England by order.

²⁸ “Miliband baulks funding decision” *Local Government Chronicle*, 22 September 2005, p11

²⁹ Tony Travers “Postponing council tax revaluation will bring real risks” *Local Government Chronicle*, 22 September 2005, p5

³⁰ HC Deb 19 October 2005, c 866

The Bill makes no changes to the position in Wales where a council tax revaluation has taken place and where future revaluations must be carried out at least every ten years.

As stated in section I of this paper, the *Local Government Act 2003* gave statutory force to the Government's commitment to update council tax valuations for the first time since 1993 and to provide for regular revaluations in the future. Section 77 of that Act inserted a new section 22B into the *Local Government Finance Act 1992*. This required the listing officer of each billing authority to compile and maintain new valuation lists for domestic properties in England on 1 April 2007, and in Wales on 1 April 2005. After that, new lists were to be compiled on each tenth anniversary of the previous revaluation, or, if earlier, on a date specified by the Secretary of State by order (or in Wales by the National Assembly by order).

Clause 1, subsection (2) of the Bill inserts into section 22B of the 1992 Act a power for the Secretary of State to specify by order, for England, the year in which new valuation lists must be compiled.

Clause 1, subsection (3) removes the provision that a new valuation list must be compiled in relation to billing authorities in England on 1 April 2007. It leaves unchanged the requirement (now met) for a Welsh revaluation on 1 April 2005.

Clause 1, subsection (4) removes the provision that a new revaluation in England must be carried out no later than on the tenth anniversary of the previous revaluation. It leaves in place the requirement that a new list must be compiled in relation to Welsh billing authorities on the tenth anniversary of the previous list or at an earlier date specified by order made by the National Assembly.

As stated in the Explanatory Notes to the Bill, **clause 1, subsections (5) to (7)** make "...minor technical amendments to provide that any orders made by the Secretary of State under section 22B will be subject to the affirmative resolution procedure in the House of Commons."

Clause 2 relates to the short title of the Bill and its extent.

Members may wish to consult the Explanatory Notes which have been prepared by the Office of the Deputy Prime Minister.³¹

VII The Welsh revaluation

A. The Welsh Balance of Funding Review

Although Westminster retains responsibility for primary legislation on Wales, which would be required if there were to be a change from the council tax system, the National Assembly Government decided to undertake its own review of the council tax in Wales,

³¹ Bill 57 [EN] - <http://www.publications.parliament.uk/pa/cm200506/cmbills/057/en/06057x--.htm>

consideration should be alongside that given to other potential forms of local charges and taxes.³⁴

B. Revaluation

However, preparations were by this time well advanced for a revaluation of domestic properties. A policy statement from the Assembly Government in March 2002 had stated its intention to undertake a revaluation and to consider options for rebanding:-

The Starting Point

7.1 The starting point on council tax is that it is the only tax controlled by local government. It is generally well understood and accepted by taxpayers and high collection levels are regularly maintained. As council tax bands (A to H) are based on 1991 house prices, it does mean that the bands do not represent current values. As such the council tax system is in danger of being discredited as being “out of date”.

7.2 Local taxes should be fair and easily understood by those who pay them. However, many people accept that council tax is currently too regressive. The highest level of tax is only three times as much as the lowest, even though homes in the top band are worth at least eight times as much as those in the bottom. A revaluation could redistribute the tax burden according to updated house values and more appropriate bands thus making the tax system fairer. Rebanding could take the form of dividing any of the current bands into two or more subdivisions. For example splitting bands A and H at the lower and higher ends of the scale respectively.

Plans for Council Tax Revaluation

7.3 Preparatory work on revaluation in Wales is already underway, including an examination of the relationship between council tax bands. Following consultation with local government and others, ***we plan to publish the new council tax bands in summer 2003. New valuation lists will follow in late 2004, coming into force on 1st April 2005.*** The UK Government intends to legislate to require revaluations at intervals of not more than 10 years in England and Wales. The Welsh Assembly Government supports this move. The Welsh Assembly Government envisages that there will be a revaluation in Wales every 8 years.³⁵

A consultation paper,³⁶ published in December 2002, sought views on the valuing of bands and on the proportions of tax payable within each band. The paper stated that the purpose of revaluation and rebanding would not be to increase the total amount raised from council taxpayers but to ensure that the tax burden was distributed on the basis of up to date property values, relative to the share of total council tax. Key milestones for the revaluation exercise were set out in the paper. They included:

³⁴ ODPM, *Balance of Funding Review – Report*, July 2004, p18, available at <http://www.local.odpm.gov.uk/finance/balance/report.pdf>

³⁵ Welsh Assembly Government *Freedom and responsibility in local government: a policy statement*, March 2002, <http://www.wales.gov.uk/subilocalgov/content/freeresponse-e.html>

³⁶ Welsh Assembly Government, *Council tax revaluation and rebanding 2005: a consultation paper*, December 2002, <http://www.wales.gov.uk/subilocalgov/content/consultation/counciltax/CouncilTax-e.htm>

- The VOA would start the revaluation in early Summer 2003 and continue the exercise until late September 2004;
- All Welsh homes would be revalued at a common valuation date of 1 April 2003;
- The compiled list would be used to calculate new tax bills from 1 April 2005.

A final decision on banding was announced by Sue Essex in September 2003 following a second consultation exercise to take account of further changes in house price levels. A new valuation band, band I, was to be introduced at the top end of the scale and this would apply to properties valued at £424,001 and above. Ms Essex confirmed the Assembly Government's intention to retain the existing proportions between the bands. She estimated that half of Welsh homes would remain in the same band, around a quarter would move down a band and a similar number would move up.³⁷

The following table lists the old and new bands in Wales and the values assigned to them:-

Band	1991-2005		2005-	
	From	To	From	To
A	0	30,000	0	44,000
B	30,001	39,000	44,001	65,000
C	39,001	51,000	65,001	91,000
D	51,001	66,000	91,001	123,000
E	66,001	90,000	123,001	162,000
F	90,001	120,000	162,001	223,000
G	120,001	240,000	223,001	324,000
H	240,001 and above		324,001	424,000
I			424,001 and above	

According to figures released subsequently by the Welsh Assembly Government, 58.4% of dwellings in Wales would remain in the same band as at present, 8.2% would move down, 28.3% would move up one band, 4.4% up two bands, and 0.7% up by three or more bands.³⁸

Transitional arrangements designed to ensure that no dwelling can move up more than one band a year have been put in place by the Welsh Assembly Government. The scheme was introduced following a consultation exercise which began in October 2004 with the publication of the *Council tax revaluation and rebanding 2005: transitional arrangements consultation paper*.³⁹ Details are as follows:-

³⁷ National Assembly for Wales press release, *Sue Essex announces new council tax valuation bands*, 24 September 2003

³⁸ For full details see Cabinet Written Statement, *Council Tax Revaluation and Rebanding 2005: Transitional Relief for Households*, 1 September 2004,

³⁹ available at <http://www.wales.gov.uk/organicabinet/content/statements/2004/010904-couciltax-e.doc>
<http://www.wales.gov.uk/subilocalgov/content/consultation/counciltax/ct-rebanding2005-transitional-arrangements-e.htm#s3>

i) In 2005/06 (year 1) dwellings will not experience more than a **one band** increase in council tax liability;

In 2006/07 (year 2) dwellings will not experience more than a **two band** increase in council tax liability (i.e. a two band increase above the band having effect immediately before 1st April 2005);

In 2007/08 (year 3) dwellings will not experience more than a **three band** increase in council tax liability (i.e. a three band increase above the band having effect immediately before 1st April 2005);

Transitional arrangements will not apply to dwellings prescribed in Classes A and B of the Council Tax (Prescribed Classes of Dwellings)(Wales) Regulations 1998 (SI 1998/105);

Transitional arrangements will be automatic in so far as there will not be a requirement for applications by taxpayers.

Calculations will take place before 1st April 2005 and based on local authority's assumptions about the state of affairs on the key qualifying dates of 31st March 2005 and 1st April 2005.⁴⁰

The estimated costs of the Welsh revaluation exercise were given in response to a parliamentary question:⁴¹

Mrs. Spelman: To ask the Secretary of State for Wales what the estimated cost is of the council tax revaluation in Wales to (a) the Valuation Office Agency and (b) central Government. [17388]

Nick Ainger: The costs of revaluation and rebanding were met from the National Assembly budget. Revaluation was undertaken by the Valuation Office Agency. The costs to date are estimated as follows:

	£ million
2002-03	1,510
2003-04	1,790
2004-05	1,970
Total	5,270

According to the VOA, Wales has 1.3 million homes. Figures released in July 2005 showed that 16,355 enquiries had been received from people with concerns about their council tax banding. This represents 1.3% of the total number of properties affected. Of these enquiries, some 6,118 had been resolved. There had been 7,943 formal council tax appeals up to that date.⁴²

C. Reaction to the revaluation in Wales

Press reaction to the revaluation in Wales concentrated mainly on the perception that the revaluation would lead to greatly increased council tax bills because of homes moving up one or more bands. The BBC said that "One in every three homeowners in Wales faces higher council tax bills next year after revaluation of properties. It will mean 33% of

⁴⁰ Ibid, p6

⁴¹ HC Deb 18 October 2005 c 852W

⁴² National Assembly for Wales press release, *Minister assures members that council tax appeal process is effective*, July 4 2005,

homes going up a band, and only 8% moving down.”⁴³ The article states that opposition parties criticised the rebanding...

"The first thing to note is that Plaid Cymru is totally opposed to the unfair, property-based council tax," said the party's local government spokesman Dai Lloyd. "We have been calling for a local income tax to fund local government since the '70s whereby taxes are based on people's ability to pay. "We are now finding that some pensioners on low fixed incomes are living in properties that have seen their valuations go through the roof, and are seeing their council tax increase by between two and three bands."

Nick Bourne, leader of the Conservatives in the Assembly, said: "Less than one in 10 households will benefit from going down a council tax band whereas more than a third will go up at least one band. People living in Cardiff, Wrexham, the Vale of Glamorgan, Powys and Monmouthshire are going to be particularly badly hit. I expect that much more money will be collected in council tax from next year. The Welsh Assembly Government is raising taxes by the back door yet again.”⁴⁴

The Welsh Local Government Association said:

The Welsh Local Government Association expresses concern at the impact of council tax revaluation in Wales and intends to work with the Welsh Assembly Government to ensure that council tax payers are protected from significantly higher bills.

Speaking about the Valuation Office Agency's revaluation of properties and review of council tax bandings of homes in Wales, Cllr Alex Aldridge (Flintshire), WLGA Leader, said:

"There is real work to do to ensure that the impact of revaluation will be fair and evenly spread since the figures show significantly more households have been allocated to higher bands. While average council tax bills will not change as a result of the Valuation Office Agency's review we are very aware of the impact on a significant number of homes which have seen exceptional increases in value in recent years."

"We are calling for urgent discussions to examine the conclusions and consider whether further measures could be introduced to offset these increases."

"We accept that it is right that the council tax people pay reflects a more up to date valuation of their homes. The Assembly Government's 'transitional relief scheme' is a welcome move to alleviate the worst impacts. The public can be assured that Welsh local government and the Welsh Assembly Government will work hard to make sure it is introduced efficiently and successfully. The Valuation Office Agency has also set up a helpline for people with questions about the valuations."

"It is vital that the wider issues around the future of council tax and more sustainable sources of local funding emerge through the forthcoming Lyons Review set in place by the Prime Minister."

Cllr Bob Wellington (Torfaen), WLGA Finance Spokesperson calling on those eligible for discounts and council tax relief to claim their entitlement, added:

⁴³ "One in three face council tax rise", *BBC News*, 1 September 2004, available at <http://news.bbc.co.uk/1/hi/wales/3615952.stm>

⁴⁴ Ibid

“Relief is also available to people on low incomes. Regrettably only half of pensioners entitled to this relief actually claim it. The WLGA encourages potential claimants to contact their local council, who will readily help them claim the assistance they deserve.”⁴⁵

An article in *Public Finance*, written in June 2005, judged that the reaction in Wales had been “muted” and that the transitional relief scheme had “...taken the sting out of the indignation by stipulating that no property should go up by more than one band a year.”⁴⁶ However, the *Western Mail’s* reaction to news of the postponement of the English revaluation was:-

But the real feeling is that Wales as a whole has been short-changed again. We have no gone through a painful process that left at least a third of us with higher bills, while England, like an arrogant older brother, has simply sighed and said, well, we could have told you not to do it that way.⁴⁷

The National Assembly for Wales’s Local Government and Public Services Committee discussed council tax revaluation on 11 May 2005.⁴⁸ The Committee had invited Sir Michael Lyons, Chair of the Lyons Inquiry into local government finance, to give evidence. Glyn Davies, Conservative Spokesperson for Local Government, commented “In the public mind, revaluation is associated with a hidden increase in council tax. There is a danger that that will have a negative effect on the credibility of the council tax.” Michael German, Liberal Democrat Spokesperson, subsequently asked whether the revaluation had been affected by the introduction of the new band, Band I. Finance Minister Sue Essex commented “One key problem we faced was that there had been a 12-year gap, as well as the fact that we revalued at a time when property prices were still rising. That was initially around April 2003. Property prices have now stabilised in England, so they might find that a bit easier.”

Sir Michael Lyons responded:

I think that Glyn Davies made the point that you cannot have a property tax without revaluation. Otherwise, it becomes more and more unfair, and Sue Essex makes the point very well that it is not an issue of taking more from a community—it is about restoring the balance between different parts of the community where house prices and wealth have increased in some areas, and gone down in others. We are moving towards a position where the technology of revaluation will be much simpler. You were not able to take full advantage of that in Wales, but it is moving on, so we can be more and more precise about the value of properties, and do revaluation more regularly. That seems to me to be something to welcome, if you are going to keep property tax. The sheer gap from 1993 is part of the problem that you have faced in Wales, and that we now face in England...

⁴⁵ WLGA press release, *WLGA concerned about impact of council tax revaluation*, 1 September 2004

⁴⁶ David Meilton, “Unwelcomes in the hillside”, *Public Finance* 3 June 2005, pp 24-6

⁴⁷ “Wales short-changed over council tax” *Western Mail*, 21 September 2005, p16

⁴⁸ Record of proceedings of the National Assembly for Wales, The Local Government and Public Services Committee, 11 May 2005, available at:

<http://www.wales.gov.uk/keypubrecordproceedings/content/lgps-050511.htm#g>

I will say a little about the Welsh experience. This will not give you any comfort, but it is of great benefit to me that you went further forward. We have learned important lessons from that. As Sue Essex said, you were faced by trying to fix values in a far more volatile period than is now being experienced in England. We know for a fact that there is greater convergence between house prices in England, and the disparities will not, therefore, be as marked. There were problems over fixing, with confidence, the values on the date that was applied for the tax. We have learned that lesson, and that will not be repeated.

Thirdly, we are able, and, indeed, need—based on your experience in Wales—to do much more exhaustive modelling of the impacts before the bands are set. All of those things are absolutely fixed and understood, and are a result of having learned from your experience.

VIII Revaluation in Scotland and Northern Ireland

A. Scotland

Local government finance is a devolved issue and therefore the responsibility of the Scottish Parliament. Council Tax has been considered by the Scottish Parliament's Local Government Committee to be a sound means of raising revenue locally.⁴⁹ However, the Committee emphasised in its 2002 report that properties need to be revalued on a regular basis, pointing out that a revaluation was currently underway in England. As in England, properties have not been revalued since the introduction of the council tax in April 1993 and are based on house price levels as of 1st April 1991. Accordingly the Committee recommended that a council tax revaluation should take place in Scotland and, in addition, that:-

- following the revaluation the new values should come into operation as soon as possible
- the banding structure should be reviewed with new bands being introduced at the upper and lower ends
- the relationship between the council tax bands should be made more progressive
- transitional arrangements should be put in place to ease the introduction of the new valuation list and revised bandings
- Council Tax payers on low incomes should continue to be protected by the Council Tax benefit scheme
- Subsequent revaluations should occur at ten yearly intervals
- In the interests of equity, the full Council Tax should be levied on second homes.⁵⁰

The Executive responded to the Committee's recommendations by welcoming the conclusion that council tax was a sound system of local taxation, but it rejected the Committee's recommendations:-

⁴⁹ Scottish Parliament, Local Government Committee, *Report on Inquiry into Local Government Finance*, SP Paper 551, Session 1 (2002) available at

<http://www.scottish.parliament.uk/business/committees/historic/x-lg/reports-02/lgr02-06-vol01-01.htm>

⁵⁰ Ibid. Summary of conclusions and recommendations para 49.

As the Committee acknowledges, we are a number of years away from when a council tax revaluation might be considered practical and any change to the existing arrangements would require careful consideration. We therefore propose to undertake further analysis before reaching a decision on this issue.⁵¹

Council tax, along with other alternatives for non-business local taxation, is now being considered by the Local Government Finance Review Committee, an independent review chaired by Sir Peter Burt. The review was announced on 16 June 2004 by Andy Kerr, Finance and Public Service Minister. Its remit is:-

To review the different forms of local taxation, including reform of the Council Tax, against criteria set by the Executive, to identify the pros and cons of implementing any changes to the local taxation system in Scotland, including the practicalities and the implications for the rest of the local government finance system and any wider economic impact, and to make recommendations.⁵²

The review is still in the evidence-gathering phase and aims to report in the Summer of 2006. A consultation document - *Local taxation in Scotland* – was issued with a deadline for responses of 16 March 2005. Further details of the review can be found on its website at: <http://www.localgovernmentfinancereview.org/>.

B. Northern Ireland

Northern Ireland does not have council tax. Instead it has a system of domestic rating which is currently being reformed.⁵³ At present, this is based on rental values but the government plans to change this to a system based on discrete capital values. The basis of the new system will be an individual assessment of the capital value of every residential property in Northern Ireland using sales evidence from the housing market. It is aimed to publish a new Valuation List based on this approach in April 2006. The new system will take effect from April 2007. A regular five-year revaluation will also be introduced.

IX Evaluating revaluation

A. Background

Although the parliamentary answer announcing revaluation stated that it “...will not, of course, lead to any overall increase or decrease in the council tax yield”⁵⁴, the effect on individual households will depend on a number of factors, including:

⁵¹ Scottish Executive, *Response to Local Government report*, 13 June 2002, available at <http://www.scotland.gov.uk/pages/news/2002/06/SEfd029.aspx>

⁵² See Scottish Executive News Release, *Local Taxation review*, 16 June 2004, available at <http://www.scotland.gov.uk/pages/news/2004/06/SEfd398.aspx>

⁵³ NI Department of Finance and Personnel, *Reform of the domestic rating system in Northern Ireland: policy paper*, 21 July 2004, available at <http://www.nics.gov.uk/ratingpolicy/>

⁵⁴ HC Deb 20 July 2001, vol 372 c555W

- Whether a property has risen or fallen in value relative to other properties in the local authority's area;
- Whether the revaluation is accompanied by a rebanding exercise: ie. whether the new property values are slotted into the existing bands, or whether new bands are created to reflect regional variations in prices or the higher overall level of property prices than at the time of the previous revaluation; and
- Whether the ratios of tax payable for different bands within an authority's area are changed.

The current valuation bands for dwellings in England are set out in the following table together with the 'multipliers' (how each band's bill compares to band D):-

Band	1991 value - £		Bill as % of band D
	From	To	
A	0	40,000	67%
B	40,001	52,000	78%
C	52,001	68,000	89%
D	68,001	88,000	100%
E	88,001	120,000	122%
F	120,001	160,000	144%
G	160,001	320,000	167%
H	Over 320,000		200%

Thus band A properties pay two-thirds of the band D tax while band H properties pay double the band D tax. Band H properties pay three times as much as band A properties.

When Michael Heseltine, then Secretary of State for the Environment, announced initial details of the new council tax in a statement to the House on 23 April 1991, he said that the banding system would mean that "...there will be no need for precise valuations of every house or flat, nor need there be regular general revaluations". The green paper stated:

There would be no need for regular or frequent revaluations of properties under a system of banding. New properties would need to be assigned to bands, on the basis of comparative values at a specified date and valuers' experience of the banding of similar properties. Because the tax is to be based on broad bands, improvements to a property would not necessarily lead to a change in its appropriate band. One option would be to take alterations into account only when a property changed hands. There might be a reserve power for a general revaluation in a particular area which could be used if there had been significant differential movements in the values of different sorts of properties.⁵⁵

The Scottish Executive argued in 2002 that the "...the system of council tax bands was designed specifically to allow for quite significant movements in house prices without the need for early or frequent revaluations" when rejecting calls from the Local Government Committee to set in train a revaluation of domestic property in Scotland (see previous

⁵⁵ DOE/Scottish Office/Welsh Office *A new tax for local government: a consultation paper*, Dep 6993, April 1991

section). Nonetheless, many property professionals and local government finance experts took the view that a revaluation would be necessary in the long run. For example, the Institute for Fiscal Studies showed in a 1993 study that using a different valuation year could have a major effect on the council tax burden in different regions. They concluded:

Regional price differentials can change quite substantially over time. Our experience under the rating system with the way relative rental values changed during the 1960s, 1970s and 1980s reinforces this point. If the Council Tax is to remain a credible tax it will need to be flexible enough and responsive enough to allow for significant shifts in relative prices, and the only way it will be able to do so is by regular revaluations of the capital values attached to properties.⁵⁶

The Royal Institution of Chartered Surveyors set out the case for regular and frequent revaluation in its parliamentary brief for the revaluation debate on 19 October 2005. It said:

Fundamental to the fairness of the tax base for Council Tax is an up to date valuation list supported by frequent and consistent revaluations. The current valuation list is based on 1991 values. Since 1991 there have been:

- 19,820,000 residential property transactions
- 2,032,310 homes have been built
- average house prices have increased by some 216%.

In short, the modern residential property market is much changed from that which existed in 1991 (the valuation date) and 1993 (when council tax was implemented) and the valuation list and value bands are therefore becoming increasingly irrelevant to the modern property market.

The brief went on to call for regular and frequent revaluations on similar lines to those used for business rates. This, it argued, would reduce the impact of, and the controversy surrounding, each revaluation.⁵⁷ A note on the infrequency and impact of rating revaluations during the years prior to the introduction of the community charge is given in the final section of this paper.

B. Assessments of the impact of revaluation

The **County Councils Network** (CCN) undertook research into the revaluation in England which was published in July 2004 and subsequently updated in May 2005.⁵⁸ CCN stated that “the revaluation exercise ought to preserve the benefits of any property tax system i.e. it should be able to provide a simple and certain tax system, it should also preserve the degree of fairness perceived in a property tax, whilst helping to maintain a

⁵⁶ Christopher Giles and Michael Ridge *Right this time? An analysis of the first year's council tax figures*, April 1993, p19

⁵⁷ RICS, *Parliamentary briefing on council tax revaluation*, 17 October 2005, <http://www.rics.org/Property/Propertytaxation/Briefingcounciltaxrevaluation.html>

⁵⁸ County Councils Network, *Council tax banding revaluation research 2005*, <http://www.lga.gov.uk/ccn/backgrounds.htm>. See also “Revaluation: who loses?” *Local Government Chronicle*, 9 June 2005, pp1-2

degree of local accountability.” The CCN concluded that the government should modify council tax, for example by extending the band ratios or by introducing more bands into the system. The CCN looked at four different options:-

- Revalue the 8 existing council tax bands – to inflate the existing council tax band cut-offs by the average house price inflation in England since 1991 (Approach A)
- 10 banding i.e. add 2 new bands (Approach A2)
- Area banding by Government Office region (Approach B)
- 10 banding by Government Office region (Approach B2)

Evaluating Approach A, the CCN considered that “the northern regions clearly have a higher proportion of properties in the lower bands. This is a strong indicator which implies that just inflating the council tax band cut-off values will cause significant variations for individual local authorities and local taxpayers as it takes no account of regional or area house price differentials.” Approach A2 led to an above average increase in the taxbase for the South East, South West, London and the East regions. Consequently, those regions saw a decrease in their raw revenue support grant and the model showed an overall diversion of resources from southern to northern authorities. Approach B “has a less diverse impact on the taxbase compared to Approach A.” The model assisted in reducing the division between authorities in the north and the south. Approach B2 saw an above average increase in the taxbase for the South East, London and the West Midlands and rises in raw RSG for the South West, East, East Midlands, Yorkshire & Humberside and North West.

The CCN concluded that:

- Area banding based on Government Office Regions has proved to be less turbulent and have fewer distributional consequences than a model based on a national approach. However it was also evident that the area banding model is very sensitive to the parameters of the council tax system (e.g. adding 2 new bands), therefore any changes to these parameters are likely to cause significant variations for individual local authorities and local taxpayers.
- Our research shows that the Unitary, Counties and Shire District authorities benefit most from the introduction of lower band ratios and the presence of a lower band. The results of this model also show there is a redistribution of resources from authorities in the South to the authorities in the North. This argument is stronger in the 10 banding models than in the 8 banding models.
- Although area banding does provide some solution to converge regional discrepancies, it does not provide a solution to help households with low incomes such as the pensioners.

The **ODPM Select Committee** examined revaluation as part of its inquiry into local government revenue. The Committee’s report, also published in July 2004, examined the advantages and defects of council tax and recommended, like the Balance of Funding Review, that it should be retained but reformed. It then turned to revaluation:

102. This first domestic revaluation is a highly significant event for council tax, coming as it does at a time when public confidence in council tax is low. If handled poorly it may further reduce public confidence and introduce additional problems for the council tax that make it unsustainable.

103. Since 1991 house prices have not changed uniformly across the country, or even within areas. If prices rise disproportionately in one local authority then its properties will move up the banding scale, equalisation grant is cut and *average* bills will increase, other things being equal...There are very clear and substantial differences [in house price changes since 1991] between regions; these will be even greater between local authorities across England.

The Committee then summarised the evidence from a number of organisations which focused mainly on the regional impact of revaluation in the light of house price changes. It concluded:-

110. Simple revaluation, without any changes to the system, risks causing considerable turbulence for the council tax and at the least will result in greater regional inequalities related to council tax. It is also clear that a gap between domestic valuations of 14 years is unacceptably long.⁵⁹

The Committee then made a number of recommendations for reform including the following:-

- That the banding system should be expanded with divisions in what are now bands A, G and H; and that the multipliers should be changed so that the new bands are broadly in line with household income. [This was in line with the recommendations of the New Policy Institute supported by various other local government bodies];
- That consideration should be given to the introduction of regional and sub-regional banding;
- That individual council tax bills should separately identify changes resulting from i) local spending decisions ii) revaluation and iii) reforms to council tax;
- That various changes should be made to the council tax benefit system including re-branding it as council tax 'discount' or 'rebate' to more accurately reflect its true nature.

Staff of the **Royal Institution of Chartered Surveyors** carried out research into the revaluation in Wales. The RICS stated:

Council tax revaluation in England will lead to unduly large increases in council tax bills unless the tax bands are readjusted in line with house price inflation, according to research published by Royal Institution of Chartered Surveyors (RICS) today (21 April).

Examining the process in Wales, the RICS work shows how re-banding was not carried out in line with Welsh house price inflation – house prices have risen an average 129% in Wales since 1991. This has resulted in more homes automatically entering higher bands.

⁵⁹ ODPM Committee, *Local Government Revenue*, HC 402 2003-04, vol. I, <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmmodpm/402/40202.htm>

This cuts across assurances that the total revenue collected from council tax in Wales would not change because of the revaluation and re-banding. If the same model is adopted in England, average council tax bills (and revenues) will creep up when the revaluation kicks in in 2007.

Welsh council tax revenues are set to rise by around 10% in 2005/6. Of this increase, 4% is accounted for by bill increases in each band to fund local services (the lowest increase in council tax since its introduction) but 6% is due to the impact of more houses moving into higher bands.

RICS Economist David Stubbs, said:

'It has been publicly stated that Council Tax revaluation is a revenue neutral exercise. Its not about increasing the overall tax take. If the Welsh model is adopted in England we will see a disproportionate number of houses moving up into higher bands in Southern regions where house prices have risen above the national average since 1991.'

'Since the last revaluation in 1991 house prices in England have risen by an average 162%. To remain tax neutral any re-banding exercise must take account of this.'

The value of houses in England on 1 April this year will affect how much council tax people pay. The first revaluation of English homes since 1991 is being carried out by the Valuation Office Agency under the 2003 Local Government Act.⁶⁰

The RICS research extrapolated what would happen in an English revaluation if it were to use the Welsh method of revaluation. However, Nick Raynsford, the then Local Government Minister, said: "Any suggestion that the revaluation will be based on the Welsh model is wrong. We have already said it will be revenue neutral. No conclusion should be drawn."⁶¹

The *Municipal Journal* commented that "the upshot of revaluation in Wales has been that 28% of homes have moved up a band, and 4.4% have moved up two, while only 8.2% have moved down a band" and that these figures "look scary enough for councils already facing pressure to keep tax down." However, the *MJ* pointed out:

But in reality, the figures are not so simple. One local government finance expert told the MJ: "Wales is misleading. There has been an increase in the overall tax base." If the English revaluation is to stay revenue neutral, this should not happen...while households move up, the council tax rates for bands should have been brought down to compensate..."...nevertheless there is a threat for council tax. House prices don't all go up at the same rate. Those who live in areas which have become more popular will face sharper rises."⁶²

⁶⁰ RICS statement, *Council tax set to rise*, 21 April 2005, available at

<http://www.rics.org/Property/Propertytaxation/Council+tax+set+to+rise.htm>

⁶¹ "One in three households faces massive council tax hike", *Sunday Telegraph*, 24 April 2005 p1

⁶² "Counting the cost of revaluation", *Municipal Journal*, 5 May 2005, p13

The average band D bill in Wales increased by 3.8% in 2005/06 while the average bill for households in Wales rose by 9%. This is due to a change in the taxbase – the movement of properties to higher bands and the introduction of a new top band - and authorities increasing their expenditure by an average of 6%.⁶³

The **Halifax** produced a series of estimates based on its own house price database in July 2005. It estimated that that the average household in approximately three out of every ten English local authorities could be moved to a different council tax band following revaluation. This was based on the Government applying average English house price inflation of 186% since 1991 to all existing council tax bands. However, it further estimated that there would be more winners than losers since average households in 17% of the local authorities surveyed could move to a lower council tax band while households in 13% of the LAs surveyed could move to a higher band. The Halifax also calculated what would happen if the Welsh revaluation process were to be replicated in England. Full details can be found in a press release dated 16 July 2005.⁶⁴

X The developing political debate

Revaluation (as opposed to rebanding) was not a particularly contentious issue when the *Local Government Bill 2002/03* was being debated although the Conservatives opposed the Bill in general as a “centralising measure”. Eric Pickles said at second reading:

We recognise the need periodically to revalue properties for the purpose of council tax. It must be remembered that the tax was introduced partly as a property tax and partly as a reflection of services provided to a wider community. We support the revaluation being made on a regular and predictable basis. However, we have grave reservations about the introduction of an additional band. We know from reports in the media that some sections of the Labour party regard this as a way of soaking the rich and punishing the wealthy south.

If the newspaper reports are correct, it is the Government's intention to introduce a new band between bands G and H. That would have a severe effect on those on low to middle incomes in London and the south in general and would in particular affect owner-occupiers on low incomes living in high value homes.⁶⁵

Revaluation was discussed in a Westminster Hall debate initiated by Steve Webb on 26 October 2004. Philip Hammond, Conservative Shadow Minister for Local and Devolved Affairs spoke of the dangers, particularly for those on fixed incomes in high value housing areas, of imposing revaluation on a “single, nationwide basis”. He said:

It is clear that reform is needed ahead of the 2007 start date for the use of the revaluation values that will be gathered in 2005. I hope that even the Government will recognise that imposing revaluation on a single, nationwide basis without any

⁶³ Ibid

⁶⁴ Halifax press release, *Average household in three out of ten local authorities could be moved to a different council tax band*, 16 July 2005, <http://www.hbosplc.com/economy/researchreleases.asp>

⁶⁵ HC Deb 7 January 2003 c64-5

other adjustments would cause such a dramatic shift in the tax base between areas that it would lead to an unacceptable outcome.⁶⁶

A Conservative motion, moved by Caroline Spelman at an Opposition day debate on council tax in March 2005, noted "...with alarm the Government's plans in any third term for a revaluation which would lead to greater inequities and new higher council tax bands."⁶⁷ The party's 2005 local government manifesto stated the following:

Scrapping the revaluation stealth tax

In Wales, this April's council tax revaluation has forced four times as many homes up a band as down. The average bill in Wales is up almost 10 per cent this year, with further hikes coming as transitional relief is phased out next year. In England, the business rates revaluation is increasing the net tax take by 10 per cent. Under Labour, revaluations are being used as a stealth tax.

Conservatives vote against these plans in Parliament. A Conservative Government will cancel the council tax revaluation in England. The revaluation will not take place, saving £100 million in administration. Recent changes in house prices, with the north-south divide narrowing, mean the case for a nationwide revaluation is now far weaker. Based on the Welsh experience, this will save seven million homes in England from soaring tax bills.⁶⁸

In the Conservative-initiated opposition day debate on council tax revaluation which took place on 19 October 2005, Eric Pickles stated:

The purpose of a revaluation is to correct grossly disproportionate movements in the housing market. It may be that, over a 10-year period, those movements are negligible, and that going through the expense of a revaluation cycle is unnecessary. What matters in council tax valuation are comparative prices between different parts of the country. Those have remained unchanged for the last decade. That is why Northern Ireland has operated quite happily on valuations set 30 years ago and that is why Scotland's First Minister, Jack McConnell, has been at pains to make it clear that "There are no plans for a property revaluation in Scotland for the council tax or for any other purpose".—[*Scottish Parliament Official Report*, 12 May 2005; c. 16822.]⁶⁹

The Liberal Democrats are committed to replacing council tax with a local income tax. They supported the *Local Government Bill 2002/03*, albeit with "serious reservations" partly because of the reforms to council tax which it contained. Speaking of revaluation and banding at second reading, Edward Davey said:

The proposal for more bands must be right. We have heard some sensible and articulate reasons for introducing more bands at both ends of the scale.

⁶⁶ HC Deb 26 October 2004 c 370WH

⁶⁷ HC Deb 2 March 2005 c978

⁶⁸ <http://www.conservatives.com/tile.do?def=policy.listing.page>

⁶⁹ HC Deb 19 October 2005 c852

Revaluation is inevitable, and I think that the way the Government have gone about that is extremely sensible.⁷⁰

In the Westminster Hall adjournment debate in October 2004 mentioned above, Edward Davey commented:

It is clear what the options are if the Government are going to be unwise enough to stick with council tax. As my hon. Friend the Member for Northavon said, they could add one or more extra bands at the bottom and top—or more than one band at the top, as some have speculated.

They could change the banding system to some regional approach, to try to deal with the different rises in property prices in different parts of the country, although that could be potentially arbitrary and capricious as it would involve picking one particular date, and we all know that house prices and differentials are changing all the time. The Government could go down that road, but they know the disadvantages.⁷¹

The Liberal Democrat general election manifesto 2005 stated the following:-

Axe the unfair Council Tax – Local Income Tax is fair and affordable

On top of the Chancellor's plans to increase Council Tax yet again, Council Tax revaluation in England in 2007 threatens one in three households with huge and arbitrary rises, as is already happening in Wales. The Council Tax penalises pensioners and people on low incomes, who pay a far higher proportion of their income in Council Tax than the very rich. A Local Income Tax is based very simply on the ability to pay. It would be run through the existing Inland Revenue Income Tax mechanism, so saving hundreds of millions of pounds by abolishing Council tax administration. The typical household will save around £450 per year, and eight out of ten pensioners will have lower bills.⁷²

Sarah Teather, Liberal Democrat shadow ODPM spokesperson said in the revaluation debate on 19 October 2005:

The Conservatives have tried to suggest that we have been inconsistent on revaluation, but we have not. It is simply fairly incidental to us. If there were no council tax, there would be no revaluation. Or to put it another way—revaluation or no revaluation, council tax is a terrible tax that must be scrapped.⁷³

Both Plaid Cymru and the Scottish National Party are committed to the abolition of council tax and the introduction of a local income tax.

⁷⁰ HC Deb 7 January 2003 c76

⁷¹ HC Deb 26 October 2004 c365WH

⁷² <http://mobular.onlinedm.com/libdems/manifesto/england/>

⁷³ HC Deb 19 October 2005 c852

XI Historical note: postponements of rating revaluations

A. England and Wales

The *Rating and Valuation Act 1925* provided for regular five yearly revaluations of properties for rating purposes in England and Wales. However, revaluations were postponed frequently for a variety of reasons. A general revaluation was completed in **1934** but the next, which should have started in 1938, was postponed for two years because of difficulties in achieving uniformity of assessment of dwelling houses between local authorities. Further postponement was made inevitable by the war.

The *Local Government Act 1948* transferred responsibility for the valuation of properties from the local authorities to the Board of Inland Revenue. It also fixed the date for the next revaluation as April 1952. This was somewhat ambitious and the revaluation was postponed to 1953 by ministerial order when it became clear that the valuation work was not complete. It was then further postponed by a second order because of various complications including continuing difficulties over the valuation basis for houses. The **1956** revaluation was in fact a partial one because residential property was assessed on its 1939 values while all other property was valued on the 1956 basis

The next revaluation was due to take effect in 1961 but, in February 1959, the Conservative Government announced a two year postponement because a lack of sufficient evidence on rental values for residential property made it impossible to produce a reliable valuation by 1961.⁷⁴ It therefore came into effect in April **1963**. This revaluation should have been followed by another in 1968, but the Labour Government was intent on seeking reform of local government and its financing. The *Local Government Act 1966* deferred revaluation until **1973**. Young and Rao commented:

Just as the 1956 and 1963 revaluations stoked the fires of dissatisfaction with the rating system, so too did the long-postponed revaluation that took place in 1973. Large rate increases followed from the reorganization of local government, forcing the incoming Labour Government further to increase short-term relief to domestic ratepayers. The cycle of interim measures accompanied by a search for some grand panacea was completed when Anthony Crosland established a committee under Sir Frank Layfield QC to inquire into the entire structure of local government finance.⁷⁵

A Government green paper followed the Layfield Report and in May 1978 the Labour Government announced that the next full revaluation would be in 1982. However, the Conservatives won the 1979 election and took powers in the *Local Government, Planning and Land Act 1980* for the Secretary of State to decide by order when a revaluation should take place. No further revaluation of domestic property took place ahead of the introduction of the community charge.

⁷⁴ HC Deb 11 February 1959, vol 599 220W

⁷⁵ Ken Young and Nirmala Rao *Local government since 1945* (Blackwell, 1997) p 238

B. Scotland

By contrast, revaluations in Scotland took place on a regular basis, occurring in 1961, 1966, 1971, 1978 and 1985. The outcry that arose from the last revaluation is generally agreed to have played a part in the introduction of the community charge.

Nigel Lawson wrote in his memoirs:

All revaluations are unpopular, since there are bound to be losers, but the Scottish rating revaluation of 1985 was particularly explosive...⁷⁶

Midwinter and Monaghan state:-

It is certainly the case that the highest increases were faced by the Government's natural constituency, owner-occupiers and small businessmen, but the impression given by the media was one of widespread dissent. Misconceptions that revaluation adversely affected everyone abounded. A more accurate picture would be of a highly articulate minority in revolt. Protest was confined to a small but vociferous and active number of business and ratepayer groups. The best evidence is of those who actually *contested* their valuations which one study put as low as 5 per cent of domestic ratepayers (Gardner, 1986). It was the locus of discontent, rather than the scale which was important. The prospect of electoral defeat in the Conservative heartland prompted action.

Undoubtedly, the revaluation protests put pressure on the Government to review local government finance but it does not explain the wholesale reforms implemented. Rather, these reflect the political ideology of the Thatcher Government responsible for their introduction. As such, Scottish revaluation is more appropriately regarded as the catalyst which forced the change.⁷⁷

⁷⁶ Nigel Lawson *The view from No. 11* (Bantam, 1992) p 569

⁷⁷ Arthur Midwinter and Claire Monaghan *From rates to the poll tax* (Edinburgh University Press, 1993) p 66