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The Potential Impact of Reforms to the Essential Parameters of the Council Tax*

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Abstract

Council Tax was introduced in Britain in 1993 and represents a unique international property tax. There is a growing belief that it is time to reform the number and structure of council tax bands but such views have a minimal empirical base. This paper sets out to assess the impact on personal and local government finances, and extends the analysis to the role of the tax multipliers linked to each band. The research is based on the experience of a representative sample of local authorities in Scotland. A statistical revaluation for 2000 is estimated for the existing eight band system, and from this base a ten band system is calculated. Financial implications are then simulated for each local authority taking account of central resource equalisation mechanisms. The results indicate that increases in bands will have little impact on the burden of the council tax compared with regular revaluations. Changing the tax multiplier range has the greatest impact on local authority finances and council tax payments.

Introduction

More than ten years after the council tax was introduced into Britain in 1993 there is a growing belief that it is time to reform its operation. In England the government has instigated the Lyons review of local government finance while the political parties that represent the ruling coalition in Scotland have also agreed to undertake a similar review. Although there has been a campaign to replace it with a local income tax the UK government has committed itself to retaining it, albeit as possibly part of a wider range of local taxes (Office of Deputy Prime Minister (ODPM), 2004a). This is also the conclusion of the House of Commons ODPM Select Committee (HoC, 2004). A major focus of the reviews will therefore be on the reform of the council tax especially through changing the number and structure of the bands and the potential for regional variation in these phenomena (HoC, 2004, ODPM, 2004b). Council tax benefits have also been singled out as an area for reform but this issue is beyond the scope of this paper. It is also seen by the government as an issue to be addressed once the council tax structure has been revised (ODPM, 2004a).

This paper sets out to assess the impact of changing the bands on personal and local government finances, and extends the analysis to the role of tax multipliers linked to each band. The paper begins by considering the nature of the council tax noting its historical development. The next section examines the underlying principles of the council tax bands. The remaining sections set out the research agenda for the paper, the research methods and the results. The starting point for the empirical research is a council tax revaluation, as rebanding cannot occur without one. In the light of the results the conclusions review the significance of the tax's parameters and the case for reform.

The Nature of the Council Tax

There has been a long tradition of local taxation taking the form of property tax in anglo-saxon countries including the UK, USA, Canada and Australia (Loughlin and Martin, 2003). In Europe local taxation is less dependent on property tax but it is usually part of a spectrum of taxes including income and sales taxes. The Council of Europe (2000) found that 23 out of 25 countries analysed in the mid-1990s applied a property tax of some form, the only exceptions were Malta and Sweden. The use of property taxes is also common in countries in the Pacific rim (Berry and McGreal, 1999). The basis of the tax differs from country to country, some tax only land, some tax only buildings and some tax both as in the UK. Historically property tax in the UK has been based on rateable value of a property linked to the income generated and this still applies to commercial property. The principal alternative approach is the use of market value. Council tax represented a major international development with the introduction for the first time in the world of a banded capital value tax. Plimmer et al (2002) argue that a banded approach if properly designed in terms of the number of bands, tax structure, etc could overcome technical and administrative difficulties of the use of property taxation typically found in most developing and transitional economies.

The council tax system was introduced in April 1993 based on property values as at 1 April 1991. The principal innovation of the council tax was that household bills would be based on a banding system rather than a precise value as in the former domestic rating system. The key attraction to the government of the council tax was the use of banding by reference to the average value for the country in question, therefore bands are distinct for England, Scotland and Wales. In Northern Ireland the rating system continued to operate with taxation proportional to values. The tax schema has a set of eight bands and associated tax multipliers so that the households in the lowest band (A) pays two thirds (multiplier) of the average bill (band D) and those in the highest (H) pays twice. Thus, the highest council tax bills would be 3 times the lowest (see Table 1). The ratios of tax bills between price bands are fixed by the legislation and can not be changed by an individual local authority.

Table 1 1993 Valuation Band Upper Limits and Tax Rates in Scotland, England and Wales

Band	Scotland ⁺	Wales	England	Tax Rate
A	£27,000	£30,000	£40,000	0.67
B	£35,000	£39,000	£52,000	0.77
C	£45,000	£51,000	£68,000	0.88
D	£58,000	£66,000	£88,000	1.0
E	£80,000	£90,000	£120,000	1.22
F	£106,000	£120,000	£160,000	1.44
G	£212,000	£240,000	£320,000	1.67
H	> £212,000	> £240,000	> £320,000	2.0

⁺Valuation bands in Scotland are two thirds of equivalent bands in England.

The level of the local tax depends on the relationship between a local authority's expenditure and that which the government assesses its expenditure needs should be. If the two are equal then the average value property would pay the standard national bill. Hence in two authorities that meet this criterion properties in the same council tax band would have the same council tax bill. If a local authority spends above its target expenditure then this will lead to a general rise in council tax bills in its area allocated across the price bands in the ratio set by the legislation. Similarly if a local authority's spending is below its assessment council tax bills will be reduced below the national average according to the same formula.

The grant system in this way should equalise for uneven needs across local authorities provided the government's assessment of local needs is accurate. Similarly the system should also ensure resource equalisation between local authorities with different tax bases, ie account for the variation between numbers of properties in different tax bands between authorities. This is achieved by ensuring that provided a local authority meets its expenditure needs assessment then it will only need to raise the requisite tax from properties in each tax band. Hence even if a local authority's tax base consists of just band A properties it will still only be required to charge households two thirds of the national average council tax provided it achieves its spending assessment target (Hills and Sutherland, 1991).

The government saw administrative benefits to the council tax over the previous systems because registers of adults were not required, it avoided the necessity of precise property valuation and there was no need for general regular or frequent revaluations. This view was reaffirmed in 1998 by the UK Labour government when it announced no plans to undertake a revaluation (DETR, 1998). As a consequence to date there has been no revaluation in the UK although the government has now legislated for ten yearly revaluations. The first revaluation took effect in Wales on 1 April 2005 while in England a first was due to be implemented in 2007 based on 2005 valuations (ODPM, 2004a), but has now been deferred for at least a further three years. Revaluation represents a logical watershed in the development of the tax and an opportunity for reform. Wales has taken the opportunity to add an extra band by splitting the top band (National Assembly of Wales, 2004).

The Underlying Principles of Council Tax Bands

From the beginning there were concerns about the nature of the bands. For example, reservations were raised by the Convention of Scottish Local Authorities (COSLA, 1991) about the narrow range of the proposed bands as lacking fairness. It is this relationship between fairness and the banding system that has been at the core of much of the subsequent debate and research. This is perhaps not surprising, Beaumont (1992) notes that the perceived fairness of the property valuation system is the central issue that perennially challenges property taxation throughout the world.

The equity of the bands has dominated research. Plimmer et al (1999) argue that the lower bands are too wide because of the range of properties that can lie within it. They quote RICS (1998, p3) referring to the English bands,

“The bands themselves are..... far too wide, especially in depressed areas. To take an extreme example, there are those living in caravans or semi-derelict properties which could not command a price of more than (or even as much as) £10,000, who will object to being included in a band that includes properties worth up to four times as much...”

Their view is that while in theory the rebate system will reduce this effect because it is administered ‘outside’ the normal council tax collection rebate take up will be incomplete. Plimmer et al (1999) further argue that the tax is regressive because the effective tax rate falls significantly as house price rises. In England they calculate that the tax rate falls from 2.06% of capital value for band A to 0.38% for band H. However, the analysis above takes no direct account of incomes and its distribution.

Plimmer et al (1999) further comment that there is a strong case for expanding the number of bands at the top end of the price spectrum. Muellbauer and Cameron (2000) also set out a case for reform that covers many of the same points. They argue for three essential reforms specific to the housing market - valuations every two or three years, tax rates proportional to house values, and (if a banding system is to be retained) at least six

new bands over £320,000. Plimmer (1999) also points to the lack of regular revaluations as a source of regressivity. Davis et al (2004) explore the impact of changing the size of bands using data on Northern Ireland and finds an inverse relationship between their width and progressivity.

Kenway and Palmer (1999) at the New Policy Institute (NPI) take the view that the current bands and tax multipliers are arbitrary and regressive. They argue that the flat appearance of the council tax in the peripheral regions is a justification for splitting band A and that band G should also be split. This is because the 2:1 ratio between the upper and lower limits (in England) of these bands is much larger than the ratios in the other bands which are typically 1.3:1. Kenway and Palmer (1999) also support an increase in the range of tax multipliers from 3 to 6. They see the proposals as helping the less wealthy at the expense of those living in the expensive properties, ie a 'modest' redistribution of wealth. This proposal will, they argue, also help those on low incomes. Although those on council tax benefit would not gain directly they argue that it would help many just above the benefit threshold and help reduce the 'benefits trap'.

The NPI (2004) have further developed their ideas in an influential paper examining a range of options for reform within a regional context. In this paper, presented to the Balance of Funding Review (ODPM, 2004b), the simulation outcomes of these options are considered and then judged against explicit equity criteria. These options are:

- basic revaluation;
- revaluation with lower band limits;
- expansion to ten bands by splitting bands A and G for reasons noted in the previous paragraph with a range of 'income proportional' multipliers of 5; ten bands and 'price proportional' multipliers with a range of 24; and
- a regionally differentiated ten band system with 'income related' multipliers.

The results of simulations are presented in the form of national aggregate and regional numerical changes in bands and tax bills.

The paper reviews these options and associated simulations and concludes that revaluations encompassing eight bands are not an acceptable way forward because of the adverse distributional impacts. This is because households living in the less expensive properties of the high inflation regions will lose most. This problem still exists with the expansion of bands while increasing the multiplier range to 24 entails a substantial shift in the balance of central government funding through resource equalisation between regions and very large changes in household bills. The authors conclude that they favour the final regional option to resolve their perceived main deficiency of the national approach, namely the low banded properties in high inflation regions. However, they recognise there are still issues to be addressed - potential variation in the number and size of bands and multipliers between regions (although there are already differences between nations), and whether regions are the best basis for sub-national variation.

Research Agenda

Research to date on the impact of the banding system has been limited both in scope and relies on aggregate or weak data. Extensive research has been undertaken by the NPI, but the published papers emphasise results and lack detail on the research methods. The analysis by Kenway and Palmer (1999) uses an (unexplained) model calibrated with data from the Family Resources Survey. It assumes a uniform rate of tax across all local authorities, and ignores the influence of differences between locally determined and central government assessed expenditure for authorities, the role of resource equalisation and other allowances to local government. It therefore takes very much a central government perspective on the issue. The analysis also suffers from a lack of transparency with the model presented as a black box from which the results are pulled. Similar issues relate to the submission to the Balance of Funding Review that is based on broad regional price trends and average earnings (New Policy Institute, 2004). This latest paper also does not distinguish between the relative impact of bands and multipliers which restricts the applicability to the task of this paper. But the major limitations of this research approach lie in the use of regional house prices and the lack of a local authority resource equalisation model.

The use of regional house price trends ignores variations in intra-regional house price trends (a problem alluded to by the NPI). This is exemplified by research undertaken by Halifax Bank of Scotland (HBOS) (2003a) that examines variations in house price trends between towns between 1988 and 2002. For example, the price change differential is almost 4 to 1 between the highest and lowest 'performing' locations in Scotland over this period. This compares with the equivalent figures in Yorkshire and Humberside of 3 to 1, around to 2 to 1 in the South East, Greater London and the North, and 1.5 to 1 in the South West (HBOS, 2003a). These statistics emphasise the diversity of local housing markets reflecting distinctive local economies and the scale of inter-urban distances. Furthermore Jones et al (2003) demonstrate, based on the experience of Glasgow, how there can be significant intra-urban price changes over a fourteen year period. Whilst the west end of the city saw prices rise by 42% other spatial sectors rose by only 8% over this period.

This evidence suggests that by assuming fixed regional house price trends the NPI research produces a potentially misleading view of the impact of a revaluation. An aggregate regional perspective also excludes the fact that local government resource equalisation is based on local tax bases. Rebanding and redefining multipliers alter these local tax bases and leads to revised funding of individual authorities by central government. The standard central government distributional formula takes into account not only absolute changes in the local tax base but also relative changes between authorities. It is therefore possible to have a small reduction in the local tax base and also receive a reduction in central funding. Even with a regional aggregate analysis changes in the banding of housing etc have intra-regional consequences which in turn have implications for local tax bases/resource equalisation and this issue is not addressed by NPI.

This paper follows the same research agenda as the NPI but improves on it by taking a more spatially dis-aggregated approach. The research here addresses the impact of banding and multipliers by taking account of local government funding structures, actual expenditure and council tax levels, and local house price trends. The implications are considered in relation to a range of individual local authorities and council tax payers. The research is focused entirely on Scotland although the results are likely to be broadly indicative of the scale of (average) changes applicable elsewhere in Britain because house prices in Scotland rose by 118% over this period, broadly the same as the 122% average experienced across Britain (HBOS, 2003b). However, it is possible that the greater inter-urban house price trend differences in Scotland may mean that the range of outcomes in other regions will be narrower.

The research is developed within the framework of three 'scenarios'. Scenario 1 is simply the introduction of a revaluation that is taken to occur in 2000 (from the previous revaluation of 1991) with the new valuation band upper limits adjusted to the level that keeps the 'national' relative proportions of property in each of the current bands constant. The bands and tax rate weightings used in Scenario 1 are summarised in Table 2.

Table 2 Band Upper Limits and Tax Rate Weightings Used in Scenario 1⁺

<i>Band</i>	<i>Upper Limits</i>	<i>Tax Rate</i>
A	£29,999	0.67
B	£47,999	0.78
C	£62,999	0.89
D	£79,999	1.00
E	£104,999	1.22
F	£147,999	1.44
G	£299,999	1.67
H	> £300,000	2.00

⁺Upper limit on Scottish bands adjusted to 2000 prices.

Scenario 2 involves the creation of two new bands to address the specific issues raised above by the literature. This is achieved through, first, insertion of an additional upper band (G2) to the present structure of eight bands, A to G with the valuation. This new band has the effect of splitting the previous band G. The upper limit of band G1 is the mid-point between the revised upper limit of band F and the revised lower limit of band H. This way of expanding the number of upper bands is chosen because the numbers in band H in Scotland are already small and, as a result, the statistical estimates of the number of properties in this band are less robust than estimates for other bands. The other additional band involves the establishment of a further new lower band (A2) giving ten bands in all. In fact, the revised bands A and B are used to construct three broadly equal (in terms of price range) bands A1, A2 and B. Scenario 3 is based on the revaluation and rebanding of Scenario 2 but overlaid on this scenario is a change in the multiplier range applicable from 3 to 6. Table 3 shows the new tax rate weightings for the top five bands and the bands expressed in 2000 prices.

Table 3 Band Upper Limits and Tax Rate Weightings Used in Scenarios 2 and 3⁺

<i>Band</i>	<i>Upper Limits</i>	<i>Tax Rate for Scenario 2</i>	<i>Tax Rate for Scenario 3</i>
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A1	£19,999	0.56	0.56
A2	£34,999	0.67	0.67
B	£47,999	0.78	0.78
C	£62,999	0.89	0.89
D	£79,999	1.00	1.00
E	£104,999	1.22	1.56
F	£147,999	1.44	2.11
G1	£219,999	1.67	2.67
G2	£299,999	1.89	3.33
H	> £300,000	2.00	4.00

*Upper limit on existing Scottish bands adjusted to 2000 prices with bands A and G split.

To simplify, the analysis distinguishes three potential outcomes, Scenario 1 with 8 bands and a multiplier range of 3, Scenario 2 with two additional bands and a range of 3 and Scenario 3 with 10 bands and a multiplier range of 6.

Research Method and Study Area

The research is based on the housing market experience of Scotland from 1991, the year of the valuation for the council tax, to 2000 for a representative sample of unitary local authorities. Following the selection of these authorities the research has a series of steps. First, a statistical revaluation is estimated of the numbers of houses in the different bands of each authority for the existing eight band system, and from this base a ten band system is calculated. The financial implications for local government and council tax payers of both the statistical revaluation, the introduction of new valuation bands to the council tax system and reweighting the multipliers are then estimated. These forecasts are calculated by working through the alterations to the council tax base for each of the individual local authorities and accounting for the resource equalisation mechanisms of the Scottish Executive.

A representative sample of local authorities is derived using a procedure that scientifically selects a combination of urban, rural and mixed authorities; economically leading and lagging authorities; authorities with a financial structure that is reliant on the council tax take and those with minimal reliance, and so on. The selection method involves the development of a typology of local authorities; the details of the procedure are available in Jones et al (2002). For each of these eleven authorities, listed in Table 2, a statistical revaluation of council tax bands was undertaken to create a database using 2000 values. The precise method is explained elsewhere (Jones et al, 2002) but it utilised electronic versions of the council tax registers and a repeat sales regression analysis based on individual housing transactions data derived from the Land Register for Scotland / the Register of Sasines. Price indices are estimated for each band in each area and then used to bring forward all observed property transaction prices between 1991 and 2000 to year 2000 market price levels. It is convenient to think of this process as a statistical revaluation. The analysis suggests that, in relation to individual householders a revaluation is likely to have a significant effect in terms of creating council tax 'winners' and 'losers'.

To fully assess the impact it is necessary to derive new council tax bands linked to the new price level. Unfortunately council tax bands are not determined by reference to any underlying principles. Initial analysis involved moving all valuation bands up at the same rate of price inflation but this produced excessively biased results (as NPI, 2004). The statistical results presented here are based on the presumption that the 'national' relative proportions of property in each of the current bands remain constant. Hence, the proportion of households in band A of the eleven authorities overall is the same in 1991 as in our estimates for 2000. The new upper limits are calculated iteratively. Using these new limits it is now possible to generate an updated distribution of council tax payers by band for each of the eleven authorities.

These revised distributions of households are the basis for a recalculation of local authority finances. Financial simulations are undertaken by applying the current local government financial formulae used by the Scottish Executive to distribute funding and equalise resources (the details are in the Appendix). The key to the resource redistribution between local authorities is each authority's proportion of Scottish band D equivalents. A Band D equivalent is calculated by transforming each band entry on the council tax register by representing it as the respective multiplier weight. Each of the band scenarios and reweighting of the multipliers described above alter the number of band D equivalents and are therefore simulated individually. Hence the different scenarios and tax multipliers change the funding from the Scottish Executive to each local authority and hence council tax payments.

A series of assumptions are made keeping allowances to authorities and local government expenditures constant; these include in particular total funding available from the Scottish Executive. These can be seen as exogenous variables and the details are set out in the Appendix. These variables are held constant at the observed 2000/01 levels in order to isolate the predicted impact of revaluation, the number of bands and the tax weighting system. Two additional assumptions were made to facilitate the analysis. First, the sample of 11 unitary authorities is assumed to be representative of Scotland. This permits the total number of band D equivalents for the 11 authorities to be used to represent the total number in Scotland as a whole and create a closed system. Second, the average level of council tax exemptions, disabled reductions and partial/full discounts are held constant at 2000/01 levels.

Results

Changes in Local Authority Finances

Comparison of Tables 4 and 5 show the differential impact of house price trends on the tax bases of each local authority given by the statistical revaluation. These simulation results for 2000 indicate that, ignoring a change of bands, Scotland's housing market landscape has altered quite significantly since the introduction of the present system of council tax in 1991. Some parts of Scotland, such as Aberdeen, Edinburgh and East Dunbartonshire, have seen significant increases in property values and hence their council tax base. Other areas, such as Dundee, Glasgow, Renfrewshire and South

Ayrshire have seen relatively poor increases in values and hence experience an erosion of their council tax base. The impact of the expansion of the number of bands from eight to ten is presented in Tables 6. Each local authority is affected differently but notable effects include the small percentage of properties in band A1 in Aberdeen and Eilean Siar, while there continues to be a high percentage in this band in Dundee. These figures are illustrative of the upheaval that is created; and in relation to individual householders, a revaluation and amendments to the banding system are likely to have a significant effect in terms of creating ‘winners’ and ‘losers’.

Table 4 Proportions of Properties in Each Band for Each Local Authority (under 1991 system)

BAND	A	B	C	D	E	F	G	H
UPPER LIMIT	27,000	35,000	45,000	58,000	80,000	106,000	212,000	212,001+
<i>Aberdeen</i>	20.7	26.5	16.5	10.7	11.9	6.9	6.2	0.7
<i>Aberdeenshire</i>	21.5	16.0	13.3	15.2	17.1	10.1	6.4	0.4
<i>Argyll & Bute</i>	20.6	20.6	20.4	11.8	14.1	7.3	4.9	0.4
<i>Dundee</i>	49.0	21.8	9.4	9.7	7.0	2.1	1.0	0.1
<i>East Dunbartonshire</i>	7.6	8.5	17.7	15.5	23.7	13.7	12.3	1.0
<i>Edinburgh</i>	15.8	20.0	17.7	13.8	14.5	9.1	7.8	1.4
<i>Eilean Siar</i>	37.7	26.7	19.2	10.0	5.3	0.9	0.2	0.0
<i>Glasgow</i>	31.3	25.1	20.0	11.6	7.5	2.7	1.6	0.2
<i>Renfrewshire</i>	30.6	21.6	11.1	10.6	12.3	7.5	5.8	0.6
<i>Scottish Borders</i>	37.3	22.5	10.9	8.9	9.2	6.0	4.7	0.6
<i>South Ayrshire</i>	18.0	23.5	15.0	14.1	16.3	7.9	4.8	0.4

Table 5 Proportion of Properties in Each Band for Each Local Authority in 2000 Assuming a Revaluation (Scenario 1)⁺

BAND	A	B	C	D	E	F	G	H
UPPER LIMIT	29,999	47,999	62,999	79,999	104,999	147,999	299,999	300k+
<i>Aberdeen</i>	9.8	12.1	13.2	24.3	22.5	10.1	7.2	0.9
<i>Aberdeenshire</i>	30.8	16.4	20.0	18.3	8.9	3.7	1.9	0.1
<i>Argyll & Bute</i>	17.8	15.1	8.2	18.4	21.2	11.4	6.2	1.7
<i>Dundee</i>	44.5	30.5	8.7	7.5	6.6	0.9	1.2	0.1
<i>East Dunbartonshire</i>	5.8	4.1	16.4	18.4	24.1	19.3	11.3	0.6
<i>Edinburgh</i>	13.5	15.1	19.9	14.5	10.2	11.3	11.9	3.6
<i>Eilean Siar</i>	21.7	50.8	14.4	9.2	2.9	1.1	0.0	0.0
<i>Glasgow</i>	34.4	30.3	14.8	8.9	5.3	3.6	2.3	0.4
<i>Renfrewshire</i>	26.3	26.3	16.3	11.4	8.2	6.4	4.8	0.3
<i>Scottish Borders</i>	27.9	22.2	16.2	13.1	9.2	6.3	4.5	0.6
<i>South Ayrshire</i>	25.6	24.3	19.8	10.7	9.3	6.5	3.5	0.3

⁺Upper limit on Scottish bands adjusted to 2000 prices.

Table 6 Simulated Proportions of Properties in Each Band for Each Local Authority in 2000 Assuming Ten Bands (Scenarios 2 and 3)[†]

BAND	A1	A2	B	C	D	E	F	G1	G2	H
UPPER LIMIT	19,999	34,999	47,999	62,999	79,999	104,999	147,999	219,999	299,999	300k+
<i>Aberdeen</i>	1.2	10.6	10.0	13.2	24.3	22.5	10.1	5.5	1.7	0.9
<i>Aberdeenshire</i>	12.9	19.5	14.8	20.0	18.3	8.9	3.7	1.6	0.2	0.1
<i>Argyll & Bute</i>	3.2	17.2	12.5	8.2	18.3	21.2	11.4	3.8	2.4	1.7
<i>Dundee</i>	27.7	20.5	26.9	8.7	7.5	6.6	0.9	0.6	0.6	0.1
<i>East Dunbartonshire</i>	0.9	5.5	3.5	16.4	18.4	24.1	19.3	8.2	3.1	0.6
<i>Edinburgh</i>	8.0	6.6	14.1	19.9	14.5	10.2	11.3	8.4	3.5	3.6
<i>Eilean Siar</i>	4.4	27.1	41.0	14.4	9.2	2.9	1.1	0.0	0.0	0.0
<i>Glasgow</i>	22.0	14.9	27.8	14.8	8.9	5.3	3.6	1.8	0.5	0.4
<i>Renfrewshire</i>	16.7	12.2	23.8	16.3	11.4	8.2	6.4	3.9	0.9	0.3
<i>Scottish Borders</i>	9.1	22.4	18.6	16.2	13.1	9.2	6.3	3.5	0.9	0.6
<i>South Ayrshire</i>	13.6	14.9	21.4	19.8	10.7	9.3	6.5	2.6	0.9	0.3

[†]Upper limit on Scottish bands adjusted to 2000 prices.

The specific financial implications for local government of both the statistical revaluation and the introduction of these new valuation bands are now considered. As noted above these changes will alter the present system by altering the council tax base for individual local authorities. This influences not just the amount of tax collected but has a further impact on the resource equalisations (for tax purposes) by the Scottish Executive. Within this framework the section first considers the impact on funding from the Scottish Executive (referred to as Aggregate External Finance or AEF) and the subsequent consequences for council tax rates. The analysis is undertaken for the financial year 2000/2001 so that changes can be assessed by reference to an existing benchmark. The financial model assumes that individual local authority non-housing revenue and national Total Aggregate External Finance (*TAEF* from the Scottish Executive) for all eleven authorities in our study are fixed at 2000/01 levels. The estimated changes to the distribution of AEF between local authorities are not subject to the usual constraints set by the Scottish council tax safety net that limits annual movements (see Appendix). In as much as the study does not cover all local authorities the results must be taken as indicative rather than definitive.

Table 7 Proportional Impact on Funding to Local Authorities (AEF) of Revaluation, Rebanding and Reweighting of Multipliers

Authority	% change between 1991 and revaluation with no change in multiplier range	% change between revaluation and Scenario 2 (no change in multiplier range)	% change between multiplier range 3 and multiplier range 6 of Scenario 2
Aberdeen	-3.3	-0.4	-1.2
Aberdeenshire	2.7	0.1	1.8
Argyll & Bute	-2.0	-0.3	-1.3
Dundee City	0.2	0.5	1.7
East Dunbartonshire	-1.0	-0.6	-3.3
City of Edinburgh	-1.6	-0.4	-3.0
Eilean Siar	-0.2	0.3	0.8

City of Glasgow	0.4	0.3	1.1
Renfrewshire	3.2	0.1	0.6
Scottish Borders	-0.4	-0.04	0.6
South Ayrshire	1.7	0.1	0.9

A summary of the results of these simulations is shown in Table 7. Column 1 sets out the implications of a revaluation only under the present banding and tax multiplier weights. Losses of funding occur to five out of the eleven authorities with Aberdeen suffering the greatest loss, 3.3%. Balancing this Renfrewshire is the largest beneficiary with an increase in funding of 3.2%. The impact of increasing the number of bands from eight to ten, after a revaluation, is demonstrated by column 2. The results show only marginal financial consequences with the greatest losses for Edinburgh, losing 0.4% of its funding, and East Dunbartonshire (an upmarket suburb of Glasgow) 0.6%. Dundee is the greatest gainer but only by 0.5%. If the tax multiplier weighting range is doubled from 3 to 6 (with 10 bands) then the consequences are presented in column 3. The relative impact of this development is much greater than changing the number of bands for all authorities with the major losses of just over 3% and the greatest beneficiaries of the order of 1.7%.

Changes to Households' Council Tax Payments

Subsequent changes to individual council tax payments are dependent on location, band, movement between bands and the tax rate multiplier applicable. Increases in the multiplier range will mean that even where council tax payments rise on average households in the lower bands could still have lower bills. The local effects are particularly important. The redistribution of government funding on individual council tax payers is exaggerated by a multiplier effect caused by council tax income representing only approximately 20% of total expenditure on average. A reduction of central grant of 3% to an 'average' local authority means that its total council tax payments will rise by 15% although this figure will vary depending on the precise dependency on central funding. Rebanding cannot occur without a revaluation, and this in turn provides the potential for many houses to move bands. Jones et al (2002) find that the revaluation leads in some urban areas of the sample to more than 20% of dwellings shifting between existing bands.

The impact on average council tax levels of the potential outcomes are therefore not easily presented because the standard comparative measure, the tax level for households living in band D properties, is not appropriate here. The revaluation process changes the number of band D properties (and means that there is not a straight forward relationship between changes in AEF and council tax payments). The analysis here is therefore focused not on levels but the relative impact on payments in different bands, but even then this does not account for switches between bands. The pure revaluation (Scenario 1) has no differential impact on payments in the different bands because the multiplier weights remain unchanged (Table 8). However, households shifting bands will lead to a 14-15% change in tax payments in bands below and up to Band D and as much as 18 and 22% above D (this can be seen from the differential tax rates in Table 1).

Table 8 Changes in Council Tax Bills as a consequence of the Revaluation

Authority	% change
Aberdeen	-5.0
Aberdeenshire	2.2
Argyll & Bute	-5.2
Dundee City	-2.3
East Dunbartonshire	-2.2
City of Edinburgh	-5.6
Eilean Siar	9.9
City of Glasgow	-3.6
Renfrewshire	-2.8
Scottish Borders	-1.1
South Ayrshire	-1.0

Table 9 Changes in Council Tax Bills as a Consequence of the Revaluation and Rebanding

<i>Authority</i>	<i>A to A1</i>	<i>A to A2</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G to G1</i>	<i>G to G2</i>	<i>H</i>
Aberdeen	-19.8	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8	9.0	-3.8
Aberdeenshire	-13.5	3.7	3.7	3.7	3.7	3.7	3.7	3.7	17.5	3.7
Argyll & Bute	-20.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	8.6	-4.1
Dundee City	-16.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	13.5	0.2
East Dunbartonshire	-17.6	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	12.0	-1.1
City of Edinburgh	-20.3	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	8.3	-4.4
Eilean Siar	-7.0	11.6	11.6	11.6	11.6	11.6	11.6	11.6	26.4	11.6
City of Glasgow	-18.0	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	11.5	-1.6
Renfrewshire	-17.7	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	11.9	-1.2
Scottish Borders	-16.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	13.7	0.4
South Ayrshire	-16.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	14.0	0.6

The changes in council tax bills (assuming no change in band) as a consequence of revaluation/rebanding are presented in Table 9 and broadly show that bill decreases are dampened and increases exaggerated in local authority areas as a consequence of increasing the number of bands. There are also three authorities where general decreases are turned into marginal increases for most bands. These differences stem from the changes in an authority's band D equivalents brought about by the increase in bands. Major changes are limited to new bands A1 (decreases) and G2 (increases). Much more dramatic distributional changes between bands occur when there is a reweighting from three to six as shown in Table 10. The scale of increases for the highest bands is the order of two or three times the decreases of the lowest band, reflecting the distribution of numbers of dwellings in the bands.

Table 10 Changes in Council Tax Bills as a consequence of the Revaluation and Rebanding and Reweighting Multipliers

<i>Authority</i>	<i>A to A1</i>	<i>A to A2</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G to G1</i>	<i>G to G2</i>	<i>H</i>
Aberdeen	-32.4	-18.9	-18.9	-18.9	-18.9	3.3	18.6	29.8	62.2	62.2
Aberdeenshire	-25.5	-10.7	-10.7	-10.7	-10.7	13.7	30.6	42.9	78.6	78.7
Argyll & Bute	-33.0	-19.6	-19.6	-19.6	-19.6	2.4	17.6	28.6	60.8	60.8
Dundee City	-26.2	-11.4	-11.4	-11.4	-11.4	12.8	29.5	41.7	77.1	77.1
East Dunbartonshire	-31.1	-17.4	-17.4	-17.4	-17.4	5.2	20.8	32.2	65.2	65.3
City of Edinburgh	-33.7	-20.4	-20.4	-20.4	-20.4	1.3	16.3	27.3	59.1	59.1
Eilean Siar	-19.0	-2.8	-2.8	-2.8	-2.8	23.7	42.1	55.5	94.3	94.4
City of Glasgow	-28.3	-13.9	-13.9	-13.9	-13.9	9.6	25.8	37.7	72.1	72.1
Renfrewshire	-29.6	-15.6	-15.6	-15.6	-15.6	7.5	23.4	35.1	68.8	68.9
Scottish Borders	-28.8	-14.5	-14.5	-14.5	-14.5	8.8	24.9	36.7	70.9	70.9
South Ayrshire	-27.5	-13.1	-13.1	-13.1	-13.1	10.7	27.1	39.1	73.8	73.8

These results are naturally specific to the precise weights applied. For example the extension of the weighting range from 3 to 6 in this case has been achieved by increasing the weights on bands above D and introducing a lower rate for A1 (B, C, D and E weights are unchanged). Different combinations of weights will produce different outcomes but the patterns will be similar. Given these internal dynamics it is difficult to be definitive on the distributive implications of reforming council tax parameters. There are four general conclusions.

First, increasing the multiplier range will lead to higher bills for the households living in the top half of the bands but the effect will vary dependent on the local council band distribution of dwellings. Second, the increases in council bills will be much higher for the relatively small number of households in the highest bands than the reductions to a much larger number of households in the lowest bands. This effect is strongest in areas where the relative numbers of dwellings in the highest bands are low. Third, these effects will be magnified for households whose homes are reclassified into a different band. Finally, doubling the tax multiplier will lead to council tax payments rising by 20% or more for households living in F band or above and more than 60% in G2 and H bands.

Simplifying Assumptions and Wider Issues

This study aims to consider the coincident impact of a revaluation, extending the bands from eight to ten and doubling the tax multiplier range from 3 to 6. This empirical research has focused on eleven authorities as representative of Scotland and the financial simulation undertaken is based on the assumptions that aggregate central funding and individual local authority's expenditure are fixed. While the research is based on only a sample of authorities in Scotland they represent 44% of the population and the four main cities. By treating the eleven authorities as a closed system and simulating changes to national council tax parameters the results of the research can be taken as generally indicative of patterns likely to occur across Britain.

However, there are a number of simplifying assumptions. The analysis here has presumed local authority expenditure remains constant but in reality the spatial redistribution of

central government funding is likely to lead to consequential impacts on spending which will moderate the impact on council tax levels. Similarly the large falls in council tax bills for those in the lower bands with more bands and increasing the multiplier range may lead to expenditure on council tax benefits falling (unless there was a huge increase in take up, which seems unlikely). This would be an advantage of the reforms considered and could enable council tax rates to be increased by less than forecast. However, not all recipients of council tax benefit are in the lowest bands, for example the elderly. To produce robust estimates of this effect requires knowledge of the number of households receiving benefits in each band within each authority and a prediction of how this would change with rebanding. In the absence of such data it is not possible to offer a definitive conclusion but the issue is considered in more detail in Jones et al (2002).

Given that any rebanding (and possibly multiplier reweighting) exercise will necessarily be accompanied by a revaluation the impact of the two must be considered together. The scale of these changes, even those purely the consequence of a revaluation, are likely to create short-term financial difficulties for some households. There will be a further impact on households whose bills rise because the knock on effect will be a reduction in their house price. The additional pressures on household bills and the narrowing of bands are likely to lead to a high number of appeals. Furthermore Jones et al (2006) argue that a revaluation of properties under the council tax could also cause major disruptions to the finances of local authorities. It is probable that these impacts will be on a magnified scale compared with revaluations under a system of pure capital value based taxation (or under the former domestic rating system). Rebanding will exaggerate this impact and narrower bands will lead to more appeals. These effects could reinforce the political pressures for the introduction of a broader base of local taxes including income tax and might ultimately threaten the existence of council tax. In mitigation supporters will point to the low costs of administration of council tax through use of bands compared with a property tax based on capital values.

Conclusions

The council tax was introduced in 1993 but there is now a growing concern about the structure of the tax and there is a strong political movement to resolve this by increasing the number of bands. However, the research on this topic has been limited. The most important study to date, by the NPI (2004), is an analysis based at the aggregate regional level. The NPI research does not identify the distinct effects of changing the bands from changing the multipliers. It finds that increasing the number of bands (combined with a revaluation) from 8 to 10, together with changing multipliers, leaves the greatest losers as households in low banded properties in high inflation areas whatever the precise formula applied. As a consequence the NPI proposes a solution incorporating distinct regional band structures and multipliers. However, the analysis suffers from ignoring intra-regional house price structures/changes and from the lack of a sub-model of local authority resource equalisation.

There are already regional band structures in Britain, in Scotland and Wales. The research presented here in effect considers the regional dimension but the results also have wider implications for Britain as a whole. This study demonstrates that merely considering a regional analysis underestimates substantially change in the housing market, both at the intra-urban and in the inter-urban levels. The implications for council tax revaluation, rebanding and redefining multipliers are reviewed taking into account actual levels of local authority expenditures and the resource equalisation formulae and other allowances. The research finds very different results from the NPI. The key difference between our research and NPI is that the basic revaluation and the moderate reform with ten bands and wider multipliers hit the low band homes biggest in the high inflationary areas. In our study we find that the biggest winners would be the lowest bands in all regions.

The effects of revaluation and/or rebanding are defined by our simulations as neutral for the set of sample authorities as a whole. However, the results indicate that the significant differential housing market performance in Scotland over the nine years 1991-2000 translates into substantive changes to the structure of tax bands in different localities. The analysis shows that the effects of a revaluation on council tax bills, after nine years, have far more effect on the redistribution of central government financial support than modifications to the banding. The impact of rebanding is muted but changing the tax multiplier range is of much greater significance to the distribution of central financial support.

Council tax bills will be magnified compared to the changes in local authority funding. The impact on individual households of a revaluation will be pronounced in relatively affluent authority areas in upper valuation bands, and especially for households whose home switches to a higher band. The influence of increasing the number of bands is limited in comparison. Changing the tax multiplier range has a far more substantive effect. The magnitude of such changes is demonstrated here by the doubling of the multiplier range: combined with a change of band some household bills could more than double with bills at the other extreme falling by more than a third. However, there is clearly a local dimension to these changes and those who lose out will be substantially smaller than those who benefit.

Although the study is based in one region these conclusions imply that reconfiguring the council tax will lead to substantial inter-regional and intra-regional ramifications in Britain to council tax bills and house prices. These conclusions are tempered by variations caused by the local dimension of the tax including local authority autonomy. Notwithstanding any indirect or consequential impacts on local expenditure, benefits and appeals, these findings show that increases in bands will have little impact on the regressive nature of the council tax but regular revaluations are more equitable. Changes in the number of bands will also mean greater costs in the preparation of the council tax register through greater care in the valuation process and potentially more appeals. The impact of changing the multiplier range is much easier to implement than rebanding and a more efficient way of redistributing the burden of the council tax.

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Appendix Detailed Assumptions of Financial Simulation and Formulae Applied

In order to carry out the simulations assume a range of variables constant including:

1. Government Aided Expenditure (GAE);
2. Special Needs of Islands allowance (SNI);
3. Special one-off allowance for deprivation (SPD);
4. Loan charges and support for PPP projects (LC);
5. Housing and council tax benefit (HCTB);
6. The holdback payment (Holdback);
7. National adjusted Government Supported Expenditure (TGSE);
8. National Total Aggregate External Finance (TAEF).

Local authority non-housing revenue (*LANR*) is composed of two elements. These are Aggregate External Finance (*AEF*) and Local Authority Self Financing Expenditure (*LASFE*). The relationship between these variables can be expressed as in the following equation:

$$LANR_{it} = LASFE_{it} + AEF_{it}$$

where

$LANR_{it}$	=	local authority revenue generated from non-housing related sources;
$LASFE_{it}$	=	local authority Self Financing Expenditure from Council tax;
AEF_{it}	=	Aggregate External Finance for local authority <i>i</i> at period <i>t</i> .

LASFE represents approximately 20% of local authority expenditure in Scotland. The funds are generated largely from the council tax. The remaining 80% of expenditure in Scotland is funded by Aggregate External Finance. It relates to the grant support paid by the Scottish Executive. The total level of *AEF* for the 3 forward years is determined by Scottish Ministers as part of the Expenditure Review process which takes place every 2 years. In 2001/2002, a minimum grant “floor” was built into the settlement calculation, to ensure that all councils receive at least a minimum guaranteed increase in *AEF* for each year. The level of the floor for each year is set with reference to the aggregate increase in *AEF*. This was 5% for 2001-02. Where an individual council’s *AEF* allocation from the distribution formula is below the floor in any year, its allocation is increased up to the floor, by redistributing grant from other councils based on their share of total *AEF*.

The total yield in council tax, $LASFE_{it}$, is equal to the number of equivalents, *Dequivalents*, multiplied by the band D rate set by each local authority, *D*, multiplied by the percentage of properties assumed to pay, *Payment Assumption*. The payment

assumption is dependent on the level of non-collection in the locality and the $LASFE_{it}$ formula is shown below.

$$LASFE_{it} = DEquivalents_{it} \times Payment\ Assumption \times D_{it}$$

Aggregate External Finance is made up of 3 components: Specific Grants (SG), Non-Domestic Rate Income ($NDRI$) and Revenue Support Grant (RSG). This can be expressed as follows:

$$AEF_{it} = SG_{it} + NDRI_{it} + RSG_{it}$$

The allocation and distribution of Specific Grants is set centrally, and linked to specific policy initiatives and expectations. They account for around 10% of total AEF, with the main grants ring-fencing local authority expenditure on policing, social work and certain education initiatives.

The Revenue Support Grant is calculated as a residual, and functions simply as a balancing factor at both the national and individual local authority level. It can be expressed as:

$$RSG_{it} = AEF_{it} - SG_{it} - NDRI_{it}$$

Thus, total non-housing revenue generated by each local authority is equal to:

$$LANR_{it} = SG_{it} + NDRI_{it} + RSG_{it-n} + LASFE_{it}$$

The total Aggregate External Finance (AEF) distributed to each authority is calculated as follows:

$$AEF_{it} = GSE_{it} - NSGSE_{it}$$

GSE represents the amount that central government think councils need to spend on the delivery of services. The formula for the Government Supported Expenditure (GSE) in 2000/2001 contained a number of elements. These variables are as follows:

- Grant Aided Expenditure (GAE). This is the amount local authorities need to spend to provide a standard level of service;
- An allowance for the Special Needs of the Islands (SNI);
- The special one-off allowance for deprivation (SDP);

- Estimates of loan charges and support for PFI/PPP projects (*LC*);
- An assessment of the expenditure on housing and council tax benefits of each authority net of DSS subsidy (*HCTB*);

The summation of these variables gives the relationship expressed in the following equation:

$$GSE_{it} = GAE_{it} + SNI_{it} + SDP_{it} + CTS_{it} + LC_{it} + HCTB_{it} + Holdback_{it}$$

Not all adjusted *GSE* is supported through *AEF*. The proportion of adjusted *GSE* which is not supported through *AEF* (*NSGSE*) is calculated as follows:

$$NSGSE_{it} = (TGSE_t - TAEF_t) * \frac{AuthorityBandDEquivalents_{it}}{TotalScotlandBandDEquivalents_t}$$

This formula assumes that the amount of non-supported government support expenditure for individual local authorities is distributed among authorities in proportion to their share of the national council tax base. It is calculated as a proportion of the difference between national Government Support Expenditure (*TGSE*) and national Aggregate External Finance (*TAEF*).

This approach differed from that applied by the Scottish Executive in 2000/01 by inoring a £15m holdback payment and the Council Tax Safety Net for each authority (*CTS*). This limited year on year movements in grant distribution arrangements. It was calculated to protect councils from changes in relevant support expenditure allocation of more than +/-£28 per Band D equivalent council tax payer. Relevant supported expenditure comprises elements of Government Supported Expenditure but excluded 100% specific grants (the Excellence Fund Core Programme and Excellence Fund Special Programme), and changes in Joint Board requirements.