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# Updated analysis of the effects of revaluing & reforming council tax across Welsh local authorities

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# 1. Introduction and methodology

In April 2020 we published analysis of the impact of revaluing and reforming council tax in Wales on different local authority (LA) areas and different types of households (Adam et al (2020)). This analysis was based on estimated property values as of Q1 2019. In the case of the LA-level analysis these estimates were in turn based on property-level estimates as of Q4 2018, uprated in line with Land Registry estimates of the average change in property value by LA between Q4 2018 and Q1 2019.

Since then there have been significant further changes in property values, which have varied across Wales. This note therefore presents updated analysis of the impact of revaluing and reforming Welsh council tax on the different LA areas of Wales. In particular it updates a number of Tables and Figures in Adam et al (2020), using:

- Land Registry estimates of the change in average property values by LA area between Q1 2019 and Q1 2022 to project forward the property-level value estimates originally estimated, and;
- Information on council tax rates, and the share of properties by LA and by band subject to different exemptions, discounts and premiums, and eligible for the council tax reduction scheme (CTRS) as of 2021-22.

We use average LA area average price changes since Q1 2019 rather than estimated property-level changes in prices because Valuation Office Agency (VOA) data was unavailable for the purposes of this updating exercise.[1]

Two main caveats are worth noting upfront given this method.

First, because we are using LA area average changes in property values to project forward property-level price estimates for over 3 years as opposed to just 3 months as in our original report, our updated estimates will be less accurate for Q1 2022 than our original estimates were for Q1 2019. In addition, the Land Registry's estimates of average property prices are likely to have been at least somewhat affected by a change in the mix of properties transacting over the last three years as people have sought larger properties, with larger gardens, in more rural and suburban areas. However, it is highly likely our updated estimates will give a better picture for Q1 2022 than our original estimates would, given the big geographical differences in changes in property values seen over the last three years. We have also tested the sensitivity of results to using average values for Q4 2021 and Q1 2022, to ascertain whether short-term volatility in Land Registry estimates of average property prices has a significant effect on results.

[1] The data provided by the VOA was for exclusive use in the original project.

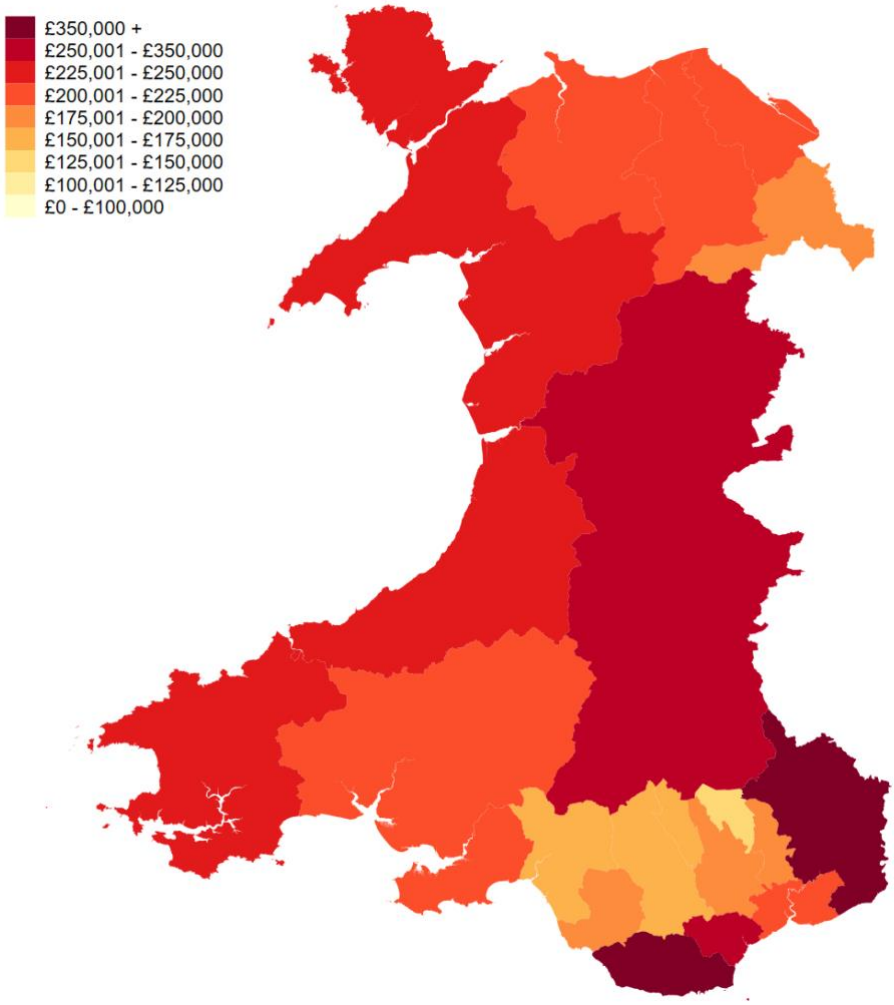
Second, because our underlying data on the number of properties and their values as of Q4 2018 is based on an extract of VOA data from spring 2019, our analysis will not take account of any additions, demolitions or changes in bands of properties over the last 3 years. We do however take account of changes in tax rates, and the share of properties subject to exemptions, discounts, premiums and the CTRS, which are likely to be of more importance than additions and demolitions over this period.

Full information on our methodology for estimating property values as of Q4 2018 and simulating reforms can be found in Section 3 and Appendix A of Adam et al (2020).

# 2. Updated analysis

Figure 1 shows our estimates of average property values for each LA area as of Q1 2022, updating Figure 4.1 of Adam et al (2020). The LA with the lowest average estimated value was Blaenau Gwent (£135,433), while the LA with the highest average estimated property value was Monmouthshire (£371,417). Apart from these extremes, average estimates values were generally low for valleys LAs, and relatively high in the Vale of Glamorgan, Cardiff and Powys. Estimates of the mean and various percentile distributes of the property value distributions by LA as of Q1 2022 can be found in Table A1 of the spreadsheet appendix accompanying this note.

**Figure 1. Average estimated property value by LA, Q1 2022**

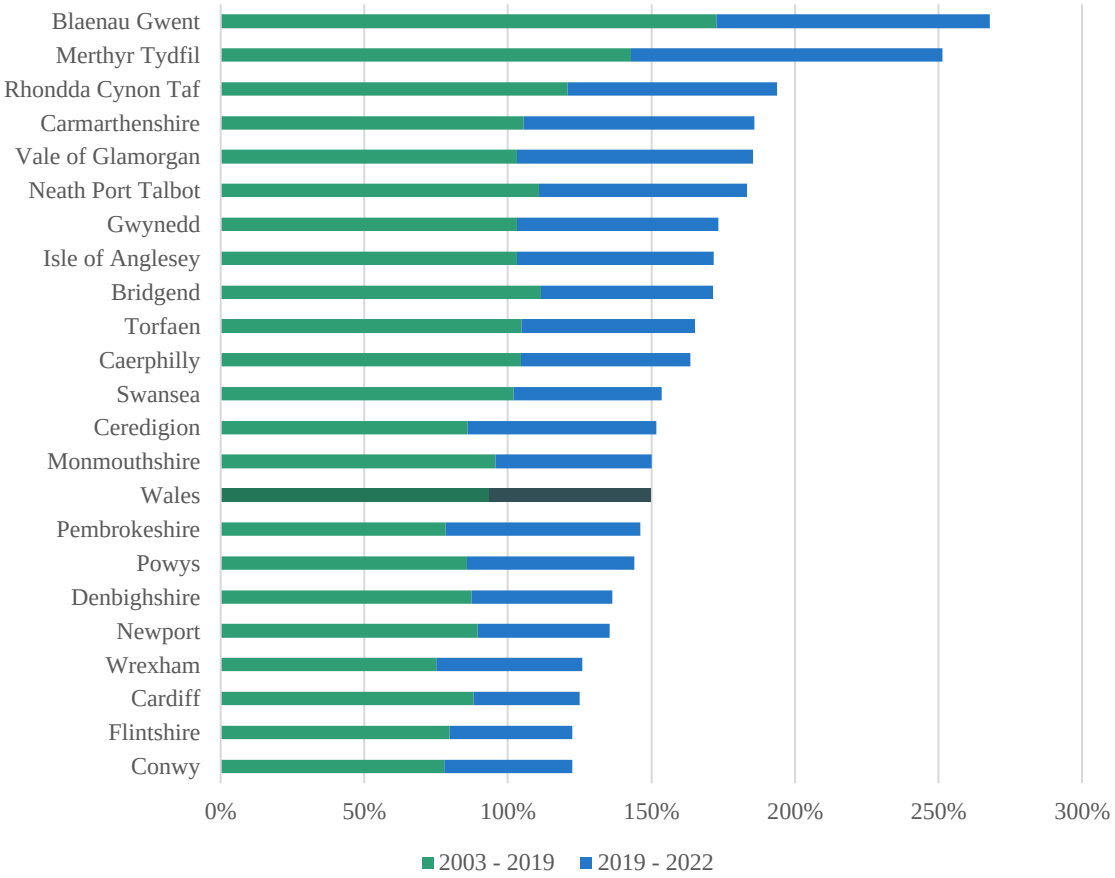



Source: Authors' calculations using HM Land Registry (2022) and property-level value estimates produced for Adam et al (2020).

Figure 2 shows the estimated change in value between Q2 2003 and Q1 2019, and Q1 2019 and Q1 2022 by LA area according the HM Land Registry. This shows that property values have changed very differently in different areas both since the last revaluation point in 2003 and over the last three years since the point at which our original analysis in Adam et al (2020) was based.

In particular, it shows a big dispersion of changes in average property values across different LA areas. Between April 2003 and Q1 2022, average estimated values increased by 250% in Merthyr Tydfil and Blaenau Gwent, for instance, but less than half as quickly in Conwy, Flintshire and Cardiff. The changes over the last three years in particular will mean that the impact of revaluing and reforming council tax across LAs would now differ somewhat compared to our original analysis, as we see below. For example, values are estimated to have increased by just 20% in Cardiff since Q1 2019 (equivalent to 37% of 2003 values, which is what is illustrated in Figure 2), whereas they increased by 45% in Merthyr Tydfil (equivalent to 108% of 2003 values).

**Figure 2. Change in estimated average property value by LA, Q1 2003 onwards**




Source: Authors' calculations using HM Land Registry (2022).

## 2.1 The reforms modelled in this update

For this updated analysis we are modelling two of the reform options analysed in our original report:

1. A **pure revaluation**, where a system of 9 bands is retained, band thresholds are set so that nationally the same proportion of properties are in each band as now, and the same tax relativities applies to each tax. (Option 1 in Adam et al, 2020).
2. A **less regressive system**, with 3 additional bands (2 at the bottom and 1 at the top), and tax relativities that are more proportional to value but not fully proportional. (Option 4, referred to as 'revaluation with extra bands and reduced regressivity' in Adam et al, 2020).

Table 1, overleaf, shows the band thresholds, tax relativities and the proportions of properties across Wales as a whole for each of the 9 or 12 bands that we model, updating the information in Tables 4.1 and 4.2 in Adam et al, 2020.

The left-hand panel shows that we estimate band relativities would have to increase by approximately 134% for Band A, 120% for Band D and 125% for Band I under a pure revaluation. These figures are lower than the HM Land Registry estimates shown in Figure 2 would suggest would be the case: they suggest growth in average values across Wales of 150% over this period. This will reflect differences in estimates of growth between 2003 and 2018 (given we apply HM Land Registry estimates of growth beyond that point), likely driven in part by the fact that Land Registry estimates do not reflect the full stock of property (they underrepresent properties that transact infrequently).

**Table 1. Band thresholds, tax relativities and shares of properties under current and modelled reform systems**

| 9 Band System | | | | | 12 Band System | | | |
|---|---|---|---|---|---|---|---|---|
| Band | 2003 thresholds | 2022 thresholds | Tax relativities | % properties | Band | 2022 thresholds | Tax relativities | % properties |
| A | Up to £44,000 | Up to £102,850 | 6/9 | 14.61% | A1 | Up to £89,780 | 4/9 | 8.90% |
| B | £44,001 to £65,000 | £102,851 to £145,820 | 7/9 | 20.98% | A2 | £89,781 to £109,570 | 5/9 | 8.90% |
| C | £65,001 to £91,000 | £145,821 to £200,610 | 8/9 | 21.76% | B1 | £109,571 to £127,450 | 6/9 | 8.90% |
| D | £91,001 to £123,000 | £200,610 to £263,250 | 9/9 | 16.16% | B2 | £127,451 to £145,820 | 7/9 | 8.90% |
| E | £123,001 to £162,000 | £263,251 to £356,440 | 11/9 | 13.40% | C | £145,821 to £200,610 | 8/9 | 21.76% |
| F | £162,001 to £223,000 | £356,441 to £490,000 | 13/9 | 8.12% | D | £200,610 to £263,250 | 9/9 | 16.16% |
| G | £223,001 to £324,000 | £490,001 to £710,370 | 15/9 | 3.69% | E | £263,251 to £356,440 | 12/9 | 13.40% |
| H | £324,001 to £424,000 | £710,371 to £954,260 | 18/9 | 0.89% | F | £356,441 to £490,000 | 15/9 | 8.12% |
| I | Above £424,000 | Above £954,260 | 21/9 | 0.39% | G | £490,001 to £710,370 | 20/9 | 3.69% |
| | | | | | H | £710,371 to £954,260 | 25/9 | 0.89% |
| | | | | | I | £954,261 to £1,112,540 | 30/9 | 0.20% |
| | | | | | J | Above £1,112,540 | 36/9 | 0.20% |

Source: Authors' calculations using HM Land Registry (2022) and property-level value estimates produced for Adam et al (2020), and Welsh Government (2022a and 2022b).

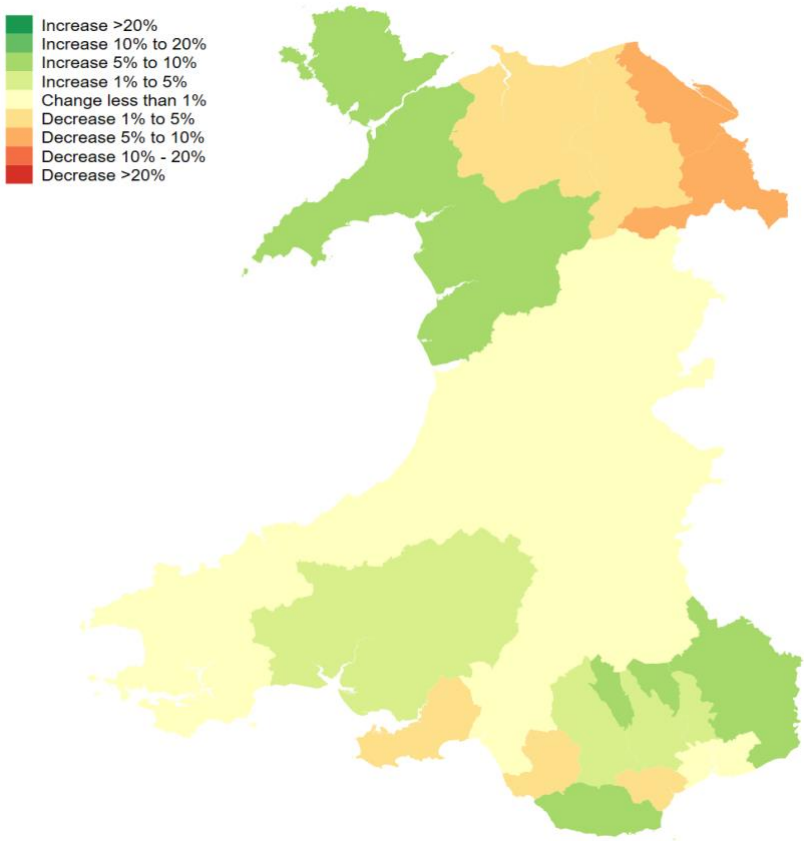
## 2.2 Changes in tax bases and properties by Band by LA

As property-level data on existing council tax bands was unavailable for the purposes of this updating exercise, we cannot update our estimates of the shares of properties moving up or down band across Wales or by LA area. However, we can update our LA-level estimates of changes in tax bases, and properties by band in the reformed systems.

### Pure revaluation

Figure 3 shows the estimated changed in tax base by LA area following a **pure revaluation**. It shows more substantial changes in tax bases than we estimated in Adam et al (2020), reflecting the further divergences in property value changes across Wales. In particular, as shown in Figure 2, above, property values have continued to grow faster than the Welsh average in the South Wales Valleys, and North West Wales. On the other hand, they have grown less quickly than the Welsh average in North East Wales, and Cardiff. This affects the number of properties moving up and down bands in different parts of the country, in turn affecting the tax base.

**Figure 3. Estimated change in tax base following a pure revaluation (Q1 2022 values), by LA**




Source: Authors' calculations using HM Land Registry (2022) and property-level value estimates produced for Adam et al (2020), and Welsh Government (2022a and 2022b).

Full details of the changes in tax bases can be found in Table A2 in the spreadsheet appendix. The biggest estimated increases are in Isle of Anglesey (up 7%), Blaenau Gwent (up 6%) and Merthyr Tydfil (up 6%), while the biggest falls are in Flintshire (down 7%) and Wrexham (down 7%). Compared to our previous analysis using estimated values as of Q1 2019, the most notable change is that the tax base is now estimated to fall rather than rise in Cardiff (-3% versus up 2%), reflecting much slower than average estimated growth in property values since the pandemic. Other significant changes are that tax bases are estimated to be steady or grow in South West Wales (as opposed to fall), while tax bases in South East Wales (with the exception of Cardiff and Newport) and North West Wales are estimated to grow by more, and those in North East Wales (with the exception of Wrexham) fall by more.

Full details of the shares of properties by band by LA and how this compares to the current un-revalued system can be found in Table A3 in the spreadsheet appendix. Compared to our original analysis based on Q1 2019 values, more properties are expected to move down bands in Cardiff, Swansea and most of North East Wales, while more are expected to move up bands in most of South West, North West and North East Wales.

**Table 2. Average tax relativity, current and revalued system, by LA**

| Local authority | Current average relativity | Revalued average relativity | Change in average relativity |
|---|---|---|---|
| Monmouthshire | 1.22 | 1.29 | 0.06 |
| Vale of Glamorgan | 1.16 | 1.23 | 0.07 |
| Cardiff | 1.11 | 1.09 | -0.03 |
| Powys | 1.08 | 1.08 | 0.00 |
| Ceredigion | 1.05 | 1.05 | 0.00 |
| Flintshire | 1.04 | 0.96 | -0.08 |
| Pembrokeshire | 1.02 | 1.02 | 0.00 |
| Conwy | 1.01 | 0.99 | -0.02 |
| Wrexham | 1.01 | 0.94 | -0.07 |
| Denbighshire | 1.00 | 0.97 | -0.04 |
| Newport | 0.99 | 0.99 | 0.00 |
| Isle of Anglesey | 0.98 | 1.05 | 0.07 |
| Swansea | 0.97 | 0.94 | -0.02 |
| Carmarthenshire | 0.97 | 0.98 | 0.01 |
| Gwynedd | 0.95 | 1.00 | 0.05 |
| Bridgend | 0.95 | 0.94 | -0.01 |
| Torfaen | 0.91 | 0.92 | 0.02 |
| Caerphilly | 0.88 | 0.90 | 0.02 |
| Neath Port Talbot | 0.85 | 0.85 | 0.00 |
| Rhondda Cynon Taf | 0.83 | 0.84 | 0.02 |
| Merthyr Tydfil | 0.79 | 0.83 | 0.04 |
| Blaenau Gwent | 0.75 | 0.80 | 0.05 |

Source: Authors' calculations using HM Land Registry (2022) and property-level value estimates produced for Adam et al (2020).

Table 2, above, summarises these patterns and changes by showing the average tax relativity of properties by LA currently and following a pure revaluation. To interpret this, remember that a Band A property has a tax relativity of 6/9 or 0.6667, a Band D property has a relativity of 9/9 or 1, and a Band I property has a tax relativity of 21/9 or 2.3333.

This shows, for example, that the average tax relativity for a property currently in Blaenau Gwent (0.75) is just below that applied to a band B property (0.7778), but under the revalued system it would increase by the equivalent of just under half a band to a level (0.80) just above a Band B property. Conversely, properties in Flintshire would drop the equivalent of about two thirds of a band, on average, from a level just above (1.04) to just below (0.96) a Band D property (1.00).

## A less regressive system

We now turn to consider the impacts of the **less regressive** system with more tax bands. Again, full details can be found in Spreadsheet Appendix A. As with the pure revaluation scenario, compared to our original analysis based on Q1 2019 values, more properties are expected to be in lower bands in Cardiff, Swansea and most of North East Wales, while more are expected to be in higher bands in most of South West, North West and North East Wales.

**Table 3. Average tax relativity, current and less regressive system, by LA**

| Local authority | Current average relativity | Revalued average relativity | Change in average relativity |
|---|---|---|---|
| Monmouthshire | 1.22 | 1.50 | 0.27 |
| Vale of Glamorgan | 1.16 | 1.42 | 0.26 |
| Cardiff | 1.11 | 1.17 | 0.05 |
| Powys | 1.08 | 1.16 | 0.08 |
| Ceredigion | 1.05 | 1.10 | 0.04 |
| Flintshire | 1.04 | 0.97 | -0.07 |
| Pembrokeshire | 1.02 | 1.06 | 0.04 |
| Conwy | 1.01 | 1.02 | 0.01 |
| Wrexham | 1.01 | 0.94 | -0.07 |
| Denbighshire | 1.00 | 0.98 | -0.02 |
| Newport | 0.99 | 1.02 | 0.03 |
| Isle of Anglesey | 0.98 | 1.10 | 0.12 |
| Swansea | 0.97 | 0.94 | -0.02 |
| Carmarthenshire | 0.97 | 1.00 | 0.03 |
| Gwynedd | 0.95 | 1.03 | 0.09 |
| Bridgend | 0.95 | 0.93 | -0.02 |
| Torfaen | 0.91 | 0.91 | 0.01 |
| Caerphilly | 0.88 | 0.87 | -0.01 |
| Neath Port Talbot | 0.85 | 0.79 | -0.06 |
| Rhondda Cynon Taf | 0.83 | 0.77 | -0.06 |
| Merthyr Tydfil | 0.79 | 0.76 | -0.03 |
| Blaenau Gwent | 0.75 | 0.71 | -0.04 |

Source: Authors' calculations using HM Land Registry (2022) and property-level value estimates produced for Adam et al (2020).

Table 3 summarises these patterns and changes by showing the average tax relativity of properties by LA currently and following the move to a revalued and less regressive band structure. It shows that the average tax relativity would increase most in Monmouthshire and the Vale of Glamorgan, reflecting both their high average property values (high value properties get taxed more under a less regressive system) and the effect of revaluation (which we estimated would see properties in these areas moving up bands). In Monmouthshire, for example, the average tax relativity (1.22) would increase from equivalent to a current Band E to a level (1.50) greater than a current Band F (1.44).

The average tax relativity would also increase somewhat in Cardiff, reflecting its high average property values. But the increase would be much less reflecting the lower average increase in property value (so that the revaluation component of the reform would reduce its average tax relativity).

Average tax relativities would also fall in North East Wales, and most of the South Wales Valleys. In the former that would largely reflect the impact of revaluation (given below average increases in property values). In the latter it would largely reflect the low average value of properties, despite above-average increase in property values.

## Sensitivity testing: how different are results using Q4 2021 Q1 2022 average estimates?

Tables A1b, A3b and A4b report estimated property value distributions, shares of properties by band and LA for 9 band and 12 band systems, respectively, using the average of Land Registry average property prices for Q4 2021 and Q1 2022. Overall, the estimates are very similar to those obtained when using Land Registry figures for Q1 2022 only. In particular, the biggest changes seen between our original analysis based on Q1 2019 property values and that based on Q2 2022 property values still hold when using average Q4 2021 and Q1 2022 values:

- More properties going down bands (and fewer up bands) in Cardiff and to a lesser extent Swansea and Newport than when using Q1 2019 values.
- More properties going up bands (and fewer down bands) in South West Wales than when using Q1 2019 values.

However, the changes compared to using Q1 2019 values are, on average, somewhat smaller when using Q4 2021 and Q1 2022 average values than Q1 2022 values. And in particular, while many properties still go up than down bands in Blaenau Gwent and Merthyr Tydfil when using Q4 2021 and Q1 2022 average values, this is somewhat less pronounced than when using Q1 2022 values. This reflects the fact that the Land Registry's official house price indices for these LAs (as well as Gwynedd and Vale of Glamorgan) saw big quarter-on-quarter changes between Q4 2021 and Q1 2022 (see the final column of Table A1b).

# 3. Concluding remarks

Since Q1 2019, the period on which our original analysis published in 2020 was based, there have been large increases in property values across Wales, but these have varied across the country. In particular, Land Registry figures suggest that percentage increases in value have been smaller in Cardiff and to some extent Newport and Swansea, and larger-than-average in parts of the Valleys and many rural areas, including in South West Wales, and the Vale of Glamorgan.

These changes will mean that the impact of revaluing and reforming council tax now would differ somewhat across Wales compared to what our previous analysis suggested. The biggest differences are that if a pure revaluation were based on Q1 2022 property values, we now estimate that more properties would go down than up bands in Cardiff (rather than vice versa); and that slightly more would go up bands than down bands in South West Wales (rather than vice versa). In addition, the share of properties going up bands in parts of the Valleys, and in particular, Merthyr Tydfil and Blaenau Gwent, would be even greater than previously estimated.

Overall, differences in changes in property values since Q1 2019 have exacerbated differences between Q1 2003 and Q1 2019. This means that council tax bands have become even more out-of-line with current relative property values over the last three years, making reform even more vital.

Sensitivity analysis shows that the main patterns found hold if average values for Q4 2021 and Q1 2022 are used instead of Q1 2022 results. However, estimated effects do differ a little, given some big quarter-on-quarter changes in the Land Registry's official local price indices. These changes may reflect, in part, the specific properties transacting each quarter – the Land Registry attempts to control for this but is unlikely to be able to do this perfectly. Given this, if property values are to be estimated by statistical means, it may make sense to estimate them as an average for a longer period (e.g. 6 months) than a specific point in time.

# References

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