

Institute for Public Policy Research



A POOR TAX

**COUNCIL TAX IN LONDON:
TIME FOR REFORM**

**Luke Murphy,
Charlotte Snelling
and Alfie Stirling**

March 2018

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IPPR
4th Floor
14 Buckingham Street
London WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no: 800065 (England and Wales),
SC046557 (Scotland).

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ABOUT THE EDITORS

Luke Murphy is an associate director at IPPR.

Charlotte Snelling is a research fellow at IPPR.

Alfie Stirling is a senior economist at IPPR.

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SUMMARY

60-SECOND SUMMARY

Council tax is considered by many to be in the ‘too difficult to touch’ box when it comes to reform. Haunted by memories of the community charge, better known as the poll tax, which is widely perceived to have contributed to the fall of Margaret Thatcher, the majority of national politicians aren’t even speak of reform, let alone propose any change, for fear of the political consequences.

But leaving council tax unreformed is becoming ever more unsustainable. Local authorities across the country are increasingly cash strapped as a consequence of government cuts to their core grant funding and limits on their ability to raise funds through council tax and other sources. Moreover, the direction of public policy is towards greater devolution and allowing local politicians, accountable to their local electorates, to have a greater say – not just about what services should be prioritised, but how the funds for them should be raised.

Perhaps most significantly, however, is just how unfair the current system has become. Our research, focused on London, but with wider relevance for the whole system across England, demonstrates how council tax has become increasingly regressive with regard to property values – the cheaper your property, the more you are likely to pay as a proportion of your property value. What is more, our analysis shows that council tax has become substantially more regressive with regard to income too. Property taxes are not designed to be progressive with regard to income but many people believe that ability to pay is an important conception of fairness – however we conclude in this report that council tax has become more regressive for the poorest Londoners than we consider acceptable. The most substantial reform to the council tax system since its inception – the devolution of council tax benefit – is further exacerbating the regressive impact of the system on London’s poorest. IPPR will be setting out its proposals for reforming council tax later in the year but as our findings in this report make clear, the time for reform has come.

Our case for change rests on five fundamental arguments.

1. **The council tax system is increasingly regressive with regard to property value and is therefore unfair.** We also highlight the spatial inequalities that exist in the capital with substantial differences in what is charged in different areas of London.
2. **The council tax system, including its income support system, council tax reduction (CTR¹), takes too little account of ability to pay and is therefore unfair.** Furthermore, recent changes to the CTR system and cuts to its funding will only worsen the impacts for the capital’s poorest.
3. **The council tax system is inefficient.** We expose the inefficiencies of the council tax system including its reliance on outdated property prices, discounts and exemptions and the inconsistencies between residential and commercial taxation.

¹ The council tax relief system which was in place pre-2013 was called council tax benefit; the new form of relief is officially named council tax reduction. In this report, where we are referring to comparisons of the system between those time periods or the relief system in general, we refer to it as council tax support. Otherwise we refer to council tax benefit for the pre-2013 system and council tax reduction for the post-2013 system.

4. **The wider context of local government finance is making council tax increasingly unsustainable.** Council tax is becoming ever more important as a source of local government revenue but as local authorities become more reliant on it, it is increasingly not up to the task.
5. **There is public appetite among Londoners for reform.** The public recognise many of the flaws in the council tax system and want to see change.

KEY FINDINGS

- London's local authorities are becoming increasingly dependent on council tax as part of their core spending power. In 2015/16, the average council tax contribution was 40 per cent, but this is set to rise to 52 per cent by 2019/20.
- Outer London boroughs are more dependent on council tax revenues than their inner city counterparts. In Richmond upon Thames and Kingston upon Thames council tax revenues make up as much as 76 and 70 per cent of their core spending power for 2017/18, while in Hackney, Newham and Westminster just 27, 27 and 25 per cent.
- Growth in Band D council tax rates across London boroughs since the turn of the century has far outpaced the growth in the consumer price index (CPIH) and average earnings for London.
- As far as property values are a proxy for wealth, council tax is not progressive. A household living in a Band A property in London would pay, on average, over 0.5 per cent of its value, compared to a household in a Band H property which would pay just over 0.1 per cent.
- IPPR analysis estimates that in London the burden of council tax for the poorest Londoners as a percentage of equivalised household income after housing costs² (not accounting for council tax support) was more than eight times higher than those in the highest decile (10.8 per cent compared with 1.3 per cent).
- Even accounting for council tax support, the burden of council tax on London's poorest households is more than six times greater (8.1 per cent) than on those in the highest decile (just over 1.3 per cent). Those on middle incomes face a burden more than twice as great (2.9 per cent) as those on the highest incomes.
- The poor take-up of council tax support and the reduction in the support provided in the majority of authorities since decision-making on the awards was localised for working age claimants in 2013/14 has a significant impact on those on the lowest incomes. But even with our analysis modelling 100 per cent take-up for all those eligible, the burden on those on the lowest incomes (4.5 per cent) is still more than four times higher than for those on the highest incomes (1.1 per cent).
- The council tax system has become more regressive over time. For London's poorest our analysis suggests the burden under the contemporary system was 10.8 per cent compared with 8.2 per cent in the early 1990s. Accounting for full take-up of council tax benefit, the burden on those on the lowest incomes under the current system (4.5 per cent) is more than 22 times what it was in the early 1990s (0.2 per cent).
- Since the reforms to council tax support, there appears to have been a steady reduction in the number of people claiming council tax reduction in London, dropping from 824,000 claimants in March 2013 to 657,000 in March 2017.
- Londoners have an appetite for change. Our London focus groups made clear that they see the use of outdated property prices as unfair and they would like to see the system updated and made fairer.

² Henceforth described as simply 'household income'.

- There was no support for the discounts offered for empty homes and second homes among the Londoners we spoke to, but there was support for the current policy of levying premiums on empty homes. However, there was considerable support for the single person's discount.
- As well as changing the way it functions, Londoners also supported an improvement in how local councils communicate and decide what their money is spent on. There was a desire for greater information about what services council tax supports and how local services are paid for.
- While there was broad support for reform of the council tax system, most people wanted to see changes to the current system, rather than see it completely overhauled or replaced.

IPPR will be setting out its recommendations for reform in a report later in the year.

1. INTRODUCTION

"Local government finance is, famously, the most boring and complicated subject in all of public life... I made this most tedious of subjects so interesting that it became the cause of widespread riots up and down the land and, one cause of the defeat of a great prime minister"

Waldegrave 2015

The first government bill³ to abolish the domestic rates system received its second reading in the House of Commons 31 years ago. The Green Paper that preceded this document and which laid out the reforms was described as ‘the most radical reform in the financing of UK local government in the post-war period’ (Smith and Squire 1986). It was through this major piece of legislation that the then Conservative government implemented the community charge, better known as the ‘poll tax’, first in Scotland and then one year later in England. The tax applied a flat rate charge to be paid by every adult at a locally set rate, although a relief system did alleviate the burden for those on the lowest incomes. The poll tax was formally introduced in Scotland in 1989 and in England in 1990.

The introduction of the poll tax proved to be a political disaster. Compared to the domestic rates system it was replacing, the poll tax shifted the tax burden from the rich to the poor and saw a group of people who had previously not been liable for the tax having to make a contribution. The support system for the poll tax, the Community Charge Benefit, unlike its predecessor (the Rates Rebate), only provided support for a maximum of 80 per cent of the bill. This was driven by the view at the time that everyone who could vote and benefit from their local services should make a contribution. The tax rates set by some local authorities were also much higher in reality than had been anticipated in theory (Foster et al 1980; Gallagher et al 2007).

Mass protests and riots ensued, as did a widespread campaign of non-payment. Within seven months of the policy being introduced in England, Margaret Thatcher was forced to resign – in no small part due to the consequences of introducing the poll tax. All three of the candidates standing to replace Thatcher as prime minister pledged to abolish the poll tax. Within six months of becoming prime minister, John Major announced its abolition and in 1994 it was replaced by the more politically pragmatic council tax.

Since its introduction, council tax has been left largely untouched and unreformed. It is still based on property values from 1 April 1991, which means the charges levied on many properties bear little relation to their actual value. Absurdly, when a new build property is constructed today, there is a need to calculate what the value of the property would have been over a quarter of a century ago for council tax purposes. The system is also widely considered to be unfair, inefficient and unpopular. Yet the memory of the failure of the poll tax remains so potent, politicians aren’t touch the council tax system for fear of the political consequences and the perceived lack of an acceptable alternative.

3 The Abolition of Domestic Rates Scotland Bill.

Despite the alleged political barriers, this interim report, focusing on London, argues that the need for reform is both urgent and necessary – and now is the time to consider it. The direction of travel of public policy is towards the greater devolution of powers and resources to the city-region and local level. Within this context the London Finance Commission (2013; 2016) made powerful arguments supporting the devolution of property taxation, including the council tax, to London. Moreover, London's boroughs are increasingly cash strapped: since 2010 they have suffered significant reductions in grants allocated by central government and they are increasingly reliant on council tax to pay for the provision of local services. The government is also undertaking a review of the funding of local government (MHCLG 2017a), as part of which it would be sensible to consider how a reformed council tax system might contribute to the future funding of local government.

We have identified four key criteria to guide our assessment of the council tax system in this paper.

- **Fair:** Fairness within the context of property taxation can perhaps be best judged in relation to property wealth: those living in more valuable properties should pay a higher proportion of property tax than those living in less valuable ones (Leishman et al 2014). However, various studies (Lyons 2007; CLTR 2015) have found that people's perceptions of fairness are also intrinsically linked to ability to pay. So within this context, the more progressive a property tax is with regard to its tax base, the fairer it is, but a 'pure' property tax would not be considered fair because it wouldn't be linked at all to ability to pay. We think that the ability to pay is also important, and therefore we include income relief schemes in our overall assessment of a council tax system. Finally, inequalities between geographies is another part of fairness, which we consider as part of our criteria.
- **Effective, feasible and sustainable:** The system should be easy to collect, yield sufficient revenue (at least as much as at present) and be sustainable in the long term. Sustainability in the long term needs to be considered partly in the context of the local government finance system, and requires that council tax plays its part in generating an overall funding base that is at least sufficient for local government to meet its social and statutory obligations. We also consider political sustainability and the need for a council tax system to command and maintain public support. The system must also be sufficiently buoyant that regular review should be possible to allow for changes in the tax base.
- **Efficient:** The system should minimise economic distortions and support a more efficient housing market. Moreover, it should be as **simple** and **transparent** as possible. This means it must be set in a way that is comprehensible and easy for people to navigate.
- **Accountable:** Those responsible for raising revenues should be accountable to taxpayers for the amount of tax paid, but also for how those revenues are used. In practice, that means taxpayers should be aware of how their tax is set, who is responsible for setting it and the relationship between the tax paid and how it is spent.

2. WHAT IS COUNCIL TAX?

Council tax is a local tax levied on domestic residential properties for which the vast majority of occupiers are liable.⁴ As a tax, it is an unusual hybrid of a property-based tax, a consumption tax and a charge for local services (Lyons Review 2007; Lawton and Reed 2013).⁵

Under the council tax system, properties are assigned into eight bands based on their 1991 values. The ratios between the council tax band rates are set by central government but the overall level – via a Band D rate to which all other bands are pegged – is set locally.⁶ In many ways the design of the system was a pragmatic compromise between the domestic rates and the poll tax – aligned to property values but with caps which ensured the system was deliberately regressive, and a ‘per person’ characteristic of the poll tax in the form of the 25 per cent discount for single person households (Adam and Browne 2012).

Council tax revenues are collected and retained by local authorities, and are one of the main sources of core local government funding, accounting for 56 per cent of the core spending power⁷ of all local authorities and 46 per cent for London boroughs (IPPR analysis of MHCLG 2017b). As table 2.1 shows, the lowest value homes in Band A pay two thirds of the amount paid by those homes in Band D, while the most expensive homes in Band H pay twice as much as those in Band D.

TABLE 2.1: COUNCIL TAX BANDS IN LONDON DURING 2016/17

Council tax band	Property value (1991)	Proportion, relative to Band D	Average council tax payable in London in 2016/17 (including GLA precept)
A	Up to £40,000	6/9	£910
B	£40,001 to £52,000	7/9	£1,062
C	£52,001 to £68,000	8/9	£1,214
D	£68,001 to £88,000	1	£1,366
E	£88,001 to £120,000	11/9	£1,669
F	£120,001 to £160,000	13/9	£1,972
G	£160,001 to £320,000	15/9	£2,276
H	£320,001 and above	2	£2,731

Source: London Councils (2017)

4 Not all occupiers are liable. For example there are exemptions for most students and some other groups – and some occupiers, while liable, will contribute to council tax through an all-inclusive rent, and so not engage directly with the system.

5 See chapter 6 for a fuller discussion of these points.

6 Caps on annual increases unless a local referendum is held have been introduced by central government, which places more formal limits on councils’ power to set the tax rates.

7 Core spending power for local authorities is comprised of government grant, locally retained business rates and council tax.

There are a range of discounts and exemptions that apply within the council tax system. Since its inception, a 25 per cent discount has been automatically and universally applied to sole adult occupants, with full exemptions from the adult occupancy definition applying to certain groups such as students.⁸ Moreover, there have also always been measures to reduce, or relieve entirely, council tax for certain households – such as those on low incomes or where a household member has a disability – through council tax benefit (now council tax reduction), and to apply discounts on empty and second homes.

Recent changes to the council tax system

The fundamental design of the council tax system has remained largely unchanged since its inception. However, since 2010 a number of reforms have been introduced which limit council tax increases, apply higher charges to certain types of homes and reduce relief for those on low incomes.

Referendums on council tax increases

In 2011/12, through the 2011 Localism Act, the Coalition government introduced a requirement for all local authorities, fire authorities, and police and crime commissioners to determine whether the amount of council tax they intend to raise is ‘excessive’. This took effect in the 2012/13 financial year. Under these arrangements, the levying authority is required to hold a referendum of local residents, should they want to increase council tax above a certain amount each year. This was initially set at 2 per cent or more a year but raised to 3 per cent in 2018/19 and 2019/20 in the latest local government finance settlement.

Precepts

Precepts raise additional revenue from council tax payers over and above that raised by the standard council tax charged by local authorities. In London, the Greater London Authority (GLA) levies a precept to pay for police and fire services (see above), as well as its own functions, and for Transport for London.⁹ The council tax precept raised £804.8 million in 2017/18 and provides for 7 per cent of the total GLA budget (GLA 2017). This sum is due to increase to £865.7 million in 2018/19 as a result of the £14.21 increase in the mayor’s precept (ibid). Over 90 per cent of the funding raised through the precept in 2017/18 and 2018/19 is being used for police and fire services in the capital (ibid). In 2006/07 an additional precept of £20 was introduced to fund the costs of the 2012 Olympic and Paralympic Games – this however had no separate legal status and simply formed part of the precept relating to the GLA.

Social care precepts

Most recently, the government announced the introduction of a new social care precept, under which local authorities with responsibility for social care¹⁰ are able to increase council tax levels by up to 2 per cent (above the referendum threshold – see above) for each year between 2016/17 and 2019/20. This was increased to 3 per cent for 2017/18 and 2018/19, allowing councils to bring forward their increase in 2019/20. This precept is shown separately on council tax bills and the revenues raised must be applied for adult social care – although in practice a large proportion of the core council tax levied by authorities with social care responsibilities will be

8 <https://www.gov.uk/council-tax/who-has-to-pay>

9 Prior to the establishment of the GLA in 2000, separate precepts were imposed by the Metropolitan Police and the London Fire and Emergency Planning Authority.

10 Unitary authorities and county councils.

applied for this service. It is also different to the precepts by the GLA or county councils, police or fire authorities in areas outside London that are specific bodies which charge a council tax and rely on the billing authority to collect it.

Devolution and funding reduction for council tax support

In April 2013, the government devolved the responsibility for the council tax benefit (CTB) system (which then became council tax reduction [CTR]) to local authorities alongside a 10 per cent cut in central government funding for expected expenditure. The way the scheme was funded also changed, with it becoming a cash limited grant rather than funding that is linked to the level of demand.¹¹ Under the new council tax reduction system, local authorities also have a legal duty to give the same level of support to pensioners as under the previous system, but are able to make changes to the support they provide for working age claimants (those below the applicable pension credit age).

Empty and second homes

At the same time as devolving council tax support, councils were also given the power to withdraw discounts for second homes (up to 50 per cent), withdraw discounts for empty homes (to charge anything between 0 and 100 per cent) and to impose a 50 per cent premium on unfurnished homes empty for more than two years. Between 2013 and 2016, the number of second homes subject to a discount by their local authority fell from nearly 40,000 to around 22,000, while the number of empty homes offered a discount fell from 135,000 to 93,000. And in 2016 the number of long-term empty homes subject to a premium totalled nearly 60,000. In the autumn 2017 budget, the chancellor enabled local authorities to increase the council tax premium on long-term empty homes from 50 to 100 per cent (HMT 2017), subject to introducing the necessary primary legislation.¹²

OVERVIEW OF THE COUNCIL TAX SYSTEM IN LONDON

There are 3.6 million domestic residences in London which are liable for council tax,¹³ comprising 15 per cent of England's total housing stock of residential homes. The majority of these homes (57 per cent) are located in London's outer boroughs.

Relative to the rest of England, London has a higher proportion of homes in the upper council tax bands as a consequence of its high house prices – 15 per cent in bands F to G compared to just 8 per cent in the rest of England.

The most common band in London is Band C, comprising 27 per cent of housing stock. But across England, the most common band is Band A, comprising 28 per cent of homes, compared to only 4 per cent in the capital.

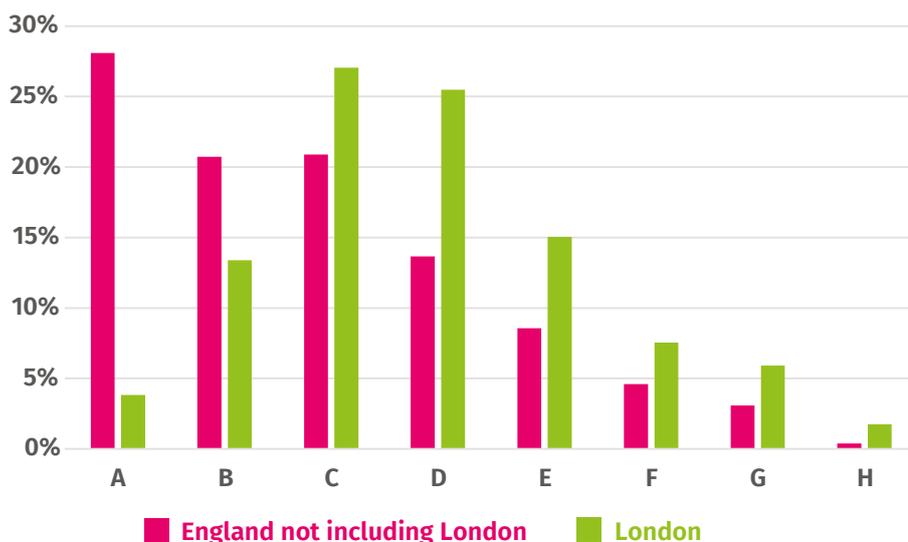
11 A consequence of moving the budget from annually managed expenditure (AME) to departmental expenditure limits (DEL).

12 This new power is unlikely therefore to be available to local authorities before April 2019 at the earliest.

13 Table CTSOP1.0: Number of properties by council tax band and region, county and local authority district, England and Wales, 2017. <https://www.gov.uk/government/statistics/council-tax-stock-of-properties-2017>

FIGURE 2.1: IN LONDON, THE DISTRIBUTION OF COUNCIL TAX BANDS IS SKEWED MORE TOWARDS HIGHER BANDS THAN IN THE REST OF ENGLAND

Percentage of residential properties in each council tax band, comparing London to the rest of England, 2017



Source: IPPR analysis of VAO (2017)

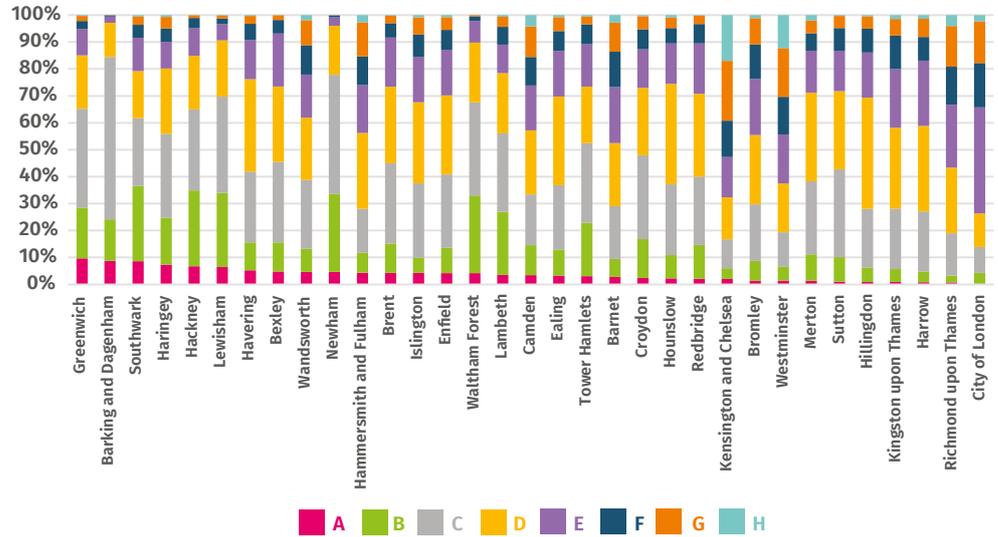
However, there is also significant variation across the capital in the proportion of properties falling in each band (see figure 2.2). For example, in Barking and Dagenham as many as 60 per cent of properties are in Band C, yet only 25 per cent are in Southwark. Unsurprisingly, Kensington and Chelsea, and Westminster are most likely to have Band H properties – as many as 17 and 12 per cent of all housing stock respectively.

Rates of council tax also vary across London’s boroughs. The Band D rate – upon which all other bands are calculated – is typically highest in outer London, with Kingston upon Thames having the highest rate at £1,575¹⁴ for 2017/18 (including the GLA precept). By contrast, in the inner London borough of Westminster, the Band D rate for 2017/18 is £669. This reflects a combination of factors, from local needs and priorities, councils’ political priorities, the distribution of properties across council tax bands, core spending grants from central government and historical decisions and policies of central government in relation to local government finance. We explore the interaction between the wider local government finance system and the varying level of council tax in local authorities in more detail in chapter 6.

¹⁴ See: <http://www.londoncouncils.gov.uk/our-key-themes/local-government-finance/local-taxation-council-tax-and-business-rates/council-tax>

FIGURE 2.2: THERE IS SIGNIFICANT VARIATION IN THE DISTRIBUTION OF COUNCIL TAX BANDS ACROSS LONDON'S BOROUGHES

Percentage of each council tax band for properties in each London borough, 2017



Source: IPPR analysis of VAO (2017)

3.

COUNCIL TAX IN LONDON IS UNFAIR WITH REGARD TO PROPERTY VALUE AND PLACE

In this chapter, we look at the unfairness of the council tax system in relation to property value and place. When it comes to property value, put simply, those in the lowest value homes in London are paying a higher proportion of council tax with regard to their value than those in higher value homes. As Gibb and Christie (2015) argue, to the extent that the distribution of property values is a proxy for wealth, it is not fair in the progressive sense. It should be remembered that the council tax system was deliberately designed not to be progressive with regard to property, but over time, it has become increasingly regressive.

Another aspect of fairness is a spatial one: whether the taxation system is fair between places (Leishman et al 2014). And as we demonstrate, council tax is also unfair by charging different amounts for different valued properties in London boroughs (and across England). The issues of spatial inequality are exacerbated by the failure of successive governments to conduct a revaluation on the property prices upon which council tax bands are based – meaning those areas with low house price growth are treated unfairly compared with those with higher value growth.

UNFAIRNESS IN RELATION TO PROPERTY VALUE

The regressive nature of the present council tax system is embedded in its very design. Even by its own test of charging households amounts based on the value of the property they live in, the system falls short. The highest value property in Band H, no matter its value, will attract a maximum of three times the tax on the lowest value homes. This is despite the fact that a Band H property (based on the current banding system) is worth at least eight times that of a Band A property in 1991 property prices. This means that as a proportion of property value, lower valued properties pay a larger proportion than higher value properties.

As outlined in the introduction, council tax was deliberately designed in this way as a pragmatic compromise between the old domestic rates (which had a much stronger relationship to property value) and the deeply unpopular poll tax approach of user charging. However, while the system was never designed to be straightforwardly progressive, this disparity has only increased over time as house prices have risen sharply, particularly in the capital. Our estimates show that a Band A home of £40,000 (the top of its band) in 1991 prices would, in 1993, have paid an average council tax rate of £275, while a Band H home of £320,001 (the bottom of its band) would have paid £824. For the band A household, this amounts to 0.69 per cent of their home's value whereas for the Band H household, it would have been 0.26 per cent. Today, that same Band A home – expected now to be worth £209,600 in 2015¹⁵ – would be paying an average in 2015/16 of £689, 0.33 per cent of the value of their home. The Band H property, now valued at £1,676,800,

15 Using the House Price Index, with data collected through the Land Registry, we have applied an uprating inflation factor of 4.24.

would expect to pay around £2,037 – which is as little as 0.12 per cent of the value of their home.¹⁶

Figure 3.1 shows that a household living in a property in Band A in London would on average pay over 0.5 per cent of its value compared with a Band H household which would pay just over 0.1 per cent (Wingham 2017). The current system is clearly regressive when viewed through this lens, and even more so than when it was originally designed.

FIGURE 3.1: LOWER VALUED PROPERTIES PAY A LARGER PROPORTION TOWARDS COUNCIL TAX THAN HIGHER VALUE PROPERTIES

Effective rate of council tax in London as a percentage of property value by band in 2017/18



Source: Wingham 2017, updated using IPPR analysis of the House Price Index, with data collected through the Land Registry

Moreover, as figure 3.1 demonstrated earlier, with 52 per cent of properties in London sitting in bands C and D, most properties pay between 0.3 per cent and 0.35 per cent of their property value. However, the majority of homes in Band A (4 per cent of London’s housing stock) pay around 0.5 per cent on average, while those in the top bands G and H pay less than 0.2 per cent on average. The combination of the disproportionality between bands, the fact that a large number of properties fall into two bands, and the fact that property values in the capital have risen from approximately £76,850 in 1991 (the prices on which the council tax system is based) to £475,830 in 2017 – an increase of 519 per cent since 1991 – means that the connection between the property value and tax paid has become increasingly tenuous.

Our research conducted to understand the views of Londoners on council tax (see chapter 7) reinforced the view that this system was simply unfair, while research for the Scottish Commission on Local Taxation also found that the use of outdated property values contributes towards the perception that council tax is unfair (CLTR 2015).

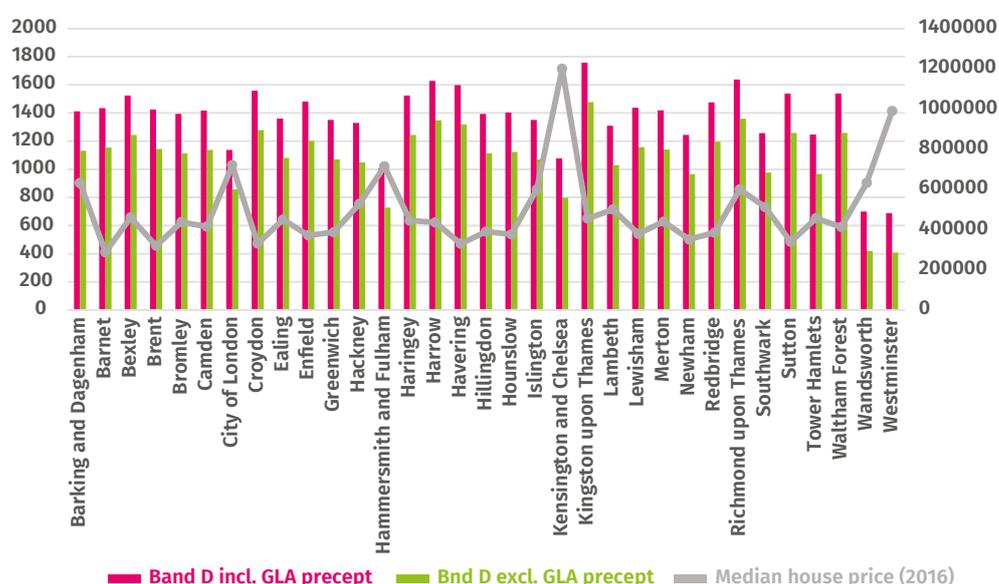
¹⁶ These figures do not include any effects of the council tax reduction system or other discounts – explored later – as these are not based on property values.

SPATIAL INEQUALITY WITHIN THE COUNCIL TAX SYSTEM

As well as being regressive with regard to property value, there is also considerable spatial inequality within the council tax system. Rates of council tax vary significantly across London's boroughs and bear very little relation to house prices. The Band D rate – upon which all other bands are calculated and which is set by the local authority – is typically highest in outer London. Households in Kingston upon Thames pay the highest council tax with a charge of £1,757 for Band D properties, followed closely by Harrow at £1,628 and Havering at £1,598. By comparison, residents in Westminster pay only £688, in Wandsworth they pay £700 and in Hammersmith and Fulham £1,007 (London Councils 2017). As we outline in chapter 6, this reflects a combination of factors.

FIGURE 3.2: THE RATE OF COUNCIL TAX, DETERMINED BY BAND D, IS TYPICALLY HIGHER IN OUTER LONDON BOROUGH AND BEARS LITTLE RELATION TO HOUSE PRICES

Annual Band D council tax by borough, including and excluding GLA precept 2017/18



Source: IPPR analysis of London Councils (2017)

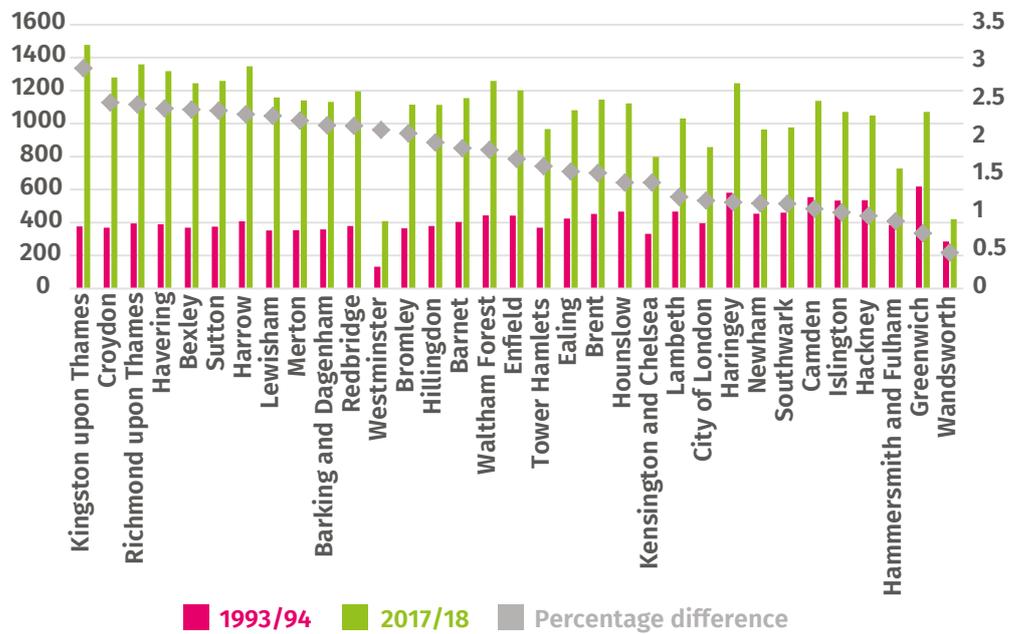
These differences in council tax rates are exacerbated by the variation in house prices across London. Wingham (2017) points to the example of a Band H property in Westminster worth over £10 million, the council tax for which (£1,345) is lower than a Band C property worth around £240,000 in Harrow (£1,359) in 2015/16.

While there has always been variation between London boroughs in their council tax rates, the differences have become greater over time with councils increasing rates by varying amounts. Kingston upon Thames, for example, has witnessed the largest rise since 1993 with an increase of 292 per cent, while Wandsworth council has raised its council tax over that period by only 53 per cent (MHCLG 2017d).¹⁷ In general, outer London boroughs have seen the largest increases. The reasons for these disparities are not straightforward and relate to the interaction between local budgets and political choices, as well as national grants which have historically been dependent on local need and differences in the tax base.

17 Band D council tax figures 1993 onwards, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-council-tax>

FIGURE 3.3: SINCE ITS INTRODUCTION, ALL LONDON BOROUGHS HAVE INCREASED THE RATE CHARGED FOR COUNCIL TAX, TO VARYING DEGREES

Council tax Band D by London borough, in 1993/94 and 2017/18, and percentage change



Source: IPPR analysis of MHCLG 2017d

The sense of unfairness derived from this spatial inequality was felt particularly strongly in our focus groups with Londoners (see chapter 7). Some of those we spoke to thought that the difference in council tax rates between boroughs was a result purely of the political make-up, leadership and choices of their local council. Some also said they thought the differences were due to efficiencies in the provision of services.

There was lower recognition of other factors outside of political priorities, choices and efficiencies – such as local needs, historic and current grants given from central government, other sources of income and the distribution of properties across council tax bands.

4.

COUNCIL TAX IS UNFAIR WITH REGARD TO INCOME

In this chapter, we look at the unfairness of the council tax system with regard to income. As council tax is based on the value of a property, its relationship with household income is always going to be weaker than if the tax were based on income alone (CLTR 2015). In short, the only way to ensure a local tax is truly progressive with regard to income would be to introduce a local income tax. However, there are strong arguments for taxing property rather than income. As Mirrlees et al (2011) argue, property can be taxed without significantly distorting people's behaviour because the supply of property is not very responsive to its price. Moreover, land ownership is usually observable and easily proven, which means it is relatively easy to identify who should be paying the tax (ibid), and the tax base doesn't move around. These features make them 'natural tax bases for the financing of local government' (ibid).

Nevertheless, it is still important to consider how the distribution of property taxes is related to income. And based on our analysis, the current council tax system is more regressive with regard to income than we consider acceptable.¹⁸ While households can have their council tax bill reduced through the council tax reduction scheme operated by their local council, the households that qualify need to have very low incomes. What is more, the relief previously provided through this benefit system is slowly being eroded, while rates of take-up for council tax reduction remain low meaning that the very poorest Londoners are facing an ever higher burden of council tax. Receipt of council tax benefit under the old council benefit system was only around 50 per cent of entitlement for the lowest income decile and 57 per cent and 67 per cent respectively for deciles two and three (Adam and Browne 2012). Yet since the devolution of council tax support the number of people taking up council tax reduction schemes in London for example has fallen by a fifth (Z2K 2018). While some of this decline can be attributed to stricter eligibility, it is likely that take-up has fallen even further.

There is a significant relationship between council tax band and gross annual income in London.¹⁹ In our sample, the average Band A household in the capital has a gross annual income of £24,700, rising to £136,700 for Band H.²⁰ However, as figure 4.1 shows, the relationship between council tax band and income distribution is complex and filters into households' disposable income also.

As might be expected, the highest proportion of households on high incomes can be found in bands G and H and in general, those in the higher income deciles are far more likely to be in the higher bands. Moreover, there are some people on low

18 It is important to note that households will spend varying proportions of their incomes on other housing costs such as rent and mortgage payments, while there are also costs associated with location and household composition, such as travel and childcare, which will be incurred for some households more than others. These will influence the extent to which council tax, relative to other expenditure, is a burden.

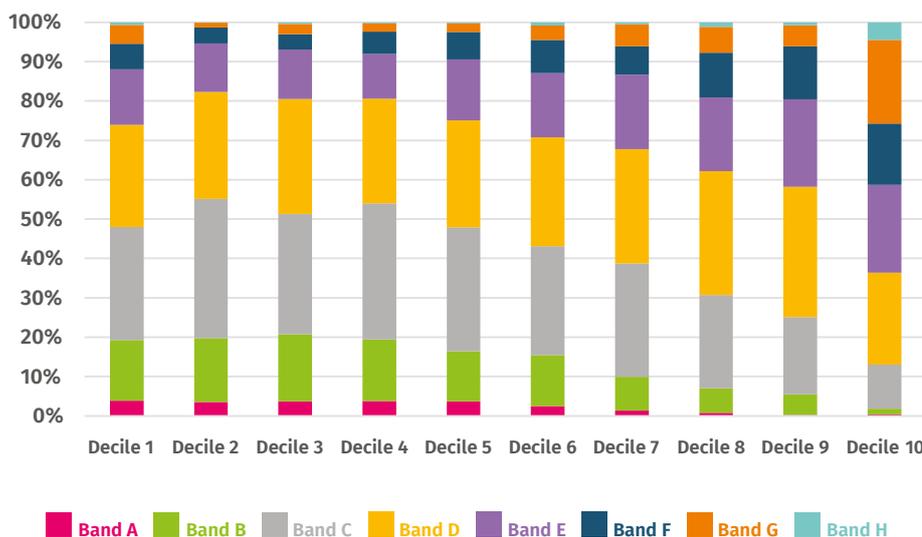
19 One-way ANOVA, $F(8, 6540) = 120.47$, $p < .001$. All differences are significant with the exception of the gross annual income between Band A and Band B properties.

20 Rounded to nearest £100.

incomes to be found in the higher bands (for example, pensioners who are no longer working but own a family home), and vice versa.

FIGURE 4.1: HOUSEHOLDS WITH LOWER DISPOSABLE INCOMES TYPICALLY FALL IN LOWER COUNCIL TAX BANDS

Distribution of council tax bands by equivalised income decile, 2011/12 to 2014/15



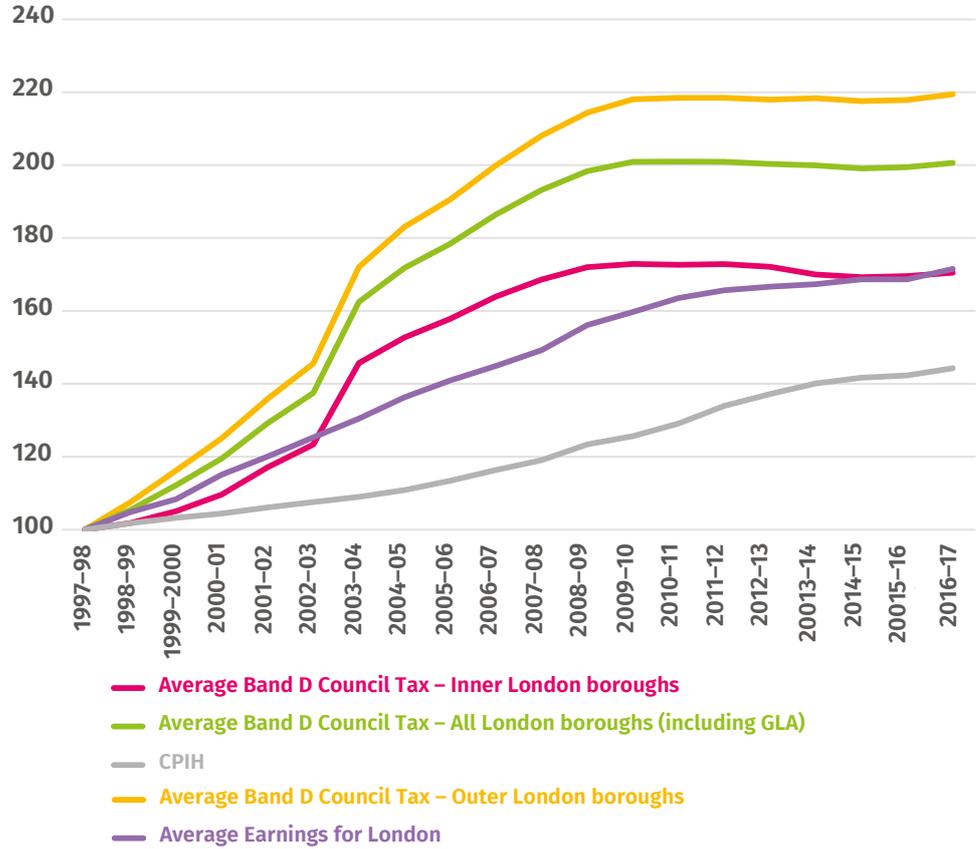
Source: IPPR analysis of FRS 2011/12, 2012/13, 2013/14 and 2014/15

To determine annual council tax bills, we have used the Family Resource Survey to calculate the council tax burden across income deciles. In doing so we have applied a London-wide average council tax rate, as well as relevant discounts and adjustments to calculate an estimate of each household’s liability, relative to their gross annual household income (further detail on our methodology is available in addendum 2).

Our analysis shows that under the contemporary system the average household can expect to spend 4.3 per cent of their gross annual income on council tax (before council tax support schemes are taken into account), compared with 3.9 per cent in the historic system. This is in part a reflection of council tax Band D rates rising more rapidly over time than both earnings and inflation (see figure 4.2).

FIGURE 4.2: THE GROWTH IN THE AVERAGE COUNCIL TAX RATES HAS FAR OUTPACED BOTH EARNINGS AND THE CONSUMER PRICE INDEX (CPIH)

Growth in Band D council tax rates across London boroughs compared with growth in earnings, the consumer price index and average earnings for London.



Source: IPPR analysis of MHCLG 2017d, and Matthew Whitaker (Resolution Foundation) analysis of ONS Consumer Price Inflation time series dataset²¹

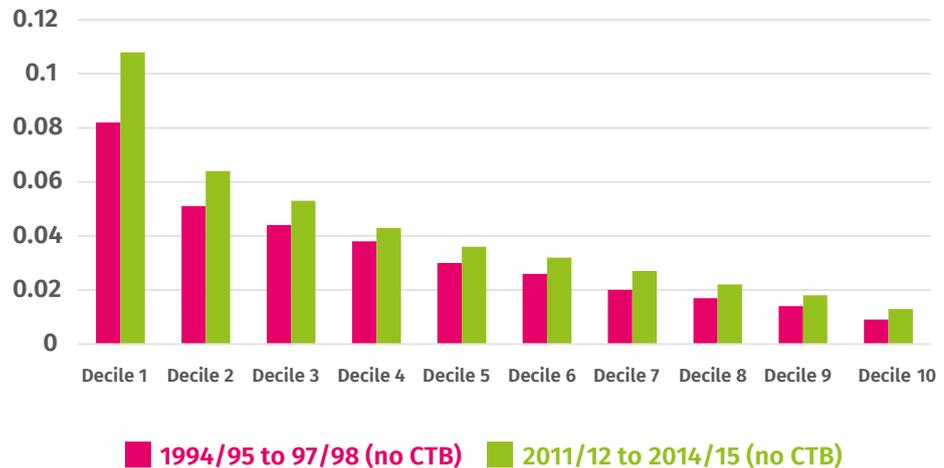
Yet what is clear from our analysis is that the burden of council tax lessens as incomes become higher, suggesting an inverse relationship between income and council tax burden. Higher income households are required to spend a far lower proportion of their income on council tax.

As figure 4.3 shows, for middle income earners the burden of council tax is around 4 per cent, yet for the earners in the highest income decile the burden is less than 2 per cent. What is more, the burden for those in the lowest income decile is more than eight times higher – around 10.8 per cent on average when compared with those in the highest decile. The chart also clearly shows that over time, the regressive nature of council tax has become much more apparent. Moreover, the increase has been more marked for those on the lowest incomes, rising by at least an additional 1 per cent, compared with a much smaller increase for all those from the third decile upwards.

21 <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceindices>

FIGURE 4.3: HIGHER INCOME HOUSEHOLDS SPEND A LOWER PROPORTION OF THEIR INCOME ON COUNCIL TAX

Council tax as a percentage of gross household income, by equivalised income decile before housing costs, 1994/95 to 1997/98 and 2011/12 to 2014/15 (not inclusive of exemptions or council tax support)



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

But for this analysis to be truly meaningful, we need to take into account the impact of council tax support schemes. To calculate this, we have assessed the council tax burden across income deciles after exemptions and council tax support²² are taken into account.

DEVOLVING AND CUTTING COUNCIL TAX SUPPORT

Current policies for what was previously known as council tax benefit (CTB) or what is now known as council tax reduction (CTR) differ across London's boroughs, following the changes implemented in 2013 which saw the system move from being set nationally to devolving responsibility to local authorities.

At the time of the reforms, the government was warned (Adam and Browne 2012) that devolving responsibility for the scheme while also cutting the funding by 10 per cent would force local councils to choose between reducing local services or reducing the eligibility of their schemes. With local government having received some of the largest cuts of any part of government since 2010, it was inevitable that a cut to this newly devolved budget would mean a reduction in eligibility or a cut to services. Moreover, the recent independent review of council tax support schemes (MHCLG 2016) found that because the funding for council tax reduction was merged into the core grant from 2016 onwards, it is also subject to the same ongoing reductions as the rest of local government funding from central government. This means the cut is now greater than 10 per cent – and this is regardless of demand. As a consequence, with funding falling and demand for services such as social care continuing to rise, local authorities have little choice but to cut local services or reduce eligibility criteria for council tax reduction – and in many cases, to do both.

²² We have used a proxy for potential council tax benefit in our calculations as explained in addendum 2.

On the introduction of the new scheme, the National Audit Office (2013) found that most councils reduced the level of council tax support, with many requiring working age claimants, regardless of their income, to pay at least a proportion of their council tax – known as a ‘minimum payment’. This means that the council tax system now increasingly mirrors the poll tax. Moreover, the New Policy Institute has found that more than nine in 10 local authorities across England have reduced their level of support following the reforms for the year 2017/18 (Ayrton and Long 2017).

A significant number of London boroughs (25) have also introduced a minimum payment requirement for those of working age who apply and qualify for council tax reduction²³ (where previously they would have received a 100 per cent exemption). If applicable this is applied *after* any automatic adjustments, such as the single person discount. Eight councils have not introduced a minimum payment and still provide 100 per cent relief – although many of those boroughs have the lowest council tax rates and are able to rely on other funding sources like business rates and fees and charges. And it has been suggested through our research that some of these councils will soon be introducing minimum payments as well, and other boroughs are planning to tighten the eligibility of their schemes further.

TABLE 4.1: OVER TWO THIRDS OF LONDON BOROUGHS NOW REQUIRE MINIMUM PAYMENTS FOR COUNCIL TAX FROM WORKING AGE RESIDENTS

Level of minimum payments levied by London boroughs for council tax, 2017/18

Local authority	2017/18	Proportion of average Band D council tax	Local authority	2017/18	Proportion of average Band D council tax
Barking and Dagenham	25%	£339	Hounslow	9%	£115
Barnet	20%	£279	Islington	9%	£110
Bexley	20%	£294	Kensington and Chelsea	0%	£0
Brent	20%	£275	Kingston upon Thames	0%	£0
Bromley	25%	£337	Lambeth	16%	£199
Camden	0%	£0	Lewisham	33%	£455
City of London	0%	£0	Merton	0%	£0
Croydon	15%	£224	Newham	20%	£248
Ealing	25%	£334	Redbridge	20%	£283
Enfield	26.5%	£376	Richmond upon Thames	15%	£237
Greenwich	15%	£194	Southwark	15%	£181
Hackney	15%	£194	Sutton	18%	£260
Hammersmith and Fulham	0%	£0	Tower Hamlets	0%	£0
Haringey	20%	£294	Waltham Forest	24%	£354
Harrow	30%	£468	Wandsworth	30%	£204
Havering	15%	£232	Westminster	0%	£0
Hillingdon	25%	£347			

Source: IPPR analysis of MHCLG 2017 and research provided by the New Policy Institute (NPI) 2017

²³ Some councils have also excluded war pensioners, war widow(er)s, those on the Armed Forces Compensation Scheme, those on disability benefits or income support and single parents with a child aged under five.

In addition to introducing minimum payments, some councils have also reduced the savings limit, above which a household's entitlement to council tax reduction is limited from the default £16,000 national threshold applying to pensioner households. Changes have also been made to taper rates and the second adult rebate (a 25 per cent reduction offered where one adult in a two person household is on a low income) has been removed in some instances, while councils with minimum payments have still chosen to apply full exemptions for some groups, such as adults with disabilities, lone parents, carers and war widows. In many ways, these changes stand in stark contrast to other changes in the benefits system, notably Universal Credit (UC). UC has effectively nationalised many aspects of the benefits system and sought significant simplification, but the devolution of council tax support and the introduction of numerous different, complex schemes is working in the opposite direction and is likely to create perverse work incentives (IFS 2012).

Since the reforms, there appears to have been a steady decline in the number of people claiming council tax reduction in London, dropping from 824,000 claimants in March 2013 to 657,000 in March 2017, a fall of around one fifth (Z2K 2018). This might be attributed to reduced eligibility but it also suggests that the support system is becoming increasingly inadequate at reaching those in need with the introduction of a varied number of complex schemes. Furthermore, the number of people in council tax arrears has gone up dramatically, increasing numbers of councils are using bailiffs and claimants are being charged court costs on top of their arrears (ibid). Research by the Child Poverty Action Group and Zacchaeus 2000 Trust (ibid) has found that since the reforms:

- London's boroughs have instructed bailiffs to recover outstanding council tax from over 67,000 households
- over 408,000 court summonses have been issued to London's poorest households after falling into arrears
- over 317,000 households have been charged nearly £35 million in court costs on top of their council tax arrears.

THE IMPACT OF COUNCIL TAX AND COUNCIL TAX SUPPORT ACROSS INCOME DECILES

In this section, we look at three scenarios to assess the burden of the whole system of council tax (including the support system) across equivalised household income deciles (before housing costs).

Figure 4.4 shows the average council tax burden across the different income deciles in the three scenarios, after the impact of council tax support. All were modelled based on respondents reporting that they claim council tax benefit or some level of rebate.

The purpose of this analysis is to understand how the burden of council tax across income deciles has changed in London from its original design to the contemporary system, and to analyse the impact of the introduction of the new council tax reduction system.

Our analysis shows that under the historic scenario, with 100 per cent council tax benefit, the council tax burden does fall markedly across all income deciles. Although the system was still regressive at the lowest end of the distribution, it was significantly less so than if it had operated without the council tax benefit scheme.

However, under the contemporary system, council tax support has less of an impact. While it reduces the burden, the system remains heavily regressive.

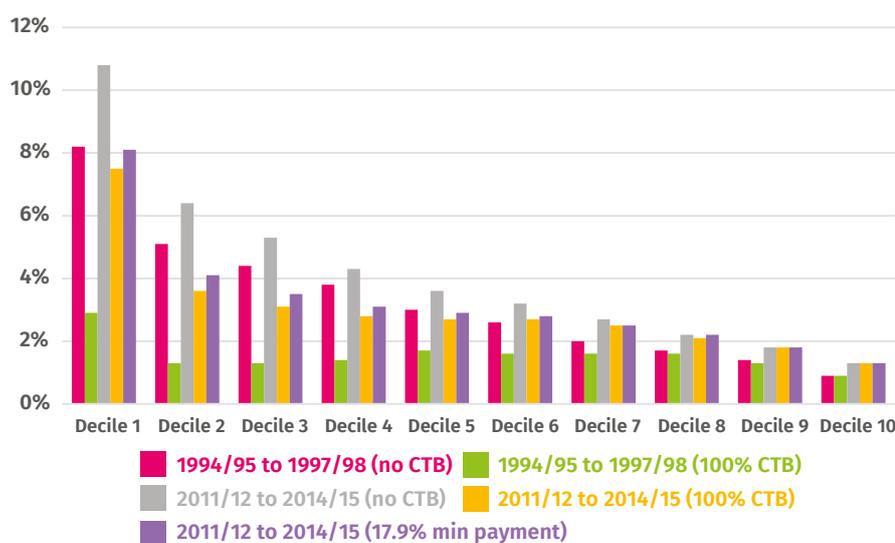
This is likely due to the failure over time to revalue, and also to changes in the take-up of council tax support. Furthermore, our analysis demonstrates that the introduction of the minimum payment is beginning to increase the burden on the very poorest Londoners.

While the current system of council tax support does lower the average burden for those households in the lowest decile from around 11 per cent to just over 8 per cent, it is still more than six times greater than the burden for those in the highest decile (1.3 per cent). Moreover, those on middle incomes still face a burden twice that (2.9 per cent) of those on the highest incomes.

It is important to note, as we have outlined, that there appears to be lower eligibility – or lower awareness and take-up – of council tax benefit among the poorest 10 per cent in particular. The evidence suggests that among the poorest decile, only 38 per cent are recorded as qualifying for council tax benefit whereas in the poorest 20 and 30 per cent, 46 and 44 per cent report being eligible²⁴ (see analysis by Adam and Browne 2012).

FIGURE 4.4: LOWER INCOME HOUSEHOLDS SPEND A MUCH HIGHER PROPORTION OF THEIR INCOME ON COUNCIL TAX EVEN WHEN COUNCIL TAX REDUCTION SCHEMES ARE TAKEN INTO ACCOUNT

Council tax as a percentage of household income, by equivalised income decile before housing costs, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

Because of the poor take-up of council tax reduction and its predecessor, council tax benefit, we have also examined what impact full take-up²⁵ would have on the burden across income deciles under the historic and current scenarios. As figure 4.5 shows, full-take-up would significantly reduce the burden of council tax on those in the lowest income deciles. The burden in the historic scenario falls from 2.9 to 0.2 per cent. Under the current scenario,

²⁴ In sample, unweighted.

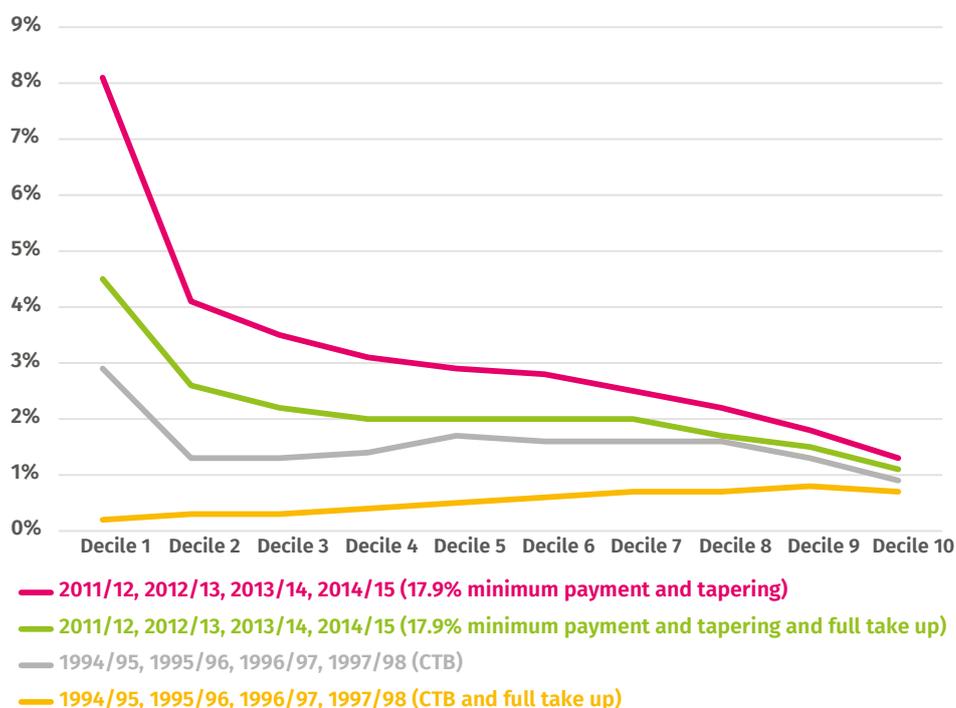
²⁵ To assess the possible distributional impact under a scenario for full 'take-up' of council tax benefit, we do not exclude payments for eligible households on the basis of whether they are currently claiming council benefit in the survey data. In effect, this creates a world in which council tax benefit is automatically provided to all who are eligible.

it falls from 8.1 to 4.5 per cent. This can be attributed to the failure to revalue which has made the system more regressive with regard to both property value and income, as well as the reductions in eligibility following the recent reforms to council tax support.

Put simply, under the current system, the burden on the poorest Londoners has risen considerably over the past 25 years and this would still be the case even if council tax benefit were taken up by all who are eligible.

FIGURE 4.5: LOWER INCOME HOUSEHOLDS WOULD SPEND A HIGHER PROPORTION OF THEIR INCOME ON COUNCIL TAX EVEN IF ALL THOSE ELIGIBLE TOOK UP COUNCIL TAX SUPPORT

Council tax as a percentage of household income, by equivalised income decile, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15²⁶

26 We have used data on entitlement to passported benefits from our FRS sample to help model full take-up of council benefit. However, some of those households which fall in the upper deciles were declared as receiving council tax benefit but in reality would not have been entitled. This will have had a small impact on the figures in this modelling, and is why, for example the burden on those households in the top decile for the contemporary scenario falls to 1.1 per cent rather than the 1.3 per cent expressed in Figure 4.4.

5.

LONDON'S COUNCIL TAX SYSTEM IS INEFFICIENT

In this chapter, we consider the inefficiencies of London's council tax system. Council tax is an unusual hybrid of a property-based tax, a consumption tax and a charge for local services (Lyons Inquiry 2007; Lawton and Reed 2013). As the Lyons Inquiry into Local Government pointed out, a household's bill does not perfectly reflect the value of their home and nor do they pay a flat charge for services. For instance, all student (full-time) households are deemed not liable for council tax and single person households are entitled to a 25 per cent discount – in both cases reflecting their lower service needs (ibid). Moreover, council tax benefit was designed as part of the system to protect those on low incomes.²⁷

This hybrid design should be somewhat unsurprising, given that council tax was in many ways a pragmatic political response to the failure of the poll tax which sought to charge individuals equally (though still with a relief system) for local services. Moreover, the poll tax was itself a response to concerns about problems with the domestic rates system that preceded it in relation to revaluation (Orton 2005) and a local government finance system which was widely perceived to be a mess (Gallagher et al 2007). However the poll tax was not a tax at all but a charge for services, thus the formal title of 'community charge'.

As a consequence of its hybrid design, council tax has a number of functions. Most payers of council tax understand it purely as a means to pay for local public services provided by their local authority (a point made very strongly in our focus groups).

COUNCIL TAX IS INEFFICIENT DUE TO ITS DESIGN

The benefit of an effectively functioning tax on housing consumption should be that it promotes the efficient use of housing by being thought of as a 'usage' charge (ibid) which is proportionate to the value 'consumers' put on the benefits they receive. Such a tax should, for instance, guard against a property being left empty or under-used and promote the more efficient use of housing in the capital.

However, the very design of the council tax impinges on its effectiveness in this regard. It is widely accepted that the council tax band structure was flawed when it was introduced. Plimmer (1999) points out that many of the council tax bands are too wide because of the range of homes that can sit in them. Figure 2.1 in chapter 2 showed that in London, 52 per cent of properties sit in council tax bands C and D alone. Moreover, all properties worth more than £320,000 in 1991 prices sit in the same band.

Furthermore, as we highlight in chapter 3, the structure of council tax is regressive with regard to property value. Consequently, council tax encourages people to buy and remain in larger homes (Evans 2009), making it less effective as a tax on property or consumption.

27 This was not a new policy as the old domestic rates system also employed rebates to reduce the burden on the poorest, something which the Layfield Commission (1976) said was a 'necessary feature of rating'.

However, it isn't just the structure of the banding system which reduces the effectiveness of council tax. The discounts available for empty and second homes, as well as the 25 per cent discount for single persons, also contribute towards the inefficiency of the system by under-taxing housing. While discounts of these kinds may be provided for perfectly understandable reasons, they do reduce the effectiveness of council tax in effectively taxing property.

In our focus groups with Londoners, there were mixed views on the validity of the different discounts offered. For instance, there was no support for the discounts offered for empty homes and second homes, and there was support for the current policy of moving in the other direction of levying premiums on empty homes. However, there was far more support for at least maintaining the single persons discount.

Many people felt that the single persons discount helped make the system fairer. This was related to other views expressed about council tax and support for this measure was arrived at from different perspectives. Some people supported it because they felt that a single person would consume less local public services, others felt it was a way to recognise that a single person would be more likely to earn less than two or more people (despite the fact that there is no way of knowing how much someone who benefits from the discount is earning), and others thought it offset what they saw as an unfair means of applying council tax, that is, a tax on property. This highlighted the variation in views about what council tax is for and the extent to which it should be consumption-based and linked to the services that people use.

COUNCIL TAX IS INEFFICIENT DUE TO THE WAY IT OPERATES

Evidence has shown that recurring taxes on property can have some impact on the prices people pay for homes in that it will be factored into the price (CLTR 2015). A study by the Institute for Fiscal Studies (Rosenthal 1999) found that roughly a third of any increase in future property tax liabilities can lead to lower house prices and vice versa. For instance, research on the impact of the removal of domestic rates in the 1980s found that there was a resultant increase in prices (CLTR 2015).

The failure to revalue the property prices upon which the council tax system is based has therefore contributed to its inefficiency as a property tax, exacerbating the issues created by its regressive structure. As Wingham (2017) points out, this has been worsened by the unequal distribution of house price growth over the last quarter of a century and more.

Various reviews over the years, including the Barker Review (2004), have argued that changing the nature of property taxation in the UK is one way of tackling the volatility in house prices. Barker argues that a council tax more closely linked to property values could have an automatic stabilising effect (ibid). If the amount of council tax to be paid were to increase as house prices rise it would help dampen the demand for houses and encourage a more efficient use of the capital's housing stock. However, due to the system's reliance on outdated property prices from 1991, it has not been impacted by the changes in relative house prices over that period. Furthermore, as Gibb and Christie (2015) argue, the failure to revalue renders the tax base fundamentally inelastic because it doesn't increase until more homes are built or properties are revalued. As a consequence, increases in revenues are far more dependent on tax increases.

Nevertheless, research by Policy Scotland at the University of Glasgow for the Commission on Local Tax Reform demonstrated that the challenges that arise from deferring property revaluation are not unique to the UK or the council tax

system, but are common in other countries (CLTR 2015). This is due in no small part to the unpopularity of property taxation generally. Slack and Bird (2014) have termed property taxation a ‘presumptive tax’ in that some taxpayers see it as being imposed on them primarily because they either disagree with the basis of the tax (a point made by some in our focus groups) or because they don’t understand it. As a consequence, this can lead to what Almy (2013) calls ‘legislative neglect’ whereby politicians prove unwilling, due to the unpopularity of the taxes, to undertake reform or to perform the necessary maintenance required (such as revaluation) to keep the taxes up to date. We explore the political difficulties in relation to the reform of council tax in chapter 8.

INCONSISTENCIES BETWEEN RESIDENTIAL AND COMMERCIAL PROPERTY TAXATION

The present system of business rates came into force in 1988 and is a property tax levied on what is called the ‘rateable value’ of non-residential property. Under this system, the government’s Valuation Office Agency (VOA) assesses the rateable value of a property which is normally based on the amount of annual rent. As part of the system, revaluations take place intermittently, normally every five years.²⁸

There are significant inconsistencies between commercial property tax in the form of business rates and residential property tax in the form of council tax, and many would argue they promote inefficiency in land use. For instance, recent research by GLA Economics (Wingham 2017) found that the effective tax rate of business rates in 2015/16 was 49.3 per cent in London compared with just 7 per cent for the average Band D property. Taking into account the various reliefs and discounts available under each of the taxes, the same research found that the effective tax rate for commercial property in the capital was 34 per cent in 2015/16 and 3.9 per cent for residential property. As numerous reports and studies have found (Lyons 2007; Mirrlees et al 2011; Wingham 2017) there is no clear economic rationale for such a variance between the two taxes. The consequence is that there is a clear incentive for the use of land for housing at the expense of commercial use (Wingham 2017).

A clear example of the inconsistencies between the two systems in practice was highlighted by the London Finance Commission (2013) which identified a residential flat in One Hyde Park which would pay less than £1,500 per year in council tax, compared with a ground floor shop approximately one-third of the size which would pay nearly a quarter of a million pounds.

28 Most recently, a revaluation took place in 2010 but the subsequent revaluation was delayed until 2017. From 2022 when the next revaluation is due, revaluations will take place on a new three year cycle.

Stamp Duty Land Tax (SDLT)

The other principal type of tax on residential property in the capital is Stamp Duty Land Tax (SDLT). Stamp duty is levied on the land transactions of residential properties and is paid by the purchaser. Stamp duty rates for 2017/18 are set out in table 5.1.

Table 5.1: Standard SDLT rates and thresholds, 2017/18

Property or lease premium or transfer value	SDLT rate
Up to £125,000	0%
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

Source: Replicated from <https://www.gov.uk/stamp-duty-land-tax/residential-property-rates>

Other arrangements exist for various categories of buyers, including the following:

- **first-time buyers** are now (following change in the autumn 2017 budget) able to claim 100 per cent relief on properties up to £300,000 and pay a reduced 5 per cent on the portion from £300,001 to £500,000
- **those buying additional properties** will normally have to pay 3 per cent on top of the standard rates if buying another house means the buyer will own more than one
- **those buying through corporate bodies** (including companies, partnerships and collective investment schemes) are required to pay 15 per cent on residential properties costing more than £500,000.

SDLT has been widely criticised as an inefficient tax (Mirrlees et al 2011; Scanlon et al 2017; Southwood 2017). As Mirrlees et al (2011) argued, there is no good economic argument for taxing housing that is traded more frequently, as SDLT does. Moreover, SDLT actively discourages mutually beneficial transactions, it restricts ownership of residential property by those who value it most, reduces incentives for people to move home, and means some people are encouraged to live in an area or size of home they otherwise wouldn't (ibid).

Despite these issues, stamp duty has remained popular with governments of all political stripes, partly because transaction taxes are difficult to avoid and easy to collect, but more recently because it has become such an important revenue raiser for the Treasury. SDLT on residential property raised £8.4 billion for the Treasury in 2016/17, with 40 per cent of the revenue coming from London alone (HMRC 2017). Moreover, some have argued that stamp duty may also play a role in reducing instability in the housing market due to the fact that the amount charged increases with house prices, which could reduce demand as house prices rise (Lawton and Reed 2013). However, there's also an argument that stamp duty has simply been factored into house prices, which could raise prices even further. It is also why the government's own Office for Budget Responsibility (OBR) said that the first-time buyers policy (outlined above) would push house prices up and provide a windfall gain to homeowners (OBR 2017).

Nevertheless, stamp duty has few supporters among economists, housing experts or indeed the public. This is unsurprising in light of evidence from a recent report by the London School of Economics (Scanlon et al 2017) which found that in the capital, the SDLT on a median home accounts for more than a third of typical annual earnings.

While there isn't scope here to consider fully the role of SDLT, it is clear from the evidence that it is an inefficient tax that has little economic merit and deleterious impacts on our housing market, particularly in London. While it may have some impact on reducing instability, it is by no means the most effective tax measure for doing so. However, any proposal for abolishing SDLT must take into account why it is the most common form of property taxation in the OECD, with 31 advanced economies operating a similar tax on real estate transfers (Lawton and Reed 2013). Moreover, replacing the lost revenue from SDLT (which is easy to collect and is much less unpopular than council tax), is also a high barrier to reform.

6. **COUNCIL TAX AND LOCAL GOVERNMENT FINANCE – INCREASINGLY UNSUSTAINABLE**

Council tax is a key part of the local government finance system in England and the capital. But recent reforms to the system overall will see considerable change which will put greater pressure on the council tax system and exacerbate some of the other issues set out in this report.

Comprised of various funding sources, the local government finance system is well known for being fiendishly complex. Its main funding sources are council tax, central government grants, business rates, and (increasingly) fees and charges. All of these elements underpin its structure and an inter-dependence has developed over time between each of the different funding streams (Scott and Pitt 2015).

The system has been frequently criticised over the years, mainly for: being overly centralised; the inadequacies of the council tax system (as described in this report); the lack of transparency around business rates and the tensions between economic growth and equalisation; and short-termism around local government finance settlements which creates uncertainty and has knock-on impacts on local investment and decision-making (ibid).

UNPRECEDENTED CHANGE

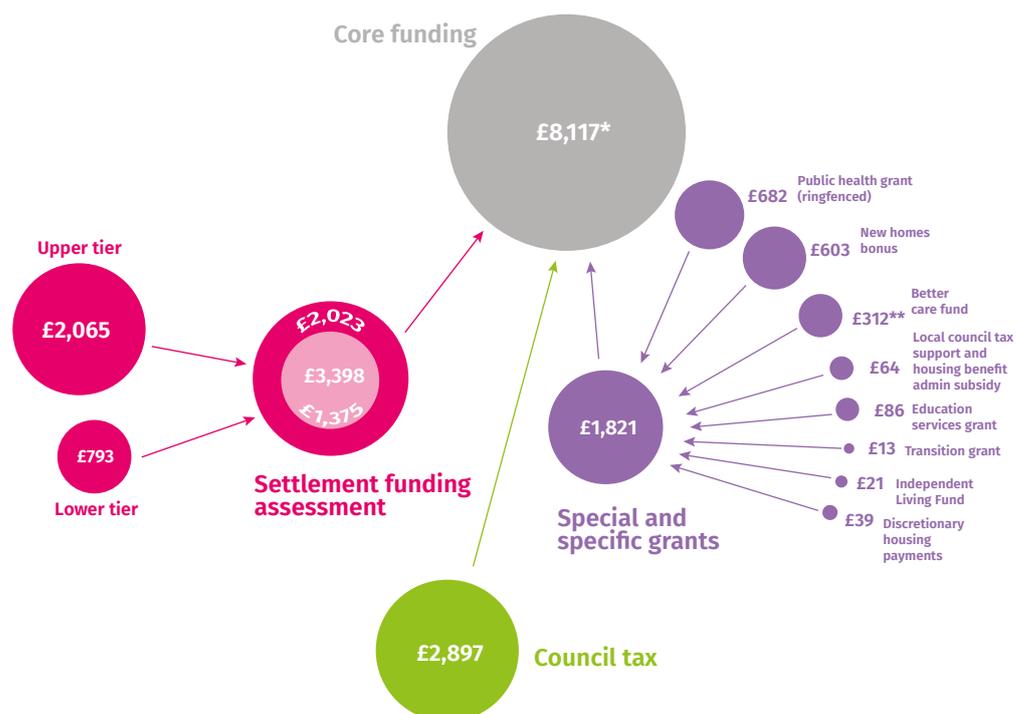
The local government finance is now undergoing wholesale change and reform, which will partly address some of the central criticisms of the system. According to the Institute for Fiscal Studies (IFS), this highly-centralised system, where central government grants are allocated on the basis of local authorities' relative spending need, is gradually being replaced by a framework where councils bear the burden of much greater spending and revenue risk, but are self-funding (Smith et al 2016). The ambition is to give local areas stronger financial incentives to grow their local economies, and reduce dependence on the central state.

One of the main drivers of this change is the significant funding reductions to central government grants for local government since 2010 (some of the largest cuts to any part of the state as a result of the government's austerity programme). Excluding grants allocated for education (which now just effectively pass through local authorities), councils across England have experienced an average real-terms cut to their funding of almost 26 per cent since 2009/10 (ibid).

The changing nature of the local government finance system and the significant reductions in central government grants have significant implications for the other main sources of local government finance, not least council tax. In general, local authorities are now significantly more reliant on council tax, business rates, and fees and charges to support their spending.

While revenue from council tax has for a long time contributed significantly towards the funding of public services delivered by local authorities, in recent years, it has become more important. Figure 6.1 sets out the core funding of local government in London in 2016/17.

FIGURE 6.1: WHERE THE MONEY COMES FROM – REVENUE FUNDING AND EXPENDITURE DIAGRAMS, 2016/17



Source: London Councils 2017. <https://www.londoncouncils.gov.uk/node/31575>

*This figure excludes direct, ring-fenced funding for education, the Pupil Premium, the public health grant or revenue raisers such as fees and charges.

INCREASING RELIANCE, AND PRESSURE, ON LOCAL TAXES

In 2015/16, council tax²⁹ accounted for 50 per cent of the core spending power of all local authorities – and this is set to rise to 61 per cent by 2019/20. In the capital, the average council tax contribution was 40 per cent in 2015/16, set to rise to 52 per cent by 2019/20 (MHCLG 2017b). This demonstrates that all local government across England and in London will, on average, become more dependent on council tax by the end of the decade. And from 2018/19, as a result of the business rates retention pilot in London, London boroughs and the GLA will no longer receive core grant funding from central government. Instead, funding to the level outlined in the settlement will come from retained business rates.

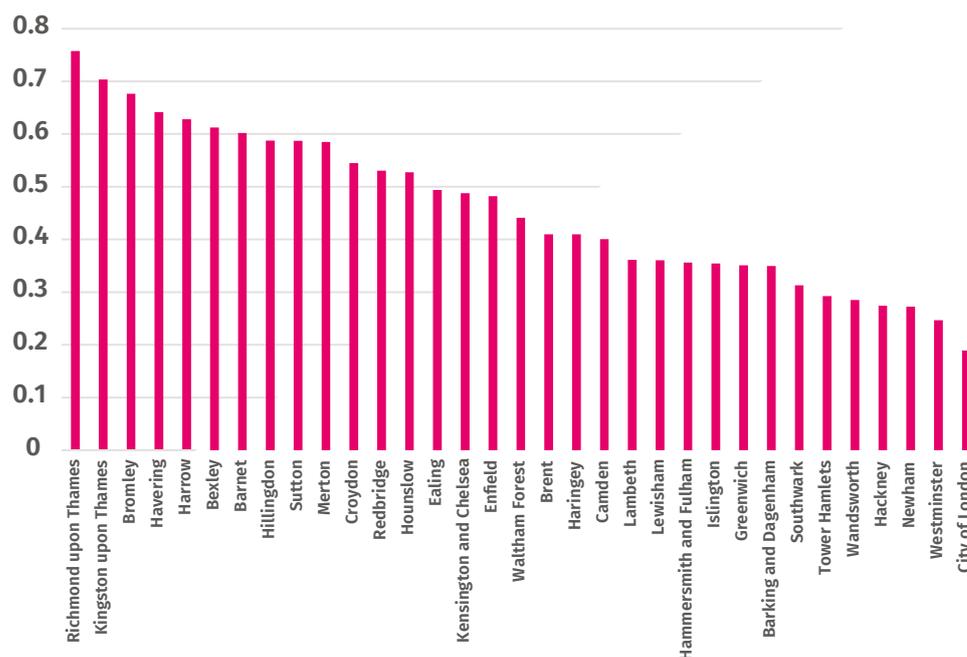
However, these averages mask significant variation between London boroughs. Outer London boroughs receive much less in central government grants and the contribution of their council tax revenue to their core spending power is therefore much higher – in Richmond upon Thames and Kingston upon Thames as much as 76 and 70 per cent respectively for 2017/18 (MHCLG 2017b). In contrast, in Hackney,

29 Excluding parish precepts.

Newham and Westminster council tax revenue makes up only 27, 27 and 25 per cent of core spending power (ibid).

FIGURE 6.2: THE SHARE OF COUNCIL TAX WITHIN BOROUGH'S CORE SPENDING POWER VARIES FROM 19 TO 76 PER CENT

Council tax requirement excluding parish precepts (including base and levels growth) as percentage of core spending power by London borough, 2017/18



Source: IPPR analysis of MHCLG 2017b

The differences between boroughs' council tax rates are down to a variation of factors. These include each council's leadership and political priorities but are largely related to the complex interplay between council tax and the wider local government finance system. For decades the grant funding provided to local authorities by central government was notionally allocated on the basis of an assessment of relative need and the size of the local tax base (Smith et al 2016).

The benefits of this system, as Smith et al point out, is that a government grant provides an equalisation mechanism to offset the increases in spending need or reductions in the size of the local tax base (ibid). The drawback is that local councils have few direct incentives to grow their tax base. However, as we have already set out, this is changing, with the government putting far more emphasis on self-funding.

Meanwhile, pressures on spending are rising. As reductions to central government grants continue and demand for critical services such as adult social care grows, pressure on local authorities to raise more revenue through council tax will only increase. Figures from the Local Government Association (2018) suggest that between 2010 and 2020, local authorities will have seen reductions of £16 billion to their core government funding and local services face a £5.8 billion funding gap in 2019/20 (ibid).

In London, between 2010 and 2020, the government will have cut core funding for London boroughs by 63 per cent, while London's population will have grown by 13

per cent. Consequently, London boroughs will need to secure £1.6 billion of savings by 2020 to balance their books (London Councils 2017).

PRESSURE FOR REFORM

The recent debate on local government finance has focused solely on business rate retention, but a long-term and sustainable system relies on the other financial pillars of grants and, crucially, council tax (as well as fees and charges).

Given the wider context, there are two central problems with ignoring reform of the council tax system. Firstly, the local government finance cannot be properly sustainable unless the funding sources upon which it relies are also sustainable. Understanding the sustainability of those other sources is clearly beyond the scope of this paper, but unless significant central grants are restored, we would argue that council tax will not be sustainable in its current form for much longer. This is partly because, as it stands, council tax isn't capable of meeting the funding gap – London boroughs need to make cuts of more than £540 million in 2018, yet a 1 per cent increase in council tax would raise little more than £30 million (London Councils 2017b). Furthermore, as councils increasingly rely on council tax for their revenue (actively encouraged by the government), they will be tempted to levy increases year on year. Unlike, say, income tax there is no inflationary 'buoyancy', so all other things being equal councils would have to raise council tax each year just to keep pace with inflation. This is unlikely to be withstood by local taxpayers while their service offer deteriorates, as our focus groups demonstrated.

Secondly, in the absence of reform, the year on year rises will put an ever increasing burden on those on the lowest incomes. Yearly rises in council tax combined with rising minimum payments and continual reductions to other eligibility requirements for council tax reduction schemes will lead to a toxic cost burden for those who can least afford it.

Finally, the government is engineering wider design changes to the local government finance system which are planned for April 2020. These include the greater local retention on business rates (replacing Revenue Support Grant and other central government grants) and the Fair Funding Review to overhaul the distribution of resources between authorities. The latter will explicitly take account of the tax-raising capacity of all councils, so it would be logical and sensible – and even necessary – to reform council tax at the same time.

7. LONDONERS WANT CHANGE

The Londoners we spoke to in our focus groups about council tax were drawn from a wide range of backgrounds, gender, and households which included home owners, and private and social renters from inner and outer London. We spoke to people who were in work, retired and who were or had been unemployed³⁰. Our focus groups also comprised people from single households, and multi-person households with and without children. Our groups demonstrated that Londoners, unsurprisingly, have a wide range of views about the system, how it operates, how fair it is for them and others, who should pay and what they are paying for.

However, there was also a significant degree of consensus across the groups about a number of issues. As our participants shared, there are aspects of the system that they believe are too complex and lack transparency. Many had little idea where their money went – while they were aware of some of the services that council tax supports, there was low awareness³¹ of many of the other services and how much of a contribution their payments made compared with central government grants, for example. There was also broad agreement about unfairness of the system in relation to its outdated property prices – there was near universal agreement that this had to change. Moreover, there was strong agreement among participants that the most vulnerable and those who cannot afford to pay do not get the protection they deserve from the system.

There was broad agreement that the system needed to be reformed, but many were nervous about it being replaced or completely overhauled.

THE SYSTEM IS TOO COMPLEX

The vast majority believed that the council tax system is reasonably straightforward for those who can afford to pay. However, for those whose circumstances change – particularly, for instance, those who find themselves suddenly out of work or with a sudden loss of income – they believed that the system was too complex.

"If your circumstances change there is confusion as to what you should be paying."

Most people agreed that if there was an issue with payment or if you were finding it difficult to understand what help you could receive, then it was challenging to contact your local council.

"It can be hard to contact the council if you're not sure how a change in your circumstances affects what you owe."

THOSE WHO CANNOT AFFORD TO PAY SHOULD BE BETTER PROTECTED

Issues around the complexity of the system were brought up, particularly in relation to those people who cannot afford to pay or who are vulnerable.

30 We spoke to 22 Londoners in total in two focus groups.

31 There was also low awareness of how central government is funded and what taxes are spent on.

"I know people who have experienced issues when they have had a change in their life which has been outside of their control. It hasn't been as easy as it should be for them to get help."

There was also a view expressed that if councils owed someone money, they were slow to rectify the situation. However, if the situation were reversed, it was felt that councils were far too quick to take aggressive action by issuing demands, fines and involving bailiffs.

"Strict penalty rules are unfair for people in a vulnerable situation."

"I think councils are too quick to call the bailiffs, involve the courts and to threaten fines. Not enough consideration is given to people's employment or circumstances."

THE CURRENT SYSTEM IS UNFAIR

While the Londoners we spoke to thought the system was particularly unfair to vulnerable people, there was also a view that there were a range of other issues with the system that were either unfair or that they did not understand.

There was also particular concern and attention paid to the disparities in payments made across different London boroughs. Many people didn't understand how you could live on one side of the street and pay a lot more in council tax than if you lived on the opposite side of the street in a different London borough. Some people put the disparity down to political choices and leadership but there wasn't a high degree of awareness that it was partly dependant on the sizeable differences in the amount of grants that councils receive depending on need and other variables.

"It doesn't seem fair that someone living in a house in one borough can end up paying so much more than someone living in a house worth the same in another borough. It doesn't make sense to me, particularly if the services are the same. Is it that they are more efficient or are there other reasons?"

One of the strongest senses of injustice was the reliance on property prices from 1991. Around half of participants had some awareness that council tax was based on outdated property prices but most were surprised at just how out of date they were – and that new properties were rated based on what their value would have been in 1991.

"[It is] unfair based on 1991 prices as not nice areas that were cheap are now valued higher...it should be revised."

"So much has changed since then it doesn't make sense to rely on property prices that are so out of date. They should be based on today's values. Some areas in London have gone up in price massively while some areas have stayed the same or even gone down."

When asked to compare what the charges were on properties of a different value, there was also a consensus that it was unfair that high value properties

sometimes only pay only a slightly larger amount than less valuable homes; the distribution of rates and bands was not clear to participants.

"It's not right that very expensive properties only pay a little bit more than properties that are much cheaper – or even less where prices have increased and that's not taken into account."

DISCOUNTS IN COUNCIL TAX

There were different levels of support for the various types of discounts on council tax on offer. There was almost no support for providing discounts for empty or second homes. Most people thought that these properties should be charged even more premiums or higher rates than other primary residences.

"There's a housing crisis, it doesn't make sense to give people a discount if their home is empty or if they have another home."

Most people agreed that if they had an empty or second home they would be willing to pay the same level of council tax, or even more, on their additional home. It did not strike them as fair that these homes should have discounts.

There was also a strong consensus around providing a discount to single people. Most people believed that the single persons' discount should be retained, or even increased, because they would be more likely to have a lower income and use fewer services than larger households.

"I don't think the single persons' discount should be removed or changed, if anything there should be more discounts for single people. Each individual's circumstances should be considered, what about their other bills?"

"Should people who live alone pay the same as two people who live with two or more?"

TRANSPARENCY AND AWARENESS

One of the strongest findings from our research with Londoners was the lack of awareness and knowledge about the council tax system and what it pays for within local government. Our research found that while people were aware in general terms about what their council tax pays for, they were unaware of some of the services that consume a large proportion of councils' budgets in London. Many of the Londoners were aware that their council tax helped to support services such as police, fire, recycling and waste collection and roads but most were unaware of the support provided for services like social care and child protection. One respondent said:

"I know that it goes to support local services like the police, waste and roads but I don't [know] what else, where does all the money go?"

This was supported by another respondent who said:

"We seem to see council tax increases every year but if anything the services seem to be getting worse."

The quote above also reveals a lack of awareness among our respondents in relation to the wider context of cuts to local government finance and ongoing cuts to budgets, directed from central government. Many were unaware that local government had faced the largest cuts of any part of government since 2010 and that this was impacting on service provision. For those respondents, their council tax has been rising but they have not been not seeing an accompanying improvement in services. If anything they've seen them degrade.

"It's not clear where the money is going. There seems to be cut backs but the same amount of money is being paid, where is the money going?"

"There are job cuts affecting service but councils must have the powers to charge what they want and they can't be under that much pressure? Perhaps they don't have as much control as we think or they are managing their money badly?"

LONDONERS WANT CHANGE BUT WHAT KIND?

When asked whether the system should be reformed, few people thought the current system was fair. There was particular consensus around the need to update property prices to today's values, the need for greater protection for the most vulnerable, and for far greater transparency around what council tax pays for.

There was certainly a greater desire for more information, transparency and involvement of local people in making priorities.

"There should be a council tax book – broken down with payments, street cleaning, police etc."

"There should be a pie chart on every council tax bill and the council website showing percentages showing what pays for what."

Yet these requests for greater information and transparency were made despite many councils already providing much of this information. Until 2011/12, councils had to provide a breakdown of their spending on services with council tax demands (usually in accompanying leaflets), and more recently authorities are obliged to provide weblinks on bills for people to access.

Another respondent thought local people should be more involved in deciding spending priorities:

"Who is deciding the 'priorities' of their local communities? Local people need to be involved more, there needs to be more meetings and more involvement."

There was also broad agreement, supporting the findings of the Lyons Inquiry (2007), that people believe there should be a clear connection between local taxes and local services, and that it is local councils, not the government, that are best placed to decide this.

"I think there should be a connection between the council tax and paying for local services, and the priorities for what we spend on services should be decided by local people."

While another, reacting to the changes in the council tax benefit system, said:

"The system should protect people who cannot pay, I'm not sure it does that at the moment."

Overall, there was a consensus that the system needs reforming. However, most people did not support a radical overhaul of the system or its complete replacement. Despite its faults, many people felt it needed reviewing and improving rather than changing completely.

"I think it needs to be reviewed rather than replaced. Would like it to be fairer for all but not sure how."

Another respondent agreed, saying:

"Could there be a fairer equation that takes income and property value into account? The system should be more progressive but require the least amount of change."

Many people had questions about how this change should come about and what it would mean, summed up by this participant:

"What will it mean for us? More or less payments? There is the fear of the unknown. Will we be better or worse off? What factors will affect payments? What is the scale of benefits versus gain? But I agree it could and should be made fairer."

Our conversations with Londoners made clear that there was an appetite for change but there were real questions as to what that change should look like and how significant it should be. In our report putting forward our proposals later this year, we will outline our additional conversations with Londoners on how the system could be improved or replaced.

8.

WHY HAS COUNCIL TAX NOT BEEN REFORMED?

Despite the clear issues with the present council tax system it has remained largely unreformed for the best part of a quarter of a century. However, the difficulties of reforming property taxation are not new nor are they distinct only to the UK. Prior to the introduction of the poll tax, all residential properties in the UK were subject to rates which were based on the nominal rental value. A revaluation process was supposed to take place every five years but in practice they were often postponed – not least due to the potential political consequences of ratepayers being subject to increased bills. Between 1925 and 1990 only five revaluations actually took place (Jeraj 2012).

It was in fact the political fallout from the revaluation process of the old domestic rates system which was due to take place in the mid-1980s that led to the introduction of the poll tax. The impacts of this revaluation on households appeared to catch the government unawares with some rate payers in Scotland facing potential increases in their bills of 30 per cent. As a consequence, the government scrapped the proposed revaluations and committed to introducing a new system in England and Wales, as well as Scotland, by the time of the next election. The consequence of this decision was the introduction of the poll tax. Now over 25 years later, the council tax system is clearly not fit for purpose, and yet in England it has remained unreformed since its original implementation.

There have been minor reforms elsewhere in the UK however. In Wales in 2005, a ninth band (Band I) was introduced and properties were revalued based on 2003 property prices. More recently in Scotland, bands higher than D were given greater weighting, so instead of Band G being 200 per cent of Band D it is 245 per cent. These reforms demonstrate that some change is possible, but barriers to significant reform in England remain.

A number of issues have been identified, both in the literature, our discussions with experts and in our qualitative research with Londoners.

- **Previous experience with reform of property taxation:** The most recent experience of reforming local property taxation has led many politicians to place council tax in the ‘too difficult to touch’ box. Moreover, as already outlined, the poll tax itself came about as a consequence of a botched revaluation of the old domestic rates system. However, past experience is not the only cause of politicians’ intransigence as we outline below. Our research has found that whatever the rationale for reform, there is a significant gap between the economics and politics of property taxation, a position which is not uncommon in other OECD countries (Slack and Bird 2014).
- **Council tax is unpopular and the tax base is contested:** Some people simply disagree with the basis of the tax which makes it harder to alter the status quo. While land or property taxes might be robust conceptually from an economist’s point of view, many people take issue with the principle of taxing property rather than income. The Lyons Inquiry into Local Government (2007) found resistance to the idea that tax bills should reflect property values or that taxes should increase with property values. Property taxes have an impact

on the wider housing market and run in to problems due to beliefs about the sanctity of home ownership in the British psyche (Lyons 2007). The idea that ‘an Englishman’s home is his castle’ is a powerful one and the notion that, in some cases it should be more heavily taxed, is strongly contested (ibid). However, while we detected some resistance to the idea of property being the basis of taxation, it was by no means universal or a majority view within our focus groups. Most Londoners we spoke to as part of our qualitative research felt there was a balance to be struck between property value and income when it comes to council tax.

- **Salience:** Council tax and property taxes more generally are highly visible. Unlike taxes such as income tax, households are presented with a bill, rather than it being taken at source (unless of course they are self-employed). Consequently, many households see council tax as something which is imposed on them. Reform is therefore more difficult because, like the tax itself, it is so much more visible.
- **Winners and losers:** As with reforms to most taxes, reforming council tax will create winners and losers. Even if reforms create far more winners than losers, it is those who will lose out who are likely to be more vocal and actively campaign against any change. Moreover, it has proven difficult in the past to identify who the winners of such reforms might be, while those who are likely to lose out have made themselves more visible. Those who are commonly identified as being likely to lose out are those who are asset rich and cash poor. This is a specific issue for the growing number of households who are at or approaching pensionable age, and therefore have a lower income, but own their home outright. It is particularly problematic for low income households who live in properties that have increased rapidly in value over the past quarter of a century. There are also other winners and losers in the broader sense – that some local authorities are more reliant on council tax revenue than others and reforms will have implications for funding which will create political resistance.
- **Links to services and transparency:** As our focus groups identified there is little awareness as to what council tax is spent on. There is also a presumption that council tax funds the majority of services being provided by their local authority, a misunderstanding no doubt compounded by the introduction of measures like the ‘social care precept’. Within recent years, this issue has been brought into sharp relief with the significant funding reductions to local government. While council tax payers have seen their contributions rising, they have seen the services provided cut back. This knowledge deficit makes reform harder because it is more difficult to secure support for change if the public feel that it won’t lead to improvements in local services.
- **Speed of reform:** The speed at which any government could undertake reform has also proved limiting. Implementation of significant reforms to council tax or any other property tax will often take longer than one electoral cycle. Even a revaluation of property prices without significant changes to administration or design of the system would take time. Therefore, given the other pitfalls of reform, expending political capital on overhauling a system – the benefits of which might not be seen before an election – will not seem that attractive to an incumbent government.

9.

CONCLUSION – TIME FOR REFORM

The council tax system in London and across England is in dire need of reform. No matter how it is measured, council tax is failing. Our case for change relies on five fundamental arguments.

1. **The council tax system is increasingly regressive with regard to property value and is therefore unfair.** Chapter 3 describes one of the central flaws of the council tax system – its regressive structure which means the capital’s more expensive properties pay a far lower proportion of council tax relative to their value than cheaper properties. This deliberate design has been exacerbated over time with the growth in house prices and the failure to revalue. It also highlights the spatial inequalities that exist in the capital, with substantially different charges across different areas of London.
2. **The council tax system, including its income support system, council tax reduction (CTR), takes too little account of ability to pay and is therefore unfair.** Chapter 4 outlines how the council tax system in London is more regressive with regard to income than we judge acceptable – largely due to the inadequacies of the council tax support system. Furthermore, recent changes to the CTR system and cuts to its funding will only worsen the impacts for the capital’s poorest.
3. **The council tax system is inefficient.** Chapter 5 exposes the inefficiencies of the council tax system in London. Were council tax to be operating effectively, one might expect it to promote the efficient use of property within the capital. However, as we set out, its reliance on outdated property prices, discounts and exemptions and the inconsistencies between residential and commercial taxation render it inefficient as a property tax.
4. **The wider context of local government finance is making council tax increasingly unsustainable.** Chapter 6 highlights the rapidly changing context of local government finance. Council tax is becoming ever more important as a source of local government revenue but is increasingly not up to the task – because local authorities don’t have the flexibilities they need to raise extra revenue and the burden of any increases under the current system are borne heavily by London’s poorest.
5. **There is public appetite among Londoners for reform.** Chapter 7 highlights the views of Londoners, based on qualitative research conducted by IPPR, which demonstrates that the public recognise many of the flaws in the council tax system and want to see change. While there is less agreement on what council tax should be replaced with, our research suggests there is strong consensus around the need to ensure council tax reflects today’s property prices.

Our conclusion is that the council tax system is increasingly unsustainable and it may soon reach breaking point.

REFORM COUNCIL TAX IN LONDON ALONE?

In this report, we have found a strong case for reforming the council tax system in the capital but many of the arguments presented in this report apply to the system as a whole. We are clear that the whole system must be reformed, not just in London.

However, there is a clear case for a customised and piloted solution for the capital involving the devolution of powers to set council tax, alongside other property taxes, to London government.

The most compelling argument for a London-focused solution is the distinctive features of London's housing market which make devolution and reform more palatable and even necessary. As is frequently argued, London's housing market is completely different from almost anywhere else in England (LHC 2016). In particular, house prices have risen more substantially in the capital than elsewhere, particularly in inner London. Any significant reform to council tax on a national basis would have to be accompanied by a revaluation of property prices so that the tax base reflects house values today. Such an exercise would clearly have its greatest impact on London. It is for this reason that previous reviews and studies (Lyons Review 2007; Leishman et al 2014) recommended that separate bands be introduced for inner London to reflect its special circumstances and to reduce the instability any purely national reforms might have on London. Introducing a national system, with no regard to the exceptional London housing market, would increase, not reduce, the burden on London's poorest.

Furthermore, despite a focus on devolving power from central government in recent years, by international standards the UK remains highly centralised. Council tax and a proportion of business rates are the only taxes that can be seen as local, and by and large council tax is set nationally, with central government setting the bands and applying arbitrary caps on increases, above which referendums are required. As the London Finance Commission (2013) found, the highly centralised system found in the UK is out of step with best practice in most OECD countries and is a weakness within British democracy.

Moreover, the vote to leave the European Union (EU) has raised serious questions about voters' attitudes towards power being operated remotely rather than at a more local level. For instance, polling by the London Finance Commission found that the public is more supportive of sub-national politicians than remote national ones (LFC 2017). And given the difficulties in reforming property taxes, it could be argued that enacting reform to the council tax system will be easier at the devolved level. It will ensure that debates are had about winners or losers from any changes, and the impact on services are more directly relevant to local communities and will allow them to design a system that is more tailored to their needs.

The difficulties in undertaking reform of property taxation should not be underestimated. However, our research has found that there is public appetite for reform of the council tax system. Yet to be politically achievable and command public support it must be done with caution and with a mind to the public's notions of fairness.

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ANNEX 1: COUNCIL TAX BURDEN – ADDITIONAL ANALYSIS

1. BY COUNCIL TAX BAND

Once benefits are applied, households in properties in Band H pay the most council tax as a proportion of their household income, at 5.2 per cent. This was true historically too, although the burden has risen from 4.2 per cent in our historical example. But this is in part likely to be due to changes to council tax benefit with the introduction of minimum payments and the reduction in capital allowances. However, as demonstrated in the figure below, if all eligible households took up council tax benefit, even under a minimum payment system, many would see a notable reduction in their council tax burden. For a Band A household, the average could fall to as low as 1.3 per cent. And yet, full take-up historically would have resulted in an even lower burden for this group (just 0.2 per cent).

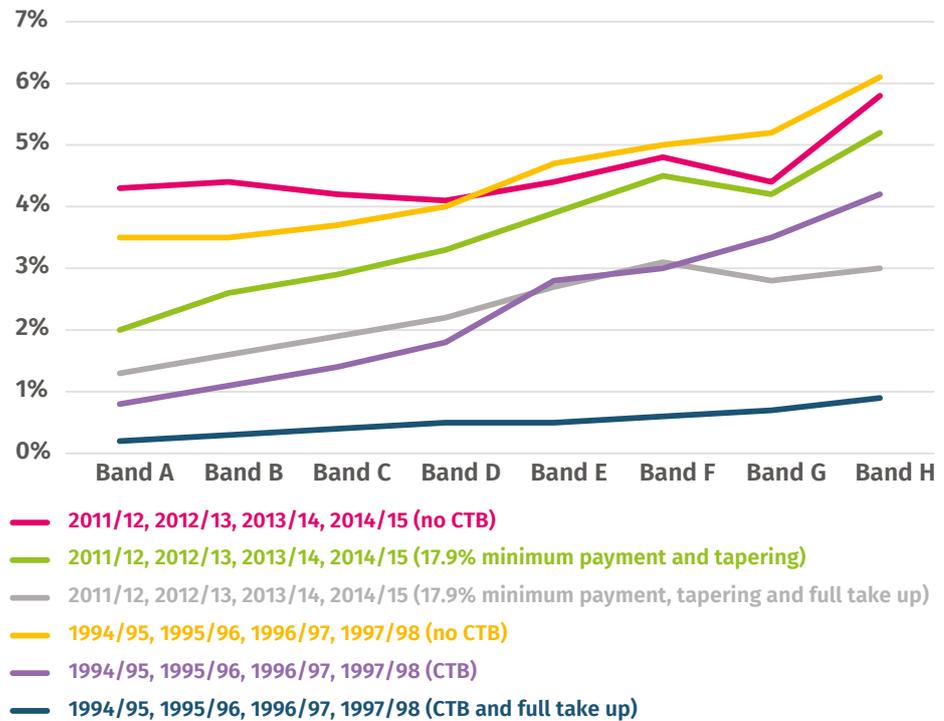
On a ‘pure’ council tax system comparison (no council tax benefit applied), Band H properties would actually have been expected to pay a higher proportion of their income on council tax over the period 1994/95 to 1997/98, at 6.1 per cent, than they would today (5.8 per cent).

The most common council tax bands in London (C and D) have rates (of 2.9 and 3.3 per cent) which are lower than the capital’s average. Households in bands A and B, a relatively small proportion of London’s homes, have the lowest council tax as a proportion of household income.

However, once council tax benefit allowances are removed, the difference in the burden across council tax bands becomes much less notable; bands A to G range between 4.1 (Band D) and 4.8 (Band G) per cent. This suggests banding on its own may fail to reflect differences sufficiently across London’s homes and residents. The regressive design of the banding system and the wide nature of the bands are likely to blame as they do not appropriately reflect the value of homes in the capital. Historically, the range was 3.5 to 5.2 per cent, increasing with each new band and bands A and B falling at the bottom of this range. This also means that the differences across the bands have been less distinct over time.

FIGURE A1: THE DIFFERENCES ACROSS THE BANDS UNDER A 'PURE' SCENARIO (NO BENEFITS APPLIED) HAVE BECOME LESS DISTINCT OVER TIME.

Council tax as a percentage of equivalised household income before housing costs, by council tax band, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

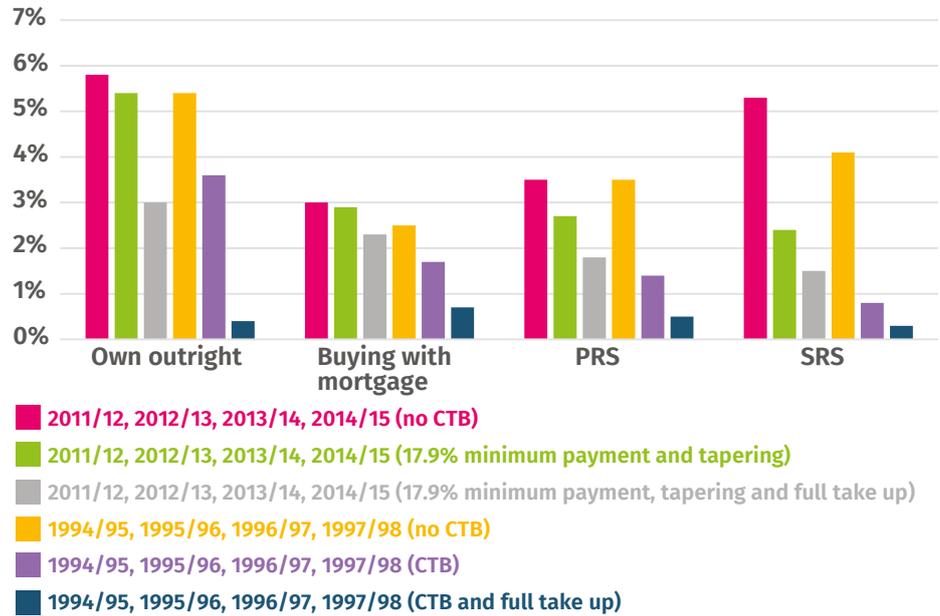
2. BY TENURE TYPE

By far the greatest council tax burden falls on outright owners, at 5.4 per cent of household income (with council tax benefit applied). The social rented sector (SRS) faces the lowest council tax burden, at just 2.4 per cent. We would expect lower levels within the SRS given their typically lower tax bands (70 per cent of SRS in our sample in bands A to C, compared to 55 per cent for the private rented sector [PRS] for example), and their higher likelihood of being eligible for council tax benefit or minimum payments (64 per cent, versus 27 per cent in the PRS).

The higher burden among outright owners is unsurprising given more than half of outright owners in our sample are over pension age – 58 per cent of households are recorded as having a ‘head of household’ who is 65 years or older (unweighted). Their income is therefore likely to be lower. However, compared to households who are paying their mortgage off or are renting, outright owners are spared some housing costs which might otherwise be incurred. For example, the mean annual disposable income, after housing costs, among owner occupiers is £32,378 whereas for renters (private and social), it is just £17,958. Nevertheless, take take-up appears to be a particularly important issue for outright owners. Their council tax burden in both a scenario with no council tax benefit and one where the minimum payment is applied remains above 5 per cent, whereas if all eligible households were in receipt of council tax benefit, it would fall to just 3 per cent – lower than our historical council tax model.

FIGURE A2: THE GREATEST COUNCIL TAX BURDEN FALLS ON OUTRIGHT OWNERS

Council tax as a percentage of equivalised household income before housing costs, by tenure, 1994/95 to 1997/98 and 2011/12 to 2014/15



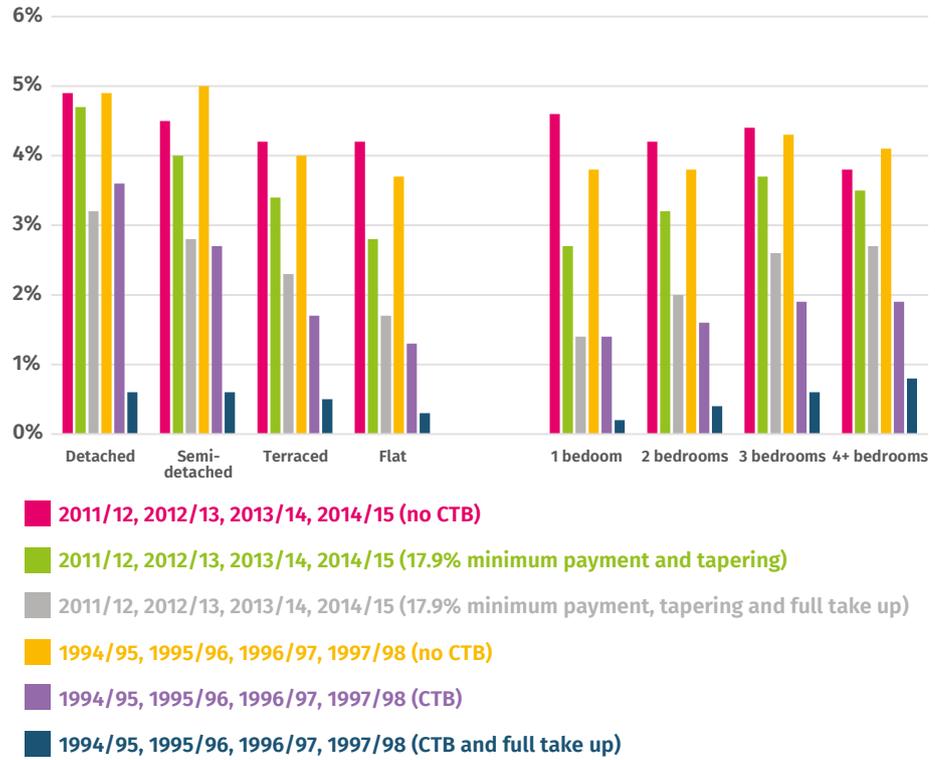
Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

3. BY ACCOMMODATION TYPE AND SIZE

The properties which face the highest council tax burden are typically detached and three-bedroom, at 4.7 and 3.7 per cent (with council tax benefit applied). The same pattern was seen historically, particularly in the case of detached properties. Flats face the lowest council tax burden (2.8 per cent), but this has risen from being just 1.9 per cent in the 1990s.

FIGURE A3: DETACHED AND THREE-BEDROOM PROPERTIES FACE THE HIGHEST COUNCIL TAX BURDEN

Council tax as a percentage of equivalised household income before housing costs, by property type and size, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

4. BY HOUSEHOLD COMPOSITION

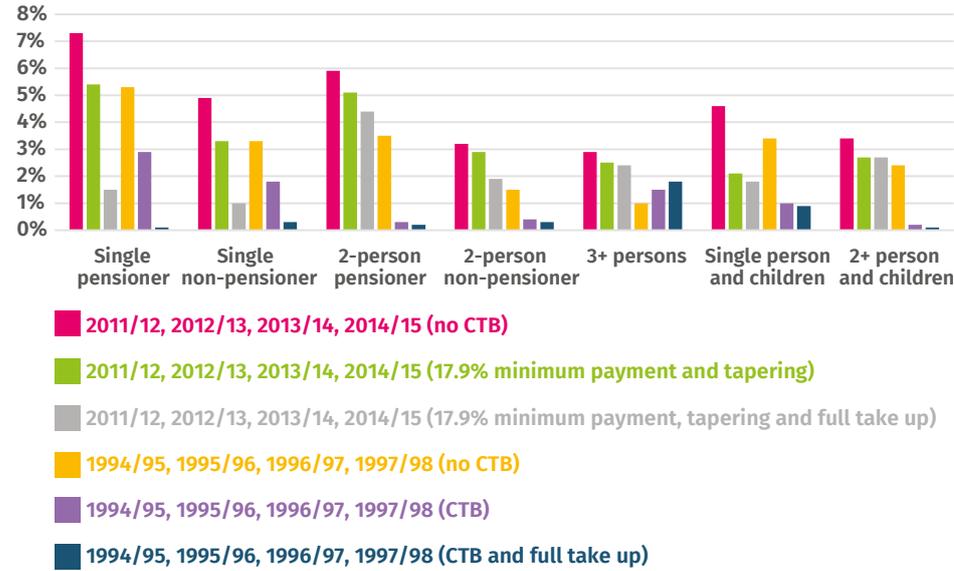
Single and two-person pensioner households pay 5.1 and 4.8 per cent of their income on council tax respectively – despite eligibility for a single person discount in the case of the former, and eligibility among pensioners receiving pension credit or on low incomes. This demonstrates how a 25 per cent discount will not necessarily combat the perceived disadvantage where there is only one rather than two adult incomes, and when take-up remains low. It also suggests that many pensioners, often on low incomes, will be more highly impacted by council tax. For example, if no council tax benefit is applied, the burden could be as high as 7.3 and 5.9 per cent for these households.

Households with a single parent or with three or more adults and no children face the lowest burdens at just 2.1 and 2.5 per cent respectively. This is expected to reflect, in part, the exemption for student households (which are typically multi-member adult households) as well as the higher income which would be associated with a household where there are multiple working age adults in residence – an increasingly common phenomenon in much of London. We might also expect single parent households to be more likely in receipt of council tax benefit and further forms of income support, while they are also eligible for a single person discount.

As one might expect given the experience of pensioners, the burden of council tax falls hardest on households where the 'head' is over 60 years old, and typically rises with age – from 4 per cent for 60- to 64-year-olds, to 4.6 per cent for 65- to 74-year-olds and 5.5 per cent for over-75-year-olds. Younger households, again potentially with students in residence or multiple working adults, face a lower burden.

FIGURE A4: SINGLE PENSIONERS FACE THE HIGHEST BURDEN OF COUNCIL TAX

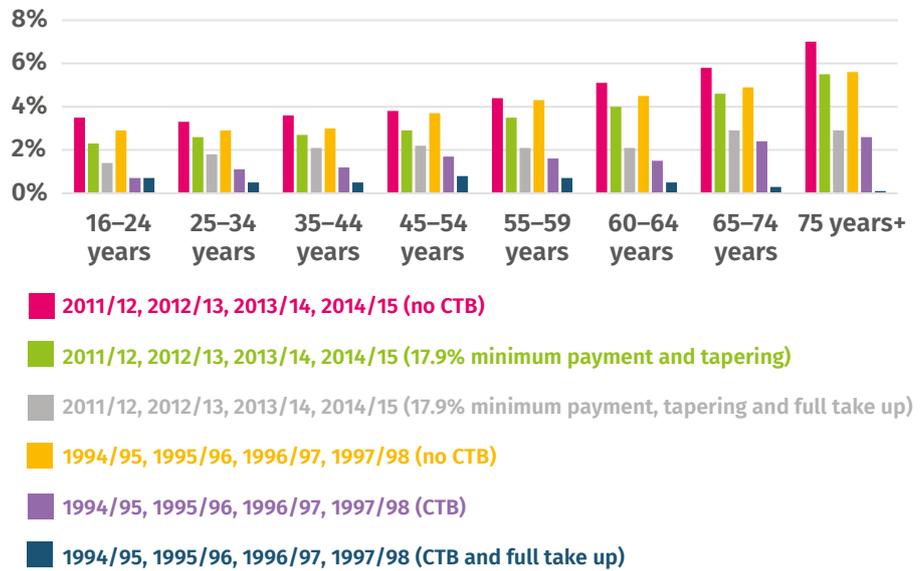
Council tax as a percentage of equivalised household income before housing costs, by household composition, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

FIGURE A5: THE OLDER YOU ARE THE HIGHER YOUR COUNCIL TAX BURDEN

Council tax as a percentage of equivalised household income before housing costs, by age of head of household (grouped), 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 2011/12, 2012/13, 2013/14 and 2014/15

5. THE BURDEN OF COUNCIL TAX ON THE DISABLED

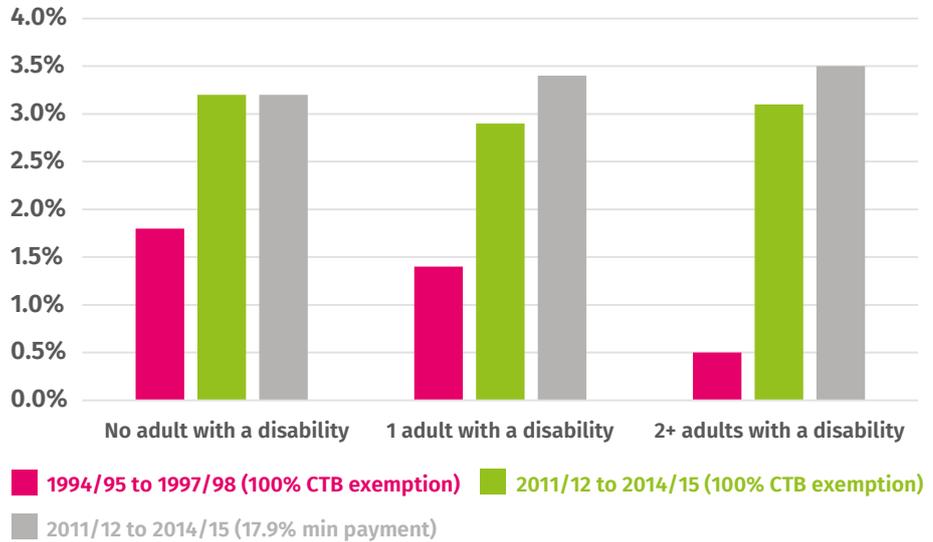
For households where members are registered disabled, the council tax benefit adjustment we applied will see these individuals being exempt from council tax. In effect, there is no council tax burden. However, the adjustment has only been applied to those who report receiving some kind of discount – determined by both eligibility and take-up of the benefit.

Where only one adult is registered disabled, their council tax burden under the minimum payment system is approximately 3.4 per cent of their household income, and for households with two or more disabled adults it is 3.5 per cent. In both cases, this is higher than the amount paid by households where no-one is registered as disabled (3.2 per cent) and reflects a growing burden for households with a disabled member. If we apply a historical pre-2013 council tax benefit system to our present-day sample, the likely burden of 2.9 per cent for a household with one disabled resident has more than doubled – from an average of 1.4 per cent over the period 1995/95 to 1997/98.

The burden on disabled people also falls far more under the historic position under a full-take up scenario than it does under the current position. This demonstrates once again that the current system is a far greater burden on disabled people in London than previously.

FIGURE A6: THE BURDEN OF COUNCIL TAX ON THE DISABLED HAS INCREASED SIGNIFICANTLY OVER THE PAST TWO DECADES

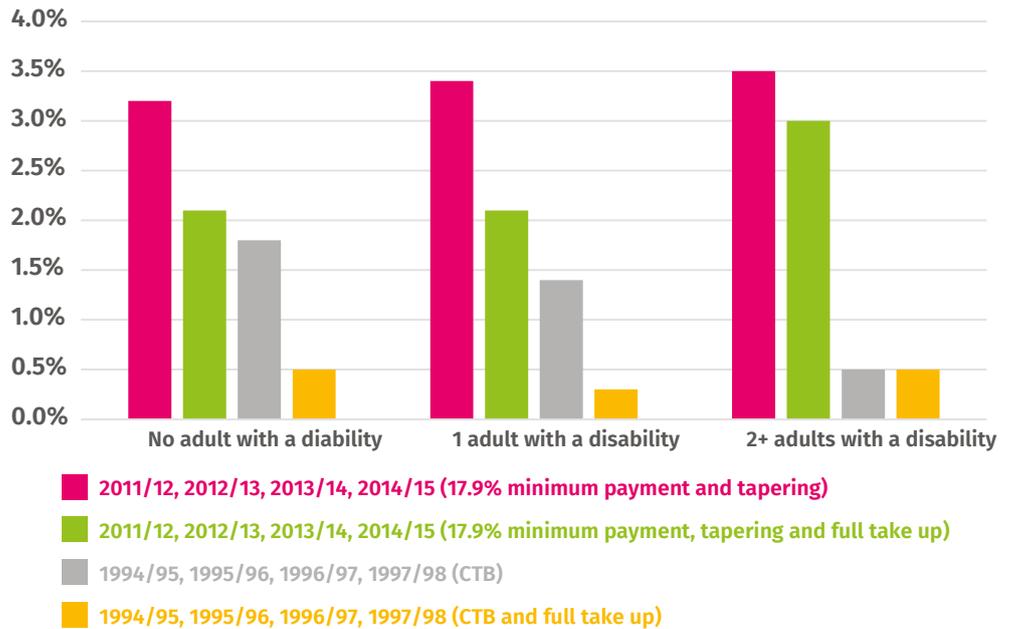
Council tax as a percentage of household income, by household disability status, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

FIGURE A7: THE BURDEN OF COUNCIL TAX ON THE DISABLED HAS INCREASED SIGNIFICANTLY OVER THE PAST TWO DECADES

Council tax as a percentage of household income, by household disability status, 1994/95 to 1997/98 and 2011/12 to 2014/15



Source: IPPR analysis of FRS 1994/95, 1995/96, 1996/97, 1997/98, 2011/12, 2012/13, 2013/14 and 2014/15

ANNEX 2: CALCULATING THE COUNCIL TAX BURDEN ON LONDONERS

The FRS sample we use in this research is London-only and comprises households buying with a mortgage, outright owners, or households renting (both social and private rent) over the period 2011/12 to 2014/15 (n=6,541).³² To assess the varied impact of council tax on London's households, we calculate annual tax liability as a proportion of gross annual income.³³

To determine annual council tax bills, we have used FRS respondents' council tax bands and applied London averages for the period 2011/12 to 2014/15, to correspond with the survey waves and reflect an average experience of council tax over the period.³⁴ The average council tax bill for Band D across London's boroughs during this period, including the GLA precept, was £1,309³⁵, while there was minimal change over the period. Many councils saw no change. Using the ratios for council tax set by law, we have applied the amounts in table 2.1 to each household.

Additional information has been used to apply further discounts and adjustments to calculate each household's liability. Households identified in the FRS as having a formal exemption as an all-student (full-time) household are deemed not liable for council tax in this analysis. We have also applied a 25 per cent discount to all single person households who report receiving this adjustment. These are features built into the council tax system itself, rather than the benefits system. They are consistent nationally and have been present since the introduction of council tax.

The amount of council tax a household pays is also influenced by their benefit payment. Council tax reduction schemes differ across London's boroughs, following changes brought in in 2013 which moved from a nationally set system to devolving responsibility down to local authorities. Of the capital's local authorities, 25 have installed a minimum payment where those who apply and qualify for council tax benefit must pay a specified proportion of their council tax liability (2016/17).³⁶ The average minimum payment across London for those using a percentage-based approach is 17.9 per cent.³⁷ Total exemptions also exist

32 In addition, in order to aid data analysis of council tax burden, we have excluded all households whose annual income is less than 90 per cent of annual JSA receipts for the respective survey wave year, controlling for negative and null incomes in the case of misreporting or self-employment (see Cousins C (2000) *Negative incomes in the Pensioners' Incomes Series*, DSS. http://webarchive.nationalarchives.gov.uk/20101014041041/http://statistics.dwp.gov.uk/asd/asd6/2_Negative_Incomes.pdf)

33 Where income is reported on a weekly or monthly basis, we have reported figures on an annual equivalent basis.

34 An apportionment of council liability that is more sensitive to variation at a borough or postcode level would improve the results, but this level of detail is not found in the version of the FRS available.

35 London Councils (2017) *Council Tax Monitor 2017-2018*. <http://www.londoncouncils.gov.uk/download/file/fid/20334>

36 After single person discount is applied. In addition, Sutton has a weekly cash amount minimum payment of £3.75.

37 Ashton A, Francis M and Woudhuysen A (2016) *Still too poor to pay: three years of localised council tax support in London*, Child Poverty Action Group/Zacchaeus 2000 Trust. http://z2k.org/wp-content/uploads/2016/10/StillTooPoor_web_update5Oct16.pdf

in some boroughs with the most common provision being made for disabled households – in 12 of London’s boroughs.

In addition, six boroughs have maintained a council tax benefit system akin to the historical benefit in which many ‘passported’ claimants would be eligible for a total exemption (ibid). In the former system, approximately two-thirds of recipients would have received a full award (IPPR calculations using DWP 2013).³⁸

Using these adjustments, for any household entitled to council tax benefit *and claiming it* – approximately two-thirds of eligible households nationally³⁹ – we have applied a total exemption for disabled households on passported benefits.⁴⁰ To others, a 17.9 per cent minimum payment has been applied if they are on a passported benefit and/or record an income at or below the household’s respective applicable amount^{41 42} (the minimum weekly income central government determines a household needs to live on).⁴³ For every pound above the applicable amount, we add a further 20p on top of the 17.9 per cent minimum payment amount, up to a full council tax liability. We include adjustments to the applicable amount to account for children, applying an average child per household figure for this period (1.7 in 2012) to all households with dependent children.⁴⁴

This offers an approximation of council tax benefit in London. Further adjustments often occur at a local level, based on benefit status, income and savings, with some councils retaining elements of the taper rate and non-dependent deductions. Some households may therefore receive a discount but could be expected to pay something higher than the minimum payment, such as if their income rises above a certain threshold. However, in the absence of more localised data, for this analysis we aim to provide a sense of the average effect on households across London as a whole.

To assess the possible distributional impact under a scenario for full take-up of council tax benefit, we do not exclude payments for eligible households on the basis of whether they are currently claiming council benefit in the survey data. In effect, this creates a world in which council tax benefit is automatically provided to all who are eligible.

To see how the burden of council tax has changed over time we have repeated the analysis using a combined sample of the FRS waves 1994/95, 1995/96, 1996/97 and 1997/98.

38 On average, 67 per cent of all council tax benefit recipients were ‘passported’ between November 2008 and February 2013; Department for Work and Pensions [DWP] (2013) ‘Housing benefit and council tax benefit summary statistics: February 2013’, data. <https://www.gov.uk/government/collections/housing-benefit-and-council-tax-benefit-caseload-statistics--2>

39 Adam S and Browne J (2012) *Reforming Council Tax Benefit: IFS Commentary C123*, Institute for Fiscal Studies. <https://www.ifs.org.uk/comms/comm123.pdf>

40 Passported benefits are benefits or schemes which some groups of people are entitled to because of their entitlement to certain other benefits or tax credits. Benefits and tax credits which can passport you to other benefits or schemes include Income Support, Jobseekers Allowance (income-based), Employment and Support Allowance (income-related) and Pension Credit (guarantee credit).

41 National Carers Association [NCA] (1995) *The carers guide: Essential information for those who look after others*, Macmillan. <https://books.google.co.uk/books?id=pamuCwAAQBAJ&lpg=PA48&dq=applicable%20amount%201994-95%20council%20tax%20benefit&pg=PP1#v=onepage&q=applicable%20amount%201994-95%20council%20tax%20benefit&f=false>

42 Shelter Legal (2017) Applicable amount 2017/18 http://england.shelter.org.uk/legal/benefits/housing_benefit/benefit_rates/benefit_rates_201718/applicable_amount_201718

43 In recent years there has been relatively little movement in applicable amounts; we use the 2017/18 amounts.

44 Office for National Statistics (2013) *Families and Households: 2013*, Statistical bulletin. <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2013-10-31>

The average council tax rate for Band D in London over this period was £484. As above, we have applied both single person discounts and student exemptions to establish an expected council tax liability for every household. For council tax benefit, we have used an approximation of the historical system rather than the more dominant minimum payment approach adopted today. Here, those households in receipt of income support, pension credit and related benefits would typically receive a full exemption if they receive council tax benefit, so we have adopted this into the analysis in the place of the minimum payment. The same applies for households with incomes on or below the applicable amount,⁴⁵ ⁴⁶ including many households where one or more adults are disabled. For households with incomes above this amount and not in receipt of a passported benefit, for every pound over their applicable amount, the historical system would see them lose 20p of their council tax benefit. In other words, they would have to pay an additional 20p for every pound over the applicable amount. We have again adjusted the figures for households with children (an average of 1.8 children per household with dependent children in 1996).⁴⁷

45 National Carers Association [NCA] (1995) *The carers guide: Essential information for those who look after others*, Macmillan. <https://books.google.co.uk/books?id=pamuCwAAQBAJ&lpq=PA48&dq=applicable%20amount%201994-95%20council%20tax%20benefit&pg=PP1#v=onepage&q=applicable%20amount%201994-95%20council%20tax%20benefit&f=false>

46 Shelter Legal (2017) Applicable amount 2017/18. http://england.shelter.org.uk/legal/benefits/housing_benefit/benefit_rates/benefit_rates_201718/applicable_amount_201718

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