

Reforming Local Government Finance in Wales: Summary of Findings

Executive Summary, February 2021

1. In January 2017 the Welsh Government [outlined](#) how it would consider reforms to local government finance in Wales in a phased and managed way over this current five-year term. Since then, we have [published updates](#) each year on our progress. In delivering the programme and responding to the challenges of this government term, we have learned a huge amount about the existing system and the requirements for the future.
2. [Reforming Local Government Finance in Wales: Summary of Findings](#) focuses more on the role of local taxes within the fiscal arrangements, since these are the elements which are most within our gift to modify to reach our objective of progressive and sustainable revenue-raising for local services. We have explored alternative forms such as a local land value tax, local taxes based on income, or modernising the existing council tax and non-domestic rates systems. Taxes on land and property differ from taxes on income – they do not and cannot have the same outcome. An important choice will be whether we continue to raise local revenues based on property or on other measures of wealth and ability to pay.
3. The magnitude of change involved if any of the ideas were to be taken forward would be significant, and this should not be underestimated. Most reforms would require new Acts of the Senedd, a body of subordinate legislation, and significant modernisation of digital and data infrastructure, all of which we explore here. Reforms would also require concerted public consultation and coproduction with partners to assess the likely impacts on people, on businesses and other ratepayers, on the workforce, on councils and other bodies.
4. As we continue our work, we are guided by the principles outlined in our [Tax Policy Framework](#) and our obligations to consider the Wellbeing of Future Generations and equalities impacts. The Socio-economic Duty guides us to consider those who already experience inequalities as a result of socio-economic disadvantage. We summarise the options against five aspirations for a future local government finance system: **LOCAL** democracy, autonomy and flexibility are strengthened; **FAIRER** revenue raising that is more progressive and geographically equitable; **SUSTAINABLE** revenues for vital services; **SIMPLER** design and efficient, with proportionate costs; and better **UNDERSTOOD** by citizens with modern, digitally transformed administration.
5. The Partnership Council for Wales and its subgroups provide the forum for political and official level engagement between the Welsh Government and local government on a range of financial matters. Anyone can get in touch with the Welsh Government by sending an email to: LocalTaxationPolicy@gov.wales.

Research Programme

6. Our programme for reforming local government finance comprised over 20 short and medium term reforms. In parallel, we undertook a review of the existing literature about alternative approaches and drew together a plan for new areas of research, with the help of an expert-led working group and other stakeholders. We were clear the new research must focus on the practical implications of the alternative approaches, rather than present a rehearsal of existing theory and abstract models. We facilitated unique access to data on Welsh tax-bases, enabling some of the projects to create analytical assets which have never before been available.
7. Over the course of 2019 to 2021, we partnered with a number of organisations to deliver the following collection of new research projects. Our Summary of Findings summarises the conclusions of the research projects: these do not necessarily reflect the views of the Welsh Government, though we have tried to differentiate throughout. Chapter 9 of the document summarises the Welsh Government's views on where to go next with the findings.

Local Land Value Tax

8. Research by [Bangor University](#) considered in detail the available data on land cover and ownership in Wales, estimated its own land values for Wales, and considered valuation methods, choices about tax rates and reliefs, and collection and administration. Bangor University estimates residential land values at **£113.4 billion** and non-residential land values at **£27.6 billion**. The study made the following conclusions and recommendations.

Primary findings

- A local LVT in Wales could raise sufficient revenues to replace the current local taxes.
- The data requirements for implementing a local LVT in Wales are not currently met.

Recommendations

- A cadastral database for Wales should be established under the control of a single agency.
- A local LVT should place financial liability on the landowner rather than occupier.
- A local LVT should minimise the use of reliefs and exemptions.
- The Welsh Government should consider what structure of rates would be appropriate.
- Any new local tax regime should explicitly link local control over services with local accountability via the decentralisation of tax powers.
- Further work should be done to gather evidence on agricultural land ownership in Wales.

9. The study by Bangor University represents the first detailed consideration of a local LVT in Wales with a focus on the practicalities of implementation, rather than conceptual ideas. This should be considered initial feasibility work due to its scope, with much more work to do if the Welsh Government were to move forward with proposals in the future. However, the Bangor report and other studies have greatly furthered our understanding of what would be required, and there is a lot to learn from other countries. The following summarises the key points which resonated with us.

- **Design choices:** the policy choices within a broad LVT design are numerous and intricate. To begin narrowing these down to set a clear framework requires some initial decisions about objectives and scope. These should remain consistent over the lengthy time it would take to design, legislate for and implement a local LVT.
- **Land values and tax rates:** modelled land values and tax rates are very useful and important findings. However, there are many factors which would influence the outcomes. More in-depth (if possible) and longitudinal analysis is required and at a closer proximity to the timeframe for implementation. It is unlikely the Welsh Government would be able to fully quantify all impacts.
- **Data requirements:** land value is already inherent in the current property tax valuations and it is not easy to separate out the two factors. The volume and quality of data on land is poorer compared to what exists for property. We would not fully know true land values until a full valuation exercise of all land in Wales were completed. The current lack of linkable, precise and complete information has serious implications for the practical viability of a local LVT in Wales. However, technological advancements provide an opportunity to modernise the systems, which could have wider uses in public policy and delivery than for local taxes alone.
- **Legislative requirements:** replacing council tax, non-domestic rates or both with a local LVT is a fundamental departure from centuries-old statute, and would most likely require several Acts of the Senedd. This would be a complex and lengthy exercise but it could bring about opportunities for modernisation and consolidation of the law.
- **Constitutional obstacles:** the Government of Wales Acts confirm 'local taxes to fund council expenditure' and local government finance are devolved matters. However, the quasi-devolved nature of the valuation function means the Welsh Government must seek permission from the UK Government to change the valuation function in any significant way. A replacement tax which has an impact on crown estates requires Crown Consent. There are issues with the land registration procedures in the UK, over which the Welsh Government has no control. Given the breadth of the legislative change required there may be other constitutional obstacles.
- **Roles and functions:** it is possible a local LVT would require the establishment of new functions, bodies or agencies, or the significant repurposing of existing ones. These might relate to valuation, information and administration. Deciding

the appropriate governance arrangements for the various functions would be of primary importance.

- **Public engagement:** awareness of land value tax could be low but this requires investigating. Proposals for a replacement local tax need a clear link to an objective, and a clear path to implementation, or they will not be accepted and understood. The Welsh Government's ways of working under the Well-being of Future Generations Act (Wales) 2015 would advocate coproduction with partners and taxpayer involvement.
- **Timeframe:** based on all of these considerations, it would be prudent to consider a development and implementation timeframe of more than a single five-year Senedd term.

10. Overall, we conclude a local LVT has the potential to meet our primary objective of raising revenues for local services in a more progressive way. There is an enormous amount of policy choice, and a significant task in creating the legal framework and database infrastructure. However, developing these could also bring about a number of opportunities and wider benefits. It is less clear how we could definitively evidence whether a local LVT is overall a better regime than the existing local taxes, and whether the benefits justify the vast resource required in the interim. The Summary of Findings outlines the key areas for further consideration.

Local Taxes Based on Income

11. Research by [Jennie Bunt](#) on local income tax considered international comparisons, the degree of localisation, transitional arrangements and the risks of behavioural change. It illustrates that a locally administered income tax for Wales would be a unique system when considering international examples of local taxation. It also explores a number of challenges, including how to define ability to pay. Importantly, the research finds many aspects of the implementation of a local LIT could require significant expansion of current provision and existing skills in councils, although one of the key benefits may be the ability to design in from the outset a minimum income floor (or tax free allowance), in order to achieve our objective of fairer and more progressive local taxes.

12. The research focussed on replacing council tax rather than non-domestic rates as it is an initial study into the concept of a local LIT. The research also highlights where gaps in the evidence remain, summarised as:

- Model the economic realities of a local LIT.
- Investigate the extent to which citizens of pension age struggle to pay council tax, using these findings to inform the definition of ability to pay for LIT and to decide whether alternative provision would be required for this demographic.
- Investigate in greater detail the feasibility of data-sharing in relation to assessing ability to pay, involving key stakeholders such as HMRC and the DWP.

- Investigate further the kinds of employment which contribute most to the tax-base in Wales, to understand the level of potential volatility during economic downturns.
- Consult councils to understand their views on the feasibility of an LIT, once a clear set of options for its administration has been developed.
- Consult the public on the concept of a local LIT and whether councils should have discretion to vary tax rates between areas.
- Conduct research with the public to understand what factors inform decisions about moving home.

13. The following outlines our conclusions from this initial study.

- **Design choices:** the various studies suggest a banded design would be preferable to a discrete value system and this is a more recognised form of income tax. The opportunity to disregard a minimum income level as a tax-free allowance is attractive and would much negate the need for support schemes which form substantial parts of the current council tax system. It also provides opportunities for policy alignment with Welsh Rates of Income Tax choices. It appears though that the unit of taxation under a local LIT would be the household rather than an individual, due to higher individual mobility, complexity and experience of the Community Charge. A household unit of taxation is uncommon in relation to international examples of LIT.
- **Pension-age and working-age:** income taxes are traditionally raised from working-age tax-bases yet council tax has never been restricted to working-age. There is no practical or theoretical reason why pension-age households could not contribute to a local LIT. Indeed an LIT should be more progressive than the current system, supporting those on lower-incomes, but this would be a matter for political consideration.
- **Data on incomes:** a major factor in the design of a local LIT is whether councils could access data from HMRC and DWP, and potentially other bodies, at some point in the future. This would vastly reduce council administration and burden on taxpayers. At this early stage we have not entered into discussions with relevant departments, but it would be an immediate element to explore if the government wished to take forward proposals for a locally administered LIT.
- **What is income:** there are countless indicators to include or exclude in a definition of income and this may need to change over time to align with changes in other taxes and benefits. Information about the indicators needs to be reliable, timely and accurate. There would be no requirement for a large-scale property valuation function. There may be benefits to providing some kind of role or responsibility to an independent agency as part of the arrangements, provided this does not weaken local accountability.
- **Impact analysis:** the study was not able to encompass quantitative analysis due to the unavailability of data on household incomes at the required precision. The only useable output for the Welsh Government currently is estimates from the ONS' Family Resources Survey, which, while available at anonymised

record level, must be utilised at aggregate level due to sample sizes. Further work is required to secure other data sources.

- **Fiscal flight:** there is no conclusion as yet as to the level of risk of fiscal flight across the border compared with what is already inherent in the property tax system. There are many other factors which influence where people choose to live than local tax rates, and council tax rates already differ between countries and between councils. However, it is likely the effects would be pronounced for very high earners. It is unclear whether a future government would be able to quantify the revenue risk with great enough certainty. Modelled scenarios would help if the required data precision could be achieved.
- **Revenue stability:** LITs tend to fluctuate in yield with economic peaks and downturns because a fixed tax-rate is applied to fluctuating incomes. However, there could be a way to design a local LIT to shield from this variability, looking to the arrangements in Scandinavian countries. Currently, councils are legally required to set out a budget before deciding the amount of council tax which is required to be raised to meet that budget. Fluctuating rates between years could be technically challenging and difficult for taxpayers to understand. Some design ideas would be more susceptible to changes in taxes and benefits elsewhere.
- **Legislative and constitutional requirements:** replacing council tax, non-domestic rates or both with a local tax based on income would likely require several Acts of the Senedd and a large body of subordinate legislation. This provides opportunities for consolidation and modernisation of the statute. The Welsh Government may need to negotiate new legal gateways to support the provision of data to Welsh councils. As a property valuation function would no longer be required in Wales, removal of the function would require UK Government consent. Given the breadth of the legislative change required there may be other constitutional obstacles and further work will be needed to examine whether the Senedd is able to legislate in this area without further powers being devolved to it.
- **Public acceptability:** awareness of taxes based on income is high and the progressiveness argument broadly accepted. However, acceptance of a move to a local income tax would depend on how much administrative burden is placed on taxpayers, for example, annual self-assessment tax returns versus a bill calculated by the council using administrative data.
- **Timeframe:** based on these considerations, it appears the development and implementation timeframe could be shorter than for a local land value tax. However, it is still likely to be more than a single five-year Senedd term due to the extent of consultation and primary and subordinate legislation required.

14. Overall, we conclude the highly progressive nature of a local LIT meets our primary objective of local government finance reform, but there is less known about how this would operate in Wales than perhaps other types of tax. We recognise that a key feature of the current local taxes is the direct geographical connection between the location of a property, the council area in which the tax is levied and where

decisions about local service provision are taken – and that generally it is households which benefit from local services rather than individuals. Whilst the research on a local LIT raises a number of considerations and areas for further work, there remain key unanswered questions surrounding the concept we are seeking to understand. That is not whether income tax in its current form could be applied locally, but whether the current charging regime for locally administered council tax and non-domestic rates could more simply be designed around assessments of ability to pay.

15. Though the research has not yet studied whether a local LIT could replace non-domestic rates, it is useful to note how the broader concept could be applied in this context. Some categories of ratepayers already pay rates according to assessments of turnover and trading figures, as these are factors included in the rateable value assessed by the Valuation Office Agency for several sectors and industries. Jennie Bunt's research on international comparisons shows 11 OECD countries apply a form of LIT to 'corporate entities'. Moving more towards income-based assessments of liability could begin to conflate two very distinct forms of taxable contribution to local services (property based and business based). Not all ratepayers are businesses, and many businesses do not require a property to operate. The Summary of Findings outlines the key areas for further consideration.

Council Tax Reform

16. Separate research projects by the [Institute for Fiscal Studies](#) and the [University of Sheffield](#) produced statistical models of up-to-date house prices for the domestic tax-base in Wales, setting out the choices for the future design of council tax, whether that be less regressive bands or a fully proportional system. Chapter 7 also considers valuation methodologies, the future of the Council Tax Reduction Scheme and the impact of COVID-19.

17. The Institute for Fiscal Studies found that a straightforward revaluation of the domestic tax-base would result in **half** of properties moving council tax bands, with **26%** moving up and **26%** moving down, though this varies considerably by local authority area. It then sets out six choices for the future design of council tax. The study reached the following conclusions.

- Council tax is out of date, regressive and distortionary. It needs to be revalued and reformed.
- Whether grant funding from the Welsh Government were adjusted alongside reforms to council tax would have a crucial effect on the reforms' impact across councils.
- Reform could make council tax much more progressive.
- While there may be particular concern about low-income losers from reforms, it is important to recognise they would be massively outnumbered by low-income winners.
- Revaluation and reform of council tax could help narrow household and geographical wealth inequalities via effects on property prices.

18. Overall, the IFS research concludes a pure revaluation in Wales would have a modest effect on reducing regressiveness and advocates more radical options,

such as the continuous and proportional system and abolishing the single-adult discount. A key conclusion from the research is that it is very difficult to find a reformed structure which is truly progressive – where the tax rate for higher value properties is greater than the tax rate for lower value properties. Instead, the IFS has presented options which are less regressive than the current position, or are ‘proportional’ eg. an equal tax rate across all property values.

19. Further work conducted by the University of Sheffield concludes that a revaluation would go some way towards addressing the regressive band structure of council tax if an alternative approach were taken to the design of band thresholds. The market trends since the last revaluation in 2005, and since the global financial crisis, show that **the timing of a revaluation and the choice of base year are important and should be selected to avoid short-term distortions**. The report notes it seems likely that a period of significant housing market adjustment could occur as a result of the COVID-19 pandemic, and it would be prudent to consider the implications on the timing and choice of revaluation year should the Welsh Government decide to move towards a revaluation of the council tax-base in the future.
20. The researchers conclude that **statistical methods are an effective approach to market value estimation**, with a high degree of predictive accuracy, which could be used to allow more frequent and systematic monitoring of property values in the future. More manual, traditional, approaches may always be needed for atypical dwelling types, sizes or locations.
21. We conclude it is clear there are alternative and more modern ways to value domestic properties for a future local tax system given advancements in data and technology. Not all ideas would achieve more frequent revaluations or allow for a progressive council tax though. In relation to greater frequency, it appears statistically based methods could be promising, if the appropriate level of robustness and precision could be achieved. The lead-in time to develop these as well as upfront costs could be relatively high, but could lead to savings on more expensive valuation methods in the future. In most cases, the first revaluation using a different method is likely to be an impactful and politicised exercise, realising more of the benefits thereafter. Public acceptance of the method will be key to ensuring confidence in the arrangements and compliance.
22. A suitable next step would be to explore with the VOA the ways in which conducting a traditional revaluation might have changed since 2003, in the context of advances in technical capability. Chapter 9 considers broader questions about the future form of valuation functions for both council tax and non-domestic rates in Wales and compares with other nations.

Council Tax Reduction Scheme

23. Research by [Policy in Practice](#) considers the impact of Universal Credit on our Council Tax Reduction Scheme, utilising anonymised data on individual households which the Welsh Government does not have access to. It advances our knowledge in this area significantly, and will inform future development of the CTRS. It provides crucial information to allow us to amend our CTRS, if needed,

to mitigate negative impacts on certain groups of people. We caution however that any changes made to the CTRS need to be commensurate, avoid unintended consequences and considered within the wider context of the administration of the scheme, as well as future options for longer-term reform of local taxes. We will need to reflect carefully as to whether a more fundamental rethink of the scheme is required to mitigate the impact of welfare reform and to make council tax fairer and more progressive.

24. Overall, Chapter 7 outlines a wide spectrum of options for the future of council tax if the Welsh Government decided to keep a broadly similar kind of local property tax system, rather than propose a fundamentally different form of local tax, such as land value tax or local income tax. Many of the ideas are as significant in terms of the required resource, lead time, legislation, practical implementation and magnitude of change for households and councils. These are the key points which resonated with us.

- **Meeting objectives:** both the Institute for Fiscal Studies and Sheffield University research make unique and significant contributions to the debate about the options for council tax reform in Wales, using data which has not previously been available to researchers. The work is of high quality and demonstrates there are possibilities to meet our objective of making council tax more progressive. The array of options however is currently so vast that these will need to at least be narrowed down to move forward with policy development. A revaluation opens the door to more options than adjusting the system based on 2003 values.
- **Impact on councils:** making council tax more progressive requires a redistribution of the tax burden from less affluent to more affluent areas of Wales, meaning councils with higher levels of deprivation would raise less tax and become more dependent on government grant funding. A choice for the Welsh Government in any future reform therefore often becomes a trade-off between fairness for households and ability to raise local revenues.
- **Impact on households:** the range of impacts on households is currently too extensive and varied to consolidate into a set of conclusions, though there is clearly potential to redistribute liability in a more progressive way. Seeking greater precision of data is paramount. The limitations may prevent us from measuring the precise impact on each household and how this relates to true ability to pay, for example, there is little information available to the Welsh Government about household incomes at a sub-national level. Some of the options would benefit some higher-income households, as property value is only partly indicative of income.
- **Support for those who need it:** we conclude any future choice of council tax system will still require some form of support as a safety net for low-income households and other households. However, we have not been able to ascertain to what extent the arrangements could be decoupled from the UK welfare system. We learned through our own analysis and from the Institute for Fiscal Studies and Policy in Practice reports, that understanding the take-up rate of the Council Tax Reduction Scheme is incredibly difficult. Due to this, the

IFS report could only analyse the options assuming either no take-up or full take-up of CTRS, when the reality will be somewhere in between.

- **Local accountability:** council tax should remain a local tax and therefore if reforms are to strengthen local autonomy and flexibility, the Welsh Government will need to better understand what elements of the system require national consistency to be able to meet objectives and where there can be greater levels of local discretion.
- **Banded designs:** if we are seeking to preserve a banded design, there are seemingly endless choices about where to position new bands and future tax rates. This has the advantage of providing the government with lots of flexibility to design a system according to objectives. We are mindful that a revaluation represents a snapshot of circumstances at a point in time, and the lead time between consultation, valuations and implementation is not short. The evidence shows the timing of a revaluation is very important.
- **Discrete value designs:** one option at the more radical end of the spectrum would be to remove the bands and return in part to the former domestic rates system. This type of system preceded council tax and still operates in Northern Ireland and so further work could seek to identify the benefits and drawbacks from previous and current experience. It is worth noting that greater volumes of appeals may be made by taxpayers. There are lessons to learn from the speculative appeals culture which exists around non-domestic properties for a far smaller tax-base.
- **Valuation:** whether the choice of future system requires a revaluation exercise or not, there are choices about the future valuation method. The similar results between the Institute for Fiscal Studies and Sheffield University studies, other than some differences at the lower end of the property market, suggest a degree of reliability and may indicate approaches to revaluation could be based more on statistical methods in the future, potentially avoiding some of the need to conduct labour intensive manual revaluations, as was the case in 2005.
- **No revaluation:** the changes in recent years in Scotland show that relatively minor adjustments could be made to the existing tax rates without a revaluation, though this may preserve inaccuracy and unfairness in the system's foundations. Our analysis suggests that to meaningfully reduce the liability on lower banded properties, more of the tax burden would need to be shifted onto the middle bands due to the small numbers of properties at the top end of the property market in Wales. This could result in a middle-income 'squeeze'.
- **Big-bang versus gradual change:** if revaluation is preferred, but large scale immediate change is not, there may be other reforms which could achieve more gradual improvement, for example, phasing, deferring, annual indexing, or piecemeal valuations. Previous experience indicates gradual implementations of policy changes add complexity and may be the least understood by citizens and stakeholders. The next step would be to discuss the possibilities with the Valuation Office Agency.

- **Public engagement / acceptability:** again, the choice of options is too great to be able to reach conclusions about public acceptance of a future council tax system. The research is clear though that all options require improvements in the way tax is communicated, understood and interacted with.
- **Legislative and constitutional requirements:** all options from smaller to larger scale reform require some degree of legislative change. This creates opportunities to modernise and consolidate the statute. The need for UK Government consent arises for options which involve modifying the valuation function, including a discrete value system or a different valuation methodology. Depending on the breadth of the legislative change required there may be other constitutional obstacles.
- **Timeframes:** the timeframe to develop and implement changes varies considerably depending on the magnitude of change. At the more substantial end of the spectrum, ie. an unbanded continuous system, this would require a timeframe of more than one five-year term. A more straightforward revaluation and rebanding exercise could be achieved towards the end of the next term though the transition for households and councils would likely run into a second term. Smaller scale changes such as a review of support schemes could be undertaken in around three years due to legislative requirements. All options are highly dependent on what changes are required to the valuation function and the capability of the Valuation Office Agency to deliver. The Summary of Findings outlines the key areas for further consideration.

Non-Domestic Rates Reform

25. Chapter 8 discusses how non-domestic rates could be improved if future governments wished to keep the basic non-domestic rates system as a property tax, rather than move towards an alternative approach such as land value tax. It discusses revaluation and appeals, tax rates and localisation, relief schemes and other potential reforms such as administration and reducing avoidance. Barclay (2017) concluded that "some form of property tax is still an appropriate way to fund the local services provided by councils, as the whole of society benefits from the services they provide". The Business Rates Panel (2015) set out that a future government needs to determine where it intends for non-domestic rates to sit on the spectrum of stable revenue-raising and a tool which can flex to stimulate economic growth. Lyons (2007) argued that "changes to business taxation can provide greater local flexibility for communities to invest in themselves and in the infrastructure needed to support growth, and improved incentives for the efficient use of land".

26. The local government finance system would benefit from greater awareness that non-domestic rates is a contribution the business community and other organisations make towards the services they utilise in the area where they operate. This is possible due to its nature as a property-based tax. In contrast to a tax based on earnings or profits, a clearer link can be made between the means through which the tax is generated and the goods or services the revenue subsequently funds. Business communities and other employers not only benefit

directly from services such as policing and transport infrastructure, but more universally from skilled workforces and attractive localities.

Revaluation and appeals

27. There are merits to more frequent revaluations though we are not currently committed to this in the same way as other nations due to our consideration of wider local government finance reform. We find little practical evidence which compares the merits of annual versus three-yearly valuations. For both options, rateable values would track market conditions more closely which could promote acceptance and fairness, but this would not necessarily lead to a smaller magnitude of change in bills for ratepayers each time. As we have learned from the research carried out on council tax revaluation, the outcomes vary depending on the period chosen, the data which is available and length of time the exercise takes.
28. Annual valuations may be less affected by medium to longer term economic trends but not by shocks with a rapid onset, such as the Global Financial Crisis and the coronavirus pandemic, though revaluations could be postponed in those instances until recovery. We are unable to test whether higher frequency valuations negate the need for transitional relief schemes. There are likely to be some ratepayers significantly impacted by any revaluation however frequent.
29. The approaches elsewhere in the UK support us in continuing to explore tailored valuation and appeals requirements for Wales. Rights of appeal for taxpayers are essential to the integrity and fairness of local tax systems. There are incremental improvements to be made in the short to medium term though the future choices for appeals systems will need to be guided by broader reforms.
30. Valuation and appeals are key areas for reform if future governments wished to keep non-domestic rates a broadly similar system. As Chapter 9 explains in more detail, the VOA's operational and ICT systems are not currently configured to support separate valuation frequencies or methods for Wales than England, though transformative ICT modernisation is in train. We will need to carefully balance what is practically feasible while navigating the art of the possible in tailoring to our needs.

Tax Rates and Localisation

31. There are numerous choices of tax rates under a future non-domestic rates system. Adding tiered multipliers adds complexity and may be less understandable for ratepayers, however, it would provide the Welsh Government with flexibility to tailor non-domestic rates policy to Wales' needs. There are precedents in the local taxation system for local or regional rate setting in Wales given councils and Police and Crime Commissioner responsibilities to set council tax rates each year.
32. It is right to recognise that the strength of the local democratic link can be diluted by certain features, such as pooling and the national tax rate. Non-domestic rates can be perceived as a national tax collected 'on behalf' of the Welsh Government – despite its 30-year history as a local tax and all of the revenue being distributed

to fund local services. The mix of localised and centralised features of the system could be reconsidered in future. There are many options to choose from, with the Welsh Government and local government needing to be clear about collective aims.

33. Reconsidering these features however creates a marked trade-off with equity between councils. If fair and progressive systems is our primary objective, some redistribution is likely to always be required. There is mixed evidence as to whether measures such as local retention elsewhere have incentivised growth. The current view of the Welsh Government is that rates retention in its fullest concept would not appear to benefit the particular tax-base of Wales, is complex and creates disproportionate risks. We could test smaller-scale growth incentives based on defined areas where there is evidence of positive effects. We remain committed to a 'shared-gain' approach in connection with City and Growth Deals.

Rates Relief

34. A significant element of any tax system is an ability for central or local governments to support certain taxpayers with their liability for various reasons, either temporarily or permanently. The current non-domestic rates system features relief schemes such as for small businesses, high streets, retail and leisure, charities and other types of property. Relief is a substantial financial subsidy by the public purse and so it is right to continually review its purpose and effect. We must ensure it reaches those we intend to support and is in place only for as long as it is necessary. Non-domestic rates is a tax where currently half of all ratepayers pay no tax at all. This contrasts with roughly 16% of the council tax-base.
35. The range of schemes and criteria within each scheme adds complexity to policy, legislation and administration. In Wales, some reliefs operate through the national pool, others via grant funding, some are prescribed in legislation and others are application based. Due to this complexity and the longevity of the rates system, it is difficult to determine whether the arrangements currently work effectively together. A review and consolidation of the arrangements (including exemptions) is an option if a broadly similar non-domestic rates system were to remain in place.

Other reforms

36. Chapter 8 also discusses other potential reforms from administrative improvements, to banded and capital value systems and ways to incentivise economic growth. Many recommendations of previous reviews focus on improving the ratepayer experience and administration of the system. These could be implemented alone or alongside larger-scale change, especially if other reforms necessitate digital modernisation. Coproduction with councils and ratepayers would be imperative to the success of these improvements. We will continue to implement measures to tackle rates avoidance and monitor newly emerging disingenuous behaviours.

Implementation of potential reforms

37. Implementing some of the more radical departures from the existing system will require significant new primary legislation, for example, greater localisation, a significant shift in valuation or the broad discrete-value and multiplier design. Crown Consent is required for reforms which would constitute a modification to the valuation function. The likely timeframe for such reforms would be five to ten years. Smaller-scale changes, such as administrative improvements and changes to relief schemes would be achievable within the next Senedd term. The Summary of Findings outlines the key areas for further consideration.

Summary of Findings

38. The reforms set out offer choices which could contribute to a fairer, more equal and greener Wales. There are opportunities to further recognise local government's capability as financial guardians and tax administrators. There are also opportunities to modernise key functions and to foster a greater awareness amongst citizens. Alternative approaches need to be demonstrably better than the existing arrangements, not just different.

The five aspirations

39. Our broad reflection on the range of options in relation to these aspirations is as follows.

FAIRIER: *Strive for more progressive revenue raising where possible, and greater fairness in the treatment of taxpayers. Geographical equity across Wales and between socioeconomic groups should not be compromised.*

40. The most progressive option would be to base local revenue-raising on taxpayer incomes, but its practical implementation is the least understood and it carries higher avoidance risks, particularly in relation to offshore or hidden wealth. A local land value tax appears promising compared with existing systems, if the data infrastructure requirements could be met. Revaluation and rebanding of council tax could achieve a less regressive or more proportional position with respect to property wealth rather than incomes. Smaller-scale reforms to council tax would not achieve this aspiration alone. The fairness debate around non-domestic rates tends to focus on the tax rate and on changing consumer trends. Revenue needs for local services and devolution constraints mean these matters are unlikely to be fully addressed, though a widening of the tax-base could contribute. All reforms require consideration of the 'after effects' of change, eg. true tax incidence and capitalisation of wealth. All reforms require redistribution of the Revenue Support Grant to ensure equity and we have not seen evidence to the contrary.

LOCAL: *Strengthen not weaken local democracy, autonomy and flexibility. Complement the broader reform of local government, which enables service transformation and greater participation in local democracy.*

41. All options provide flexibility to meet this aspiration, depending on the intricate choices made during policy development, eg. on setting tax rates, collection and administration. The benefits of local knowledge and expertise within the existing arrangements have proven to be clear. The government would need to consider for which elements it requires national consistency in order to ensure fairness, and this might be in areas such as support for those less able to meet liabilities. We would aim to coproduce a reformed system as far as is practicable with local government. Implementation of the Local Government and Elections (Wales) Act 2021 stimulates further regional and collaborative service delivery, coupled with increasing City and Growth Deal activity. Regardless of future options, finance systems will need to morph over time to take account of this and new layers of decision making about spending priorities and needs.

SUSTAINABLE: *Safeguard the future sustainability of services to communities through stable funding streams. Safeguard prosperity and growth in local economies.*

42. To meet this aspiration any reforms need to be revenue-neutral at an overall Wales level for local government. They also need to build in gradual growth in the tax-base. All options carry this potential but with highly variable effects on people and on places. The pursuit of progressive systems whilst maintaining buoyant revenues could happen more slowly if desired. Gradual transitions are possible, though often costly. A system more closely affected by economic cycles such as a local income tax has more damaging effects during downturns and shocks, though it could be argued that other fiscal mechanisms could kick-in in these instances. Effects are somewhat mitigated in land and property based taxes. There is a marked trade-off between sustaining revenue for services and stimulating economic growth through tax relief. Sustaining services contributes hugely to overall prosperity through quality education provision, adequate housing, public safety, wellbeing services and community cohesion.

SIMPLER: *Strive, where possible, to reduce complexity in the design of our future systems. Local tax administration should be efficient with proportionate costs.*

43. There is a trade-off between targeted and complex systems versus those which are simpler but imprecise. Much of the current system's complexity derives from the myriad of criteria determining liability, its growing case law and the valuation arrangements. A land value tax offers an opportunity to at least aim to reset this complexity, though in reality the rationale for greater precision may still prevail (due to fairness arguments). The complexity of a local income tax would stem from its definition of taxable income and how readily available precise data is to councils. In the absence of data, local means-assessments would be far more administratively burdensome. Options based on versions of existing systems could be simplified through consolidation of the legislation and a review of discounts, exemptions and reliefs. However, a discrete-value system for council tax would be more complex in terms of valuation, administration and appeals aspects. The extent to which complexity would grow over time in any new system is unknown and may be unavoidable.

UNDERSTOOD: *Improve public awareness and understanding of the arrangements. Modernise how systems are delivered and take advantage of digital transformation.*

44. Public acceptance and understanding of reforms will be multifaceted and may not become clearer until impacts begin to be felt, ie. following implementation. Local taxes are unpopular yet well established. As all options require new legislation and therefore periods of concerted public engagement, there are opportunities to raise awareness of the purpose and effect of reforms. A completely new type of system is more likely to break longstanding misconceptions. However, we will be less able to exemplify precise effects on individuals for the land value tax and local income tax ideas. Local administration of tax and finance systems is a promising candidate for digital transformation in the near future regardless of the option chosen, but options which are broadly similar to existing systems may spark less momentum for modernisation.

It's not just about tax

45. The various ideas for reform will impact on the whole finance system. Changes in locally-raised revenues impact on spending power and on the distribution of the Revenue Support Grant. Conversely, changes in centrally provided funding impact on the requirement to raise local revenues to meet spending plans. Reforms will affect the dependency of some councils on government grant funding. There are gearing effects whereby to increase a budget by 1%, the amount needed to be raised in council tax is proportionally higher at around 3.5%. These proportions differ between council areas with higher and lower value tax-bases and are influenced by historic tax levels. The right balance of funding between locally raised and centrally provided sources is fundamentally connected to questions of wider governance and accountability.

46. There are other significant elements of the finance system. Councils usually raise around £1.3bn a year via fees and charges where permitted, eg. parking, leisure facilities, but in some cases these must be charged on a cost-recovery basis. Capital expenditure is another significant element of the system which enables investment in assets, infrastructure and service improvement. During this Senedd term we made changes to increase local government's flexibility, including the use of capital receipts to fund transformation, relaxing constraints around loan capital transactions, share capital transactions and bonds. Local choices around capital financing depend on long-term revenue affordability and risk.

47. The Local Government and Elections (Wales) Act 2021 provides a new legislative framework for regional collaboration between councils through Corporate Joint Committees. It also provides a General Power of Competence to councils, enabling them to enter into innovative financial arrangements, including commercial ventures. Different needs and spending patterns may therefore emerge over time. There are also opportunities for voluntary mergers of councils in the future which may require some further thought in relation to finance. Local government expenditure is subject to strict financial governance and audit requirements to protect the integrity of the public purse and the future sustainability of services.

48. One of our key ambitions for reform is for our systems to be more tailored to the needs and circumstances of Wales in the future, and greater flexibility for the government of the day to make unique policy choices. This is highly dependent on being able to specify the valuation functions.
49. Our work has shown there are real opportunities to improve technological capability and it is what taxpayers and stakeholders expect. Improved user interfaces, real-time data, GIS technologies and more modern administrative platforms should be core features of any reforms. The various research outlined in our Summary of Findings confirms the data requirements for implementing progressive systems are not currently met.

KEY QUESTIONS TO BE ANSWERED BY FUTURE GOVERNMENTS

- What benefits of the existing systems would we aim to keep? What are the priority issues to address?
- What should form the basis of a set of principles or outcomes to guide policy development?
- How could the local government finance system help us deliver the seven goals contained in the Well-being of Future Generations Act, and further embed the Sustainable Development principle?
- Can the local government finance system contribute to greener and foundational economies while sustaining revenue? Could it contain levers to mitigate societal challenges, such as housing poverty and decarbonisation, without diluting purpose or adding complexity?
- How could we explore awareness and attitudes to reforms?
- Are there benefits of replacing council tax and non-domestic rates with a single local tax system?
- If we intend to keep council tax and non-domestic rates as separate local taxes, to what extent does the design of each need to be complementary? What is the rationale for greater congruence or greater divergence?